» Change Creates New Perspectives

# Annual Report 2015

LANXESS

Energizing Chemistry

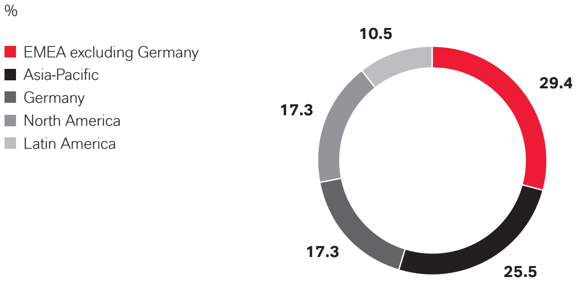
**LANXESS Group Key Data**

| € million | Q4 2014 | Q4 2015 | Change % | 2014 | 2015 | Change % |
|---|---|---|---|---|---|---|
| Sales | 1,904 | 1,806 | (5.1) | 8,006 | 7,902 | (1.3) |
| EBITDA pre exceptionals | 154 | 151 | (1.9) | 808 | 885 | 9.5 |
| EBITDA margin pre exceptionals | 8.1% | 8.4% | | 10.1% | 11.2% | |
| EBITDA | 62 | 141 | > 100 | 644 | 833 | 29.3 |
| Operating result (EBIT) pre exceptionals | 49 | 25 | (49.0) | 402 | 422 | 5.0 |
| Operating result (EBIT) | (62) | 71 | > 100 | 218 | 415 | 90.4 |
| EBIT margin | (3.3)% | 3.9% | | 2.7% | 5.3% | |
| Net income (loss) | (68) | 15 | > 100 | 47 | 165 | > 100 |
| Earnings per share (€) | (0.74) | 0.16 | > 100 | 0.53 | 1.80 | > 100 |
| Dividend per share (€) | | | | 0.50 | 0.60 [1] | 20.0 |
| ROCE | | | | 7.9% | 8.4% | |
| Cash flow from operating activities | 409 | 350 | (14.4) | 797 | 692 | (13.2) |
| Depreciation and amortization/reversals of impairment charges | 124 | 70 | (43.5) | 426 | 418 | (1.9) |
| Cash outflows for capital expenditures | 240 | 205 | (14.6) | 614 | 434 | (29.3) |
| Total assets | | | | 7,250 | 7,219 | (0.4) |
| Equity (including non-controlling interests) | | | | 2,161 | 2,323 | 7.5 |
| Equity ratio | | | | 29.8% | 32.2% | |
| Net financial liabilities | | | | 1,336 | 1,211 | (9.4) |
| Employees (as of December 31) | | | | 16,584 | 16,225 | (2.2) |
| Personnel expenses (€ million) | | | | 1,457 | 1,432 | (1.7) |
| Work-related injuries resulting in at least 1 day's absence (per million hours worked) | | | | 2.3 | 2.2 | |
| Energy consumption (petajoules) | | | | 53 | 53.5 | 0.9 |
| Total water consumption (in million cubic meters) | | | | 290.5 | 278.5 | (4.1) |
| Emissions of greenhouse gases ($CO_2$ equivalents in thousand tons) | | | | 1,845 | 1,643 | (10.1) |
| Emissions of volatile organic compounds (in thousand tons) | | | | 5.7 | 5.4 | (5.3) |
| Total waste (in thousand tons) | | | | 298.5 | 292 | (2.2) |
| Production wastewater (in million cubic meters) | | | | 31.5 | 31.5 | 0.0 |

1) Dividend proposal to the Annual Stockholders' Meeting on May 20, 2016

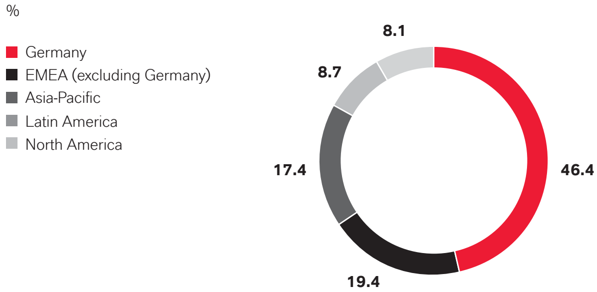
**Sales by Region**

%




**Employees by Region**

%




This annual report contains forward-looking statements based on current assumptions and forecasts made by LANXESS AG management. Various known and unknown risks, uncertainties and other factors could lead to material differences between the actual future results, financial situation, development or performance of the company and the estimates given here. The company assumes no liability whatsoever to update these forward-looking statements or to conform them to future events or developments.

Changed market structures and changed success factors – the chemical industry is **in transition.** And we too must **change** if we are to remain **successful** in the long term.

In **2015,** we took a number of resolute **decisions** as we set a **new strategic course.** Our new **perspective** is **growth:**

» **focused, moderate and sustainable.**

# Contents

# Letter from the CEO

Ladies and Gentlemen,

2015 was a very busy year indeed – a very challenging year for us all and one that we can look back on with pride. In the past fiscal year, for example, not only did we exceed all of the financial targets we committed to at the start of the year, we also made rapid and significant progress in realigning the company.

At the start of the year, we reorganized our business units and group functions, restructured our management team and initiated sustainable cost reductions, some of which had been realized sooner than expected by the end of fiscal 2015. We also found the ideal partner for our rubber business in Saudi Aramco. Improved access to strategically important raw materials combined with the strengths of our Tire & Specialty Rubbers and High Performance Elastomers business units will ensure their long-term competitiveness in a market that has changed fundamentally in recent years.

We intend to use the financial proceeds from the partnership with Saudi Aramco to continue developing LANXESS in line with a clear strategy. We aim to achieve a better balance in our portfolio and to engage primarily in mid-sized markets. And we intend to invest only where sustainable growth is possible. Our objective is clear: In 2020, LANXESS should be a more stable, less cyclical and more profitable specialty chemicals company.

Quality and sustainability are the stable foundation on which we are building this transformation. However, we do not restrict our concept of quality to our products and services; quality shapes our culture and our entire corporate philosophy. This philosophy also includes meeting our global responsibility toward people and the environment. In 2015, we underscored our sense of responsibility by reaffirming our commitment to the principles of the U.N. Global Compact.

On behalf of my colleagues on the Board of Management, I would like to take this opportunity to sincerely thank our employees for their extraordinary dedication and willingness to embrace change. They have done first-class work. I would also like to thank our customers, business partners and particularly you, our stockholders, for your confidence in our change process. Together we have achieved something very important in just a very short time: We are LANXESS again. And I am confident that if we can sustain this momentum and this will to succeed, we will achieve so much more in the years ahead.

Yours,

Matthias Zachert

**Matthias Zachert**
Chairman of the Board of Management

Together we have achieved something very important in just a very short time:

» **We are LANXESS again.**

In 2020, LANXESS should be a

» **more stable, less cyclical and more profitable**

specialty chemicals company.

**Dr. Rainier van Roessel**
Member of the Board and Labor Relations Director

Performance Chemicals segment | Human Resources

**Michael Pontzen**
Chief Financial Officer

Accounting | Corporate Controlling | Mergers & Acquisitions | Tax & Trade Compliance | Information Technology | Treasury & Investor Relations

management.lanxess.com

**Matthias Zachert**
Chairman of the Board of Management

High Performance Elastomers and Tire & Specialty Rubbers business units | Corporate Communications | Corporate Development | Executive Human Resources | Legal & Compliance

**Dr. Hubert Fink**
Member of the Board

High Performance Materials business unit | Advanced Intermediates segment | Global Procurement & Logistics | Production, Technology, Safety & Environment

# A NEW QUALITY OF COOPERATION

The inventor of synthetic rubber. More than 100 years' experience. The world market leader with the broadest product portfolio in the industry. Globally recognized for first-class product and service quality. The characteristics of our rubber business are not ones that would normally be associated with an economic problem child. But what is the value of tradition if the future makes different demands? And what is the value of market leadership if it fails to deliver adequate returns?


Matthias Zachert and Abdulrahman F. Al-Wuhaib, Senior Vice President Downstream of Saudi Aramco, signed the new joint venture agreement in September 2015.

## Nothing is as it once was

There has been a sea change in the global rubber market, resulting in permanent change to the competitive environment. In recent years, significant production capacities – for high-quality products as well – have been created in countries such as China that used to be traditional export markets. And the lower raw material and energy prices in many parts of the world have further exacerbated the wage-related cost disadvantages of European producers.

Greek philosopher Aristotle may not necessarily be regarded as the father of modern management science, but he did coin a phrase that remains equally relevant thousands of years on: “We cannot direct the wind, but we can adjust the sails.” We followed this advice on September 22, 2015, and signed an agreement with the Saudi Arabian Oil Company – Saudi Aramco for short – to establish a joint venture for synthetic rubber. Its name: ARLANXEO. This will incorporate our Tire & Specialty Rubbers and High Performance Elastomers business units, including supporting staff functions. →

Our partner Saudi Aramco has the world's largest crude oil reserves.

1+1

**»A strong team: The number one in synthetic rubber has joined forces with the number one among integrated energy companies.«**

## Integration as a factor in success

The number one in synthetic rubber has joined forces with the number one among integrated energy companies. This alliance heralds a new quality of cooperation for our rubber business because we were previously the only one of the world's top ten producers without any forward or backward integration. That brings us back to the issue of value. What is the value of this cooperation for which, on the face of it, we are relinquishing the independence of our largest business unit?

Even in more profitable times, our rubber business had a strategic weakness – our restricted access to vital raw materials. Once our current supply contracts have expired, the joint venture will give us cost-effective access to the world's largest crude oil reserves. The real attraction of this arrangement is that, although Saudi Aramco will be our preferred partner and the lead buyer on the new joint venture's management team, we are not obliged to purchase our raw materials there.

Wherever we obtain our raw materials, the laws of business management will ultimately apply. In a material-intensive business such as rubber production, more favorable purchasing terms mean significantly lower manufacturing costs – and thus more competitive sales prices. In conjunction with our high quality standards, we will therefore be able to offer our customers an even more attractive package in the future.

Although the Tire & Specialty Rubbers and High Performance Elastomers business units have not been able to post satisfactory results in the recent past, it should not be forgotten that the structural problems lie in the market, not in the product itself. Synthetic rubber is anything but past its prime. →

## FACTS & FIGURES

ARLANXEO will be managed by a holding company in the Netherlands and fully consolidated by LANXESS in the first three years.

**Company's management**

**LANXESS will appoint company's management**

Saudi Aramco and LANXESS will have equal representation on the holding company's management and Shareholders' Committee, with two members on each. Both the CEO and the Chairman of the Shareholders' Committee will be appointed by LANXESS.

**Shareholders' Committee**

**Fast and Resolute Implementation to Ensure Long-Term Competitiveness**

| | 2015 | 2016 | Beyond 2019 |
|---|---|---|---|
| **Legal separation** | **Signature** September 2015 | **Closing expected** by April 1, 2016 / **Receipt of cash payment** | |
| | Legal transfer → | | |
| | Antitrust approval process → | | |
| **Integration of business** | | Preparation for value chain integration → | |
| | | | Integration → |

# »We cannot direct the wind, but we can adjust the sails.«

« The EPDM facility at our site in Changzhou, China, is the latest addition to our global rubber production network.

€2.75 billion

The new company is valued at a total of €2.75 billion.

**Around 3,800 LANXESS employees will transfer to the joint venture as part of the transaction.**

ARLANXEO
Performance Elastomers

# A global presence, integrated and competitive

Oilfields TSR production HPE production

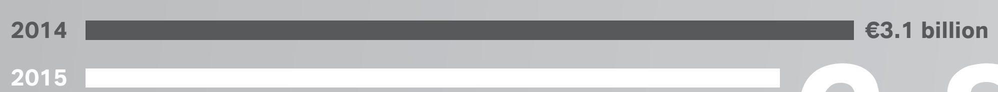

Quite the contrary, in fact. Cutting-edge high-performance rubber will have a key role in making mobility greener in the coming decades.

## A partnership which creates leeway

While our rubber business will benefit directly from the transaction, there is also a second, no less significant value-creating aspect for LANXESS. We will be investing around one-third of the €1.2 billion that Saudi Aramco is expected to pay for its 50% interest in the joint venture in the growth of the Advanced Intermediates and Performance Chemicals segments and the High Performance Materials business unit. The first two of these business areas in particular not only benefit from higher margins and lower cyclicality, but also from the fact that LANXESS, as the leading supplier, is starting from a strong position.

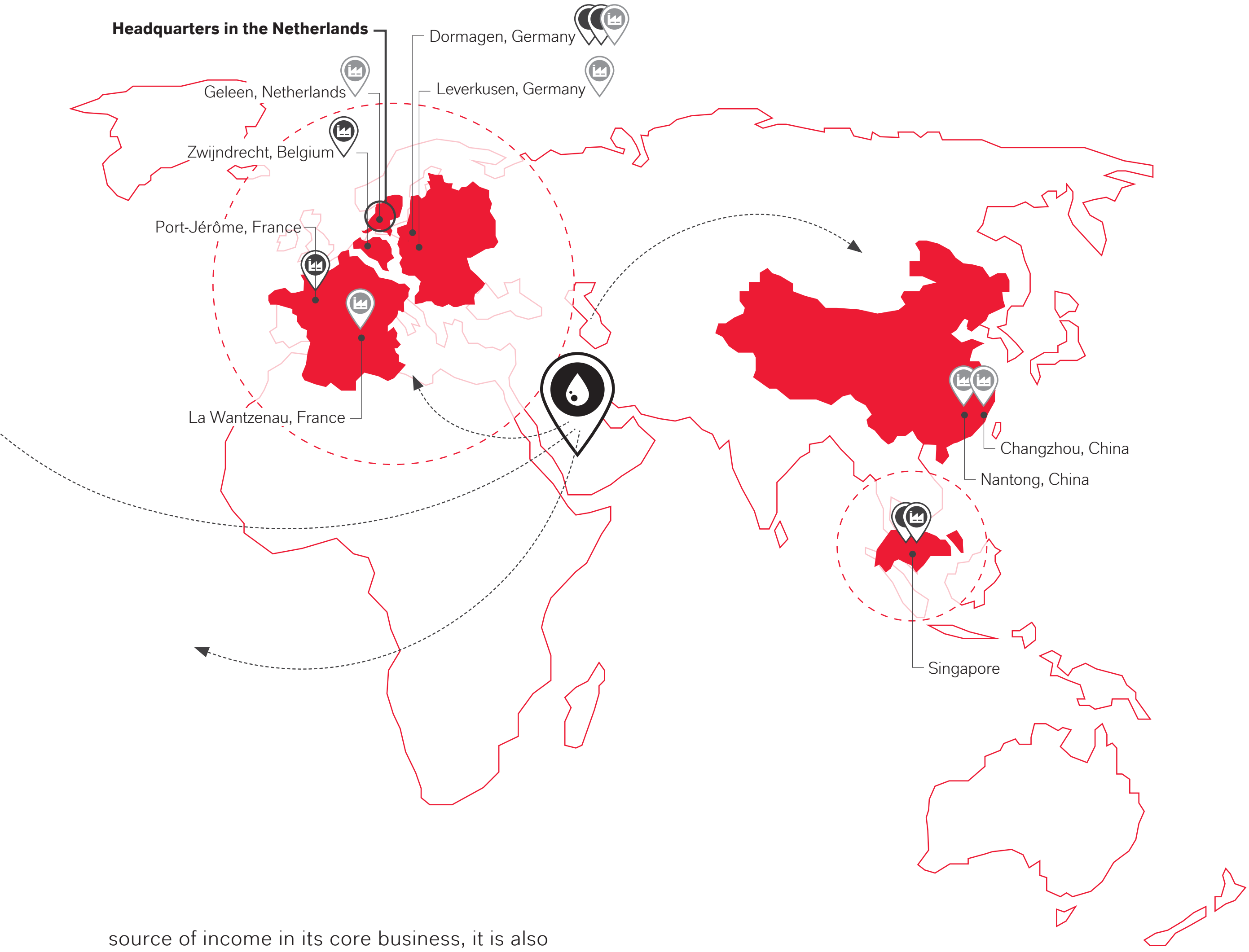
Regardless of all the benefits for LANXESS, the agreement also represents a good deal for Saudi Aramco – specifically for its subsidiary Aramco Overseas Company, B.V. which is our contractual partner. The world's largest integrated energy group is not only gaining access to a new

## FACTS & FIGURES




Based on 2015 figures, annual sales amount to around €2.8 billion.

€2.8 billion




source of income in its core business, it is also working toward its goal of diversifying the Saudi Arabian economy through a promising new collaboration.

So together we are embarking on a future with a bright outlook. If we stay on course, LANXESS will become a far more stable and profitable specialty chemicals company with a rubber business that combines first-class products and services with excellent returns. We have already adjusted our sails.

€ 1.2 billion

is the amount that Saudi Aramco is expected to pay for its 50% interest in the joint venture.

5 years

The partners have agreed to retain their respective holdings for five years.

**ARLANXEO will start with no debts other than pension and lease obligations.**

# CHANGE CREATES NEW PERSPECTIVES

The LANXESS Board of Management talks about the company's realignment, plans for growth and the opportunities afforded by the capital market.

Matthias Zachert

Dr. Hubert Fink

## In the past one-and-a-half years, LANXESS has undergone a dramatic change process. What do you think was special about it?

**Matthias Zachert:** In a first for our company, this change process didn't just involve a small team but spanned all business units and functions. They have worked together to evaluate an enormous amount of information. This process yielded the organizational and strategic changes we have made as well as various initiatives that have produced very tangible and impressive results.

## Can you give us an example?

**Matthias Zachert:** Central outcomes have been the streamlining of the business unit structure and the strategic realignment of the company. The latter was instrumental in the decision to seek a partner for the rubber business.

**Dr. Hubert Fink:** We have also worked hard on projects aimed at improving our competitiveness. Take our manufacturing excellence initiative, for example. Through mid-2018, interdisciplinary teams of experts will be analyzing the processes, working practices and organizational structures of around 40 production facilities with the goal of reducing operating costs and material inputs. In the medium term, we consider annual savings of €150 million to be realistic.

**Dr. Rainier van Roessel:** Another concrete example is our initiative to achieve commercial and supply chain excellence, which will help us to improve our alignment with our markets. This initiative most particularly has intensified the exchange between colleagues in the sales companies, business units and group functions. The strategy development process has therefore set something in motion which will continue to benefit our business operations in the future.

## Until now, LANXESS has always been associated with rubber. What will the company's name stand for in the future?

**Matthias Zachert:** The realignment doesn't mean that we're withdrawing from the rubber business altogether. However, we can only have a future in this market if our organization is as strong as that of our competitors. And most of them are backward integrated meaning that they themselves produce the raw materials needed to manufacture rubber. That is why we have entered into a partnership with Saudi Aramco and will in the future be operating on the basis of our combined strengths. Going forward, LANXESS will ideally no longer be associated with just one product in particular but its name will stand for first-class specialty chemicals.

»In a first, the strategy process has spanned all business units and functions.«

»There are plenty of examples showing that sustainable operations contribute to higher profitability.«

**Talking of first-class – painful price losses and exit from the DAX mean that LANXESS stockholders haven't exactly been spoiled in recent years. When will they again be able to enjoy their investment?**

**Michael Pontzen:** Unfortunately, there's no simple answer or patent recipe here. Basically it's up to us to provide investors with strong arguments for putting a higher value on LANXESS stock. In this respect, we certainly achieved quite a lot in 2015. And it's not as if the capital market has entirely ignored our realignment until now. Standard & Poor's has raised its outlook for LANXESS, while Moody's has also positively commented on the measures we've taken. If these now take effect as planned, it should be reflected in our share price sooner or later. However, there's always the market as a whole to consider, which is something we unfortunately can't influence and which is currently dragging the entire industry down.

**What you can influence, though, is your indebtedness, which the capital market has been watching closely in the recent past. When will this get back down to a healthy level?**

**Michael Pontzen:** It already has. We're pleased to have been able to substantially reduce our indebtedness over the past two years. The transaction with Saudi Aramco and the resulting cash inflow will tangibly improve our capitalization in 2016 and place us in a relatively comfortable financial position. As a company, we have thus regained our financial strength and can start to invest again.

⌃ Dr. Rainier van Roessel

**You're talking again about making acquisitions as well as capital expenditures. Is that not contrary to a secure investment-grade rating?**

**Michael Pontzen:** It's important to us that we maintain a solid investment-grade rating. Yes, we're looking at growth opportunities, but always with this objective in mind. We attach high priority to ensuring that our capital expenditures afford good potential for growing earnings. At the same time, we also want to improve the risk profile of our portfolio. The bottom line is that we are aiming to increase profitability while reducing the volatility of our earnings.

»It's important to us that we maintain a solid investment-grade rating.«

« Michael Pontzen

»We are seeking to support each individual in becoming creative and proactive, in addressing and acting on issues.«

**This is to be achieved above all by capital expenditures in the Advanced Intermediates and Performance Chemicals segments. Is LANXESS not again running the risk of being one-sided?**

**Matthias Zachert:** Not at all. We are willing in principle to develop all three business areas – in other words, including High Performance Materials. The precondition for any capital expenditure is that it will contribute to creating value. Budgets are generally in the range of €100 million to €150 million.

**You are also aiming to improve the company's profitability. How can you reconcile this with the increasingly stringent and costly global requirements in respect of quality management, safety and environmental protection?**

**Dr. Hubert Fink:** Simply speaking, we're going to have to. Worldwide, requirements in the aforementioned areas are becoming increasingly demanding. Sooner or later, this will result in global standards – and high standards at that. Compliance with these standards and the willingness to make all the necessary investments will give companies their license to continue operating. With our demonstrably strong production culture, we therefore see great opportunities for our company – especially in key markets outside Germany. There are also plenty of examples showing that sustainable operations contribute to higher profitability. If I use less energy, I not only reduce my emissions, but also save money. If I can ship my products more efficiently, I not only cut pollution, but also save money. The same applies analogously to water and waste.

**LANXESS has seen sweeping changes and will have to adapt to new situations in the future as well. How do you motivate your workforce in such processes and how can you make LANXESS attractive to new employees?**

**Dr. Rainier van Roessel:** We have been working hard to improve the way we interact within the company. That means we are collaborating more closely, being more open in the feedback we give and facilitating greater participation in major decisions. It is very important to me to motivate our employees. We are seeking to support each individual in becoming creative and proactive, in addressing and acting on issues. This helps our employees to identify with what they do and is the best fuel for LANXESS's commercial success. Ultimately, it benefits our employees as well.

**Matthias Zachert:** We have returned to being a company that is working at shaping its future with a great deal of energy, drive and enthusiasm. I believe that makes us attractive to all target groups – to our present workforce and potential new employees, but also to business partners and investors.

# Strategy

Systematic implementation of
» **realignment**
program

Joint venture for
synthetic rubber with
» **Saudi Aramco**

Creation of headroom for
» **strategic**
**optimization**

## » QUALITY

»

Our concept of quality extends far beyond our actual products or services. Quality has its roots in the philosophy practiced by our company and by each individual employee. It is characterized by an **entrepreneurial mindset, quick decision-making** and unconventional solutions.

# Successful transition

In a market environment that is undergoing fundamental change, we must change as well. Through the three-phase realignment program we are implementing systematically and successfully, we created the basis for a new strategic course in 2015. The aim is for LANXESS to be a much more stable and profitable specialty chemicals enterprise in 2020.

## An industry facing change

Despite its comparative maturity, the chemical industry is continuing to expand. Worldwide it is achieving growth rates which are in part well above overall global economic expansion. However, for European chemical companies in particular, it will become increasingly challenging in the medium term to benefit from this generally positive environment. The reason for this is to be found in profound change processes which have impacted market structures and mechanisms – some of which have been in place for decades – and which will continue to shape the industry's operating environment over the coming years.

### 1. Overcapacities in the synthetic rubber market

The commissioning of major new plants for the production of synthetic rubbers in recent years has created considerable overcapacities in this market, which has exacerbated the existing pressure on prices worldwide.

### 2. Competitive raw material prices and ongoing cost optimization are crucial

In the price-sensitive synthetic rubbers business, raw materials and energy account for about 75% of production costs. Producers in emerging economies and the Middle East mostly have better access to low-cost raw materials and energy, as do those in the United States. As a result, they enjoy cost advantages which European suppliers will struggle to achieve through efficiency gains.

### 3. European chemical industry under pressure

The ongoing expansion of local production capacities in the global growth regions, especially Asia, means the progressive decline of export opportunities for European suppliers. By contrast, the United States and the Middle East – aided by low energy prices and the ready availability of raw materials – are transitioning from importers to exporters in the commodity segment, bringing low-cost products to the world's markets.

### 4. China remains the main growth market

China will further strengthen its role as the growth engine of the global chemical industry through 2030. According to estimates from market research company IHS, the country is likely to account for around 40% of global chemicals demand in 2030. A significant proportion of this demand will likely be covered by domestic suppliers. Suppliers wishing to participate in this growth will have to build not just individual plants but entire value chains in the country.

### 5. The focus of innovation is shifting from molecules to applications and processes

In the past, innovative expertise was mainly manifested in the successful development of novel chemical compounds with new or improved properties. In view of the enormous scientific advances being made and the high cost of registering new substances, there are now fewer opportunities for bringing commercially viable new chemical compounds to market. For the broad majority of chemical companies, innovation in the future will mean accessing new fields of application for existing products and making production processes as safe and efficient as possible.

### 6. Environmental standards will converge at a high level in the medium to long term

With growing environmental awareness, sustainable production standards worldwide will converge at a high level. In the medium term, this development will offer a further opportunity for consolidation, because, in the growth markets in particular, not all competitors will make the necessary capital investments to upgrade their plants to meet regulatory requirements. However, in the long term, producers that have always applied high standards will lose this advantage over their competitors.

We, like others, face the challenge of reacting to these change processes. Our measures can be consolidated in six strategic approaches.

**Raw materials**
Reduction of dependence on volatile raw materials such as ethylene and butadiene

**Costs**
Process and cost optimization as an ongoing entrepreneurial challenge

**Growth**
Sustained growth in China, North America and Southeast Asia

**Production plants**
Strengthen the competitiveness of our networked sites

**Value chains**
Further expansion of our integrated value chains

**Markets**
Increased focus on profitable mid-sized markets

# Successful realignment creates strategic headroom

Several of the aforementioned approaches were already clearly reflected in our three-phase "Let's LANXESS again" global realignment program, which we initiated in 2014 and pursued in the reporting year – with measurable success.

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

Competitiveness »

| | I. Competitiveness of the business and administrative structure | II. Operational competitiveness | III. Competitiveness of the business portfolio |
|---|---|---|---|
| **Measures** | ▪ Consolidate business units and group functions<br>▪ Develop leaner administrative structures by restructuring | ▪ Manufacturing excellence:<br>– Analyze and adjust asset base<br>– Evaluate temporary and permanent site closures<br>– Implement operational best practices<br>▪ Commercial and supply chain excellence | ▪ Evaluate portfolio options to better balance the company's structure<br>▪ Consider partnerships to improve access to raw materials, e. g. for the rubber businesses<br>▪ Improve market access, e. g. through marketing alliances |
| **Results** | ▪ Elimination of around 1,000 positions<br>▪ Annual savings of €150 million from 2015 | ▪ Annual savings of €150 million from the end of 2019 | ▪ Partnership for the synthetic rubber business with Saudi Aramco<br>▪ Expected cash inflow of around €1.2 billion |

Leadership excellence and performance culture

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

Through our new and more efficient organizational structure (see also combined management report, page 112) and extensive optimization measures in our business units and group functions, we are not only fostering market and customer proximity but also sustainably improving our cost position. In the reporting year, we already fully realized annual savings of around €150 million, which we originally expected to achieve from 2016. These are set against cumulated exceptional charges of around €150 million for fiscal 2014 and 2015 together. In close and constructive dialogue with employee representatives, we eliminated around 1,000 positions worldwide – about half of them in Germany – in this first phase of the program.

*Phase II: Operational competitiveness*

As a result of our initiative to optimize production operations, we intend to discontinue the manufacture of EPDM rubber at the Marl site in Germany by the end of the first quarter of 2016. We are also reducing capacities for NBR and ESBR rubber at our sites in La Wantzenau, France, and Duque de Caxias, Brazil. In conjunction with many process improvement and efficiency enhancement measures, we aim to achieve a further €150 million in annual cost savings by the end of 2019.

→ From 2019, sustainable savings of

€300 million

will be generated by Phase I and II measures.

As part of our initiative to achieve commercial and supply chain excellence, we automated and harmonized order processing in 2015. A further project was dedicated to developing a new customer care approach, aimed at tailoring our services even better to the needs and expectations of our different customer groups.

*Phase III: Competitiveness of the business portfolio*

In September 2015, we agreed a partnership for the synthetic rubber business with Saudi Aramco – the world's largest integrated energy producer – in which each party will hold a 50% interest. We are contributing our Tire & Specialty Rubbers and High Performance Elastomers business units to the alliance, with a total of 20 production facilities in nine countries and around 3,800 employees as well as management support functions. Our partner will facilitate competitive access to strategic raw materials for this business area in the medium term (see also "In focus," page 8).

→ www.saudiaramco.com

Saudi Aramco is expected to pay around €1.2 billion for its 50% interest after deduction of debt and other financial liabilities. This cash inflow will not only allow us to pay down more of our debt, but will also give us the crucial headroom for the strategic optimization of the Group in the years ahead.

# A clear vision for progress

Through its new strategic alignment, LANXESS aims in 2020 to be a less cyclical specialty chemicals group with a strong cash flow and a balanced portfolio. To achieve this, we will be building especially on our strengths in mid-sized markets. Here we can offer our customers an attractive combination – the professionalism of a global chemicals company coupled with the customer proximity and agility of a specialized niche provider. These advantages, along with mostly above-average growth rates in these markets, create good prospects for LANXESS.

In the further optimization of LANXESS, we will be focusing on the following areas of activity in particular.

## 1. Achieving a more balanced portfolio

We have defined China, North America and Southeast Asia as the growth markets for LANXESS. ←

It is our declared aim to reduce financial dependence on individual industries or closely correlated markets in the future. In regional terms, too, we aim to achieve an even better balance in our portfolio by increasing the share of our business accounted for by the growth markets of China, North America and Southeast Asia.

With the aim of achieving this better balance, we can work in many respects from a position of strength to develop the Advanced Intermediates and Performance Chemicals segments and the High Performance Materials business unit of our Performance Polymers segment.

The two business units of our Advanced Intermediates segment hold leadership positions with their highly diversified product portfolios and count a number of global players among their customers. By expanding our highly efficient networked sites in Germany, we are creating the necessary capacities for leveraging growth opportunities in Asia and the United States.

Our application-driven businesses, which we have brought together in the Performance Chemicals segment, are world leaders in their niche markets. Potential lies above all in further integration of global value chains and the elimination of existing capacity bottlenecks. Moreover, in part highly fragmented competitive structures are expected to provide us with the opportunity in the medium term to actively participate in market consolidation.

High Performance Materials, with its expertise in innovative hybrid and composite technologies, a backward integrated value chain and a globe-spanning network of modern production facilities, is in a promising position to serve the growing demand for high-tech plastics for automotive and many other applications. In this business, we aim to improve the balance of the value chain especially by increasing the captive use of intermediates for our innovative polyamide compounds, an area in which we seek further expansion.

| | Advanced Intermediates | Performance Chemicals | High Performance Materials |
|---|---|---|---|
| **Resilience** | ▪ Strong leadership positions in mid-sized markets<br>▪ Broad range of products and end markets<br>▪ Ability to balance production with demand | ▪ A selection of mid-sized end markets with leading market positions<br>▪ Diversity of businesses and end markets naturally leads to resilience<br>▪ Reduced dependence on (critical) raw materials | ▪ Diversified market exposure in industries such as automotive, electrical and electronics, construction, sports and leisure<br>▪ Focus on high-end lightweight materials with limited exposure to volatile customer markets |
| **Cash generation** | ▪ Reliable asset network with good utilization rates<br>▪ Comparably small size of individual capital expenditure measures | ▪ Flagship Inorganic Pigments and Rhein Chemie Additives business units characterized by strong and stable cash generation | ▪ Value chain balanced by completion of new polyamide plant in Belgium – focus on high-performance compounds |
| **Growth** | ▪ Potential for gradual organic growth; end markets growing sustainably at 3–4% p.a.<br>▪ Prepared for growth in both business units with goal of broadening global production platform | ▪ Environmentally friendly production fosters growth<br>▪ Stable growth rates across the segment with exceptionally high growth potential in water purification business | ▪ Lightweight materials in niche applications with growth rates of ~ 7% (CAGR 2015–2020)<br>▪ Potential for organic or external growth |
| | **~ €100–150 m** in funds allocated for organic growth | **~ €100-150 m** in funds allocated for organic growth | **~ €50–100 m** in funds allocated for organic growth |

## 2. Safeguarding financial solidity

As in the past, we will ensure stability through a conservative financing policy that is guided by clear criteria and focused on maintaining our investment-grade rating and achieving a strong free cash flow.

**LANXESS Financing Policy**

Fully realized by **end of 2019**

| Cost optimization | Debt management |
| --- | --- |
| Quantified savings of ~€400 million[1] | Total net debt ratio[2]: 2–2.5 |

| Cash control | Foster growth |
| --- | --- |
| Capital expenditures, interest, restructuring expenses, taxes and working capital | Fact-based investment criteria |

Improve **free cash flow**

Maintain **investment-grade rating**

1) Reference year 2013; total includes €300 million delivered by “Let's LANXESS again” and €100 million from previous programs
2) Net financial liabilities plus pension provisions divided by EBITDA pre exceptionals

## 3. Utilizing growth potential

We are aiming to invest ←
€400
million
in our organic growth.

In order to further improve the alignment of our businesses and leverage future growth potential, we aim to invest around €400 million of the proceeds from the rubber transaction in our organic growth. We have already decided to expand Saltigo's production capacities at our networked site in Leverkusen, where we will invest around €60 million in constructing two new agrochemicals production lines. Construction is scheduled to begin in mid-2016 and production should start by the end of 2017.

We are additionally seeking external growth opportunities. In this way, we aim to take advantage of consolidation opportunities in areas of business in which LANXESS already operates. On the other hand, we are also investigating options to extend our portfolio into related areas of business that are the right fit. Here, we will consider both integrated chemical value chains and suitable application-driven businesses.

# Quality and sustainability – key success factors

Quality and sustainability are the strong foundation on which we aim to build LANXESS. However, we do not restrict our concept of quality to our products and the associated services; quality is an element of the philosophy already practiced by our company and each individual employee. We foster and promote a value-based performance culture. Every employee – regardless of function or position in the hierarchy – is expected to display an entrepreneurial mindset, to quickly take solution-oriented decisions and to be open to new and unconventional approaches. Our diverse team is the key to successfully implementing our strategy. In this context, our global human resources work (see the "Corporate Responsibility" section, page 42) is an important pillar of our corporate strategy.

We also consider quality to mean conducting our business sustainably in the broadest sense. We strive to combine safety, environmental protection, social responsibility and commercial efficiency in our business operations. Sustainability is an important criterion in all our strategic considerations and decisions. This is summed up not least by the sentence: "Good for business, good for society" (see the "Corporate Responsibility" section, page 32). We aim to sustainably increase the company's enterprise value and to make a value contribution that serves the interests of our stockholders, customers, employees and society.

→ "Good for business, good for society." This short sentence perfectly sums up our approach to business.

From an external perspective, quality and sustainability are to a certain extent the catalysts for creating value: for our customers, who see in LANXESS a reliable partner that not only reliably delivers top-quality products but also actively supports their innovation processes; for our investors, whose capital we use responsibly and who benefit from an appropriate share in the company's success by way of a consistent dividend policy – even in challenging times; and for society, which we serve in many ways as a constructive and fair partner.

# A clear objective in our sights

The operational progress and important strategic decisions made in 2015 have laid the foundation for LANXESS's future viability and development – together with our strong partner Saudi Aramco in the rubber business, and independently as a leading supplier in promising mid-sized specialty chemicals markets. In 2020, the name LANXESS should stand for stability, earning power and moderate growth – in short, for successful transition.

# Corporate Responsibility

Further decline in accident rate per million hours worked to

» **2.2**

» **335,000**

people reached by way of not-for-profit projects

## » SUSTAINABILITY »

"Good for business, good for society." This short sentence perfectly sums up our approach to business and expresses our goal of combining **safety, environmental protection, social responsibility** and commercial efficiency in our business operations. Sustainability is an important criterion in all our strategic considerations and decisions.

**Substantial reduction in $CO_2$ emissions by**

» **16.8%**

# 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.

## CR management

We regard acting and thinking sustainably as the responsibility of each and every employee at LANXESS. However, sustainability in itself is no more than an abstract concept. Appropriate organizational structures, strategies, operational guidelines and goals are needed to enable our employees to act sustainably in their day-to-day work and to translate the abstract concept into a specific factor of entrepreneurial success.


We have established various committees and functions to ensure compliance with and the ongoing optimization of our CR strategy and our rules and standards.

- **CR Committee**
  Representatives from selected group functions develop our CR strategy and ensure that all LANXESS's CR activities are in line with this strategy. As an interdisciplinary competence center, the committee 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 Board of Management is regularly represented on the CR Committee by Dr. van Roessel.

- **HSEQ Committee**
  LANXESS's senior executives, under the direction of Board of Management member Dr. Hubert Fink, ensure worldwide compliance with uniformly high quality management, safety, environmental, energy 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 and our energy management system.

- **Compliance organization**
  The compliance organization, which is made up of the Group Compliance Officer and a network of local compliance officers, 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.

At the end of 2015, we additionally established an interdisciplinary project team headed by Dr. Fink, which has the task of aligning our strategic corporate objectives more closely with the requirements of sustainability management and corporate responsibility at LANXESS. The interactions between political, social and corporate strategy developments are of central importance here. Ultimately, a committee comprising top management representatives (Board of Management, business units and group functions) will take the decisions concerning our future course in respect of significant sustainability issues such as climate strategy, ecological efficiency in our operations, product stewardship, and human resources and supply chain management.

## Integrated management system creates transparency

At LANXESS, a central management system provides the necessary global structures to ensure responsible commercial practices. Through this tool, we have created a transparent system and set of rules that unite management and employees across national borders. Worldwide, we are guided by internal directives and operating procedures, as well as by the ISO 9001 and ISO 14001 international standards for quality and environmental management and ISO 50001 for energy management.

External, independent experts regularly audit the progress in integrating new sites into our management system and the system's performance worldwide. Confirmation of our compliance with ISO 9001 and ISO 14001 takes the form of a global matrix certificate. We successfully completed the recertification audit in 2015. Our energy management system was certified separately in Germany.

As of December 31, 2015, our matrix certificate covered 48 companies with 80 sites in 23 countries. The sites in Epierre, France; Lipetsk, Russia; and Little Rock, United States, were included 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 2016, we intend to integrate the production sites in Neville Island, United States; Rustenburg, South Africa; and Joo Koon, Singapore, into the matrix certificate.

→ Our global matrix certificate now covers 48 companies with 80 sites in 23 countries.

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. The key performance indicators (KPIs) required for this purpose are recorded, 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.

## Guidelines for business conduct

All management systems are based on 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.

LANXESS is committed to the principles of the **U.N Global Compact**.

www.unglobalcompact.org

LANXESS respects applicable law and requires its employees and business partners to do likewise. All our decisions and activities must meet this requirement of the compliance code, irrespective of the aims we are pursuing or the conditions we face. In the first instance, we define applicable law as any international or national legislation in the jurisdictions in which LANXESS operates. Moreover, human rights and ethical principles apply without restriction, even if they are not stipulated in the applicable law. As a global enterprise, we are committed in all our markets to promoting respect for human rights at all times and to preventing child and forced labor. In this context, we have also signed the U.N. Global Compact and recognize the principles it sets forth as inalienable rights. We renewed our commitment in this regard for the 2015 reporting year.

We understand compliance to be the observance of all legal provisions that are binding on the LANXESS Group and its employees and of internal LANXESS rules. In addition, we are committed to internationally recognized basic principles of business activity. As well as the principles of the Responsible Care® Global Charter, these include ILO labor standards and the basic principles of the Global Compact. Our employees' integrity and awareness of their responsibilities are key factors in the success of our company.

**The Ten Principles of the U.N. Global Compact**

| | | |
|---|---|---|
| **Area** | **Human rights** | **Labor** |
| **Principle** | **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. | **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. |

The “Code of conduct – Code for integrity and compliance at LANXESS,” which is applicable throughout the Group, specifies minimum standards and gives our employees advice and guidance on complying with these standards.

Our code covers issues such as anti-competitive behavior, anti-corruption, data protection, occupational, product and plant safety, and environmental protection. Other directives set forth detailed rules for specific areas covered by the code and concrete requirements for the conduct of LANXESS employees. All globally applicable LANXESS directives and guidelines are contained in a system that is accessible to every employee. Our code of conduct can be found on our website at www.lanxess.com under Corporate Responsibility/Corporate Governance/Compliance at LANXESS.

### *Compliance management system*

We have established a compliance management system (CMS) to implement our clear commitment to compliance in our daily business activities. This system guides our employees and eliminates potential uncertainties relating to our compliance principles. It also encompasses advice and training in compliance-related issues.

Our global compliance management system is defined in our CMS directive and is externally audited at regular intervals in respect of its design, suitability and effectiveness. These audits are not restricted to defined risks but focus on the ten main compliance risks that we have identified. The last audit by Deloitte & Touche GmbH in 2012 was completed without observation and with an unqualified audit opinion.

**Environment**

**7** Businesses should support a precautionary approach to environmental challenges.

**8** Businesses should undertake initiatives to promote greater environmental responsibility.

**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 basic elements of our CMS are:

- **Compliance culture**
  This is shaped by the commitment of our Board of Management and Supervisory Board. It is essential that all management levels live and communicate our compliance culture so that it permeates the entire company. At LANXESS, responsibility for compliance and business activities goes hand in hand.

- **Compliance objective**
  We seek to avoid any compliance violations.

- **Compliance risks**
  The risks are regularly analyzed, discussed with the Board of Management and evaluated according to the likelihood of occurrence and damage potential. Risk exposure is analyzed both for business areas and countries, and corresponding countermeasures are defined. The main areas of potential compliance risk are antitrust and competition law, anti-corruption, foreign trade law, environmental and safety regulations, data protection, product liability, insider trading, discrimination, accounting law and fraud against the company.

- **Compliance program**
  Our compliance program includes all of the "classic" CMS elements, such as a compliance code, specific guidelines and work instructions, established guidance systems, information and training. We aim to 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.

- **Compliance organization**
  LANXESS has established a compliance organization, headed by the Group Compliance Officer, to assist its employees in observing the code of conduct and to provide support for the compliance management system. In those countries where LANXESS operates through subsidiaries, the Group Compliance Officer is assisted by local compliance officers. 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.

- **Compliance communication**
  Information events and training courses enable our employees to fulfill their tasks correctly and in compliance with the law. The compliance section on the LANXESS intranet also offers e-learning programs. Compliance issues and problems are reported from the bottom up to the local compliance officers and by them on to the Group Compliance Officer. All significant developments, findings and measures are reported 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**
  Compliance monitoring is performed by means of general audits and special audit programs conducted by Internal Auditing and a central HSE department. Since Internal Auditing is itself part of the CMS, 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). The aim is to build confidence and trust in an industry that has a crucial role in improving people's living standards and quality of life. We became one of the signatories to the ICCA charter in 2006. 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 performance 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 expect our suppliers to commit to our values and rules, especially the Global Compact, to establish adequate systems for ensuring legally compliant behavior and to 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 17 other international chemical companies (see page 119). 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.

→ We have been supporting the chemical industry's global **Responsible Care® initiative** since 2006.

www.responsible-care.com

→ As a member of the **Together for Sustainability** initiative, we promote sustainability in the chemical industry supply chain.

www.tfs-initiative.com

## Active stakeholder dialogue

GRI
G4–18
G4–24
G4–25
G4–26
G4–27

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 non-governmental organizations (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.

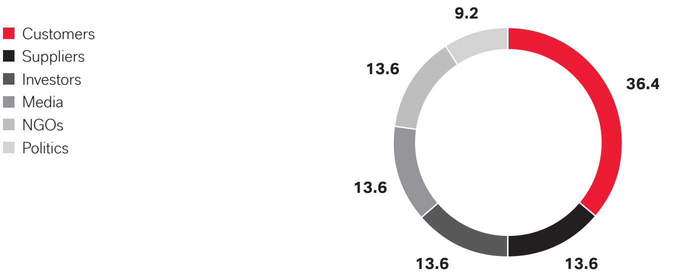
### *External stakeholder survey enables accurate materiality analysis*

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 (GRI) to be an important tool. This analysis is based on four principles: sustainability context, materiality, completeness and stakeholder inclusiveness.

In 2015, we commissioned a comprehensive personal survey of our main external stakeholders which was based in both content and method on our 2014 internal survey.

**Participation in our External Stakeholder Survey**

%




The survey participants were unanimous that sustainability is of great strategic importance for a global chemical company. A broad majority regard LANXESS as a company that acts sustainably and rated us highly for fulfilling our corporate responsibility. Of the 31 issues evaluated in six areas, our external stakeholders consider anti-corruption, safety at work and compliance to be the most relevant. They saw room for improving sustainability communications through face-to-face discussions – customers in particular would welcome a more active information policy from LANXESS.

The consolidated findings from the two surveys are shown in our materiality matrix, which has been given a clear new format.

→ GRI
G4–18
G4–19
G4–26
G4–27

**LANXESS Materiality Matrix**

- **Corporate governance**
- **Responsibility toward employees**
- **Environmental responsibility**
- **Product and process stewardship**
- **Responsibility in the supply chain**
- **Social responsibility**

Level of interest to stakeholders: high – very high

| | | |
|---|---|---|
| Anti-corruption<br>Human rights<br>Emissions reduction<br>Responsible resource use<br>Toxicity | Occupational safety<br>Compliance<br>Environmental standards<br>Responsible handling of chemicals<br>Resource efficiency<br>Environmental management<br>Energy efficiency<br>Product safety information | Risk management<br>Quality<br>Plant & process safety<br>Research & development |
| Business ethics<br>Sustainable procurement<br>Water management<br>Climate protection | Occupational health<br>Education & training<br>Stakeholder relations<br>Transparency<br>Talent management<br>Fair remuneration | Globalization |
| Transportation<br>Work-life balance | Demographic change | |

high — Importance for LANXESS — very high

Our stakeholders' points of focus also shape the content of our combined financial and sustainability reporting, which for fiscal 2015 has for the first time been drawn up in accordance with GRI G4 Guidelines.

**GRI** ←
G4–18
G4–26
G4–27

Thus, as well as the detailed information on our compliance management system contained in this section, a large amount of other information about anti-corruption and compliance is once again provided in the GRI Content Index starting on page 247 of this report. Measures aimed at achieving continuous improvements in occupational safety are brought together in the Board of Management's "Xact" initiative, which we discuss in detail on page 55. The Together for Sustainability initiative mentioned previously seeks to provide a transparent portrayal of sustainability in our supply chain. The progress achieved in the reporting year is described in the combined management report on page 119.

### *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. In early 2015, we established a decentral customer complaint management system in the operating units. Anchored directly in the business units, this process is aimed at addressing customer issues both quickly and competently so as to establish a sustained bond between the customer and us.

Our 2015 customer survey was completed by ←

421

respondents.

By conducting regular customer surveys using recognized opinion research methods, we obtain vital information about the loyalty of our customers, their expectations and how they perceive our products and services compared with those of our competitors. In the course of the "Let's LANXESS again" program, responsibility for customer surveys was transferred to the individual business units and thus also decentralized. In 2015, five of our ten business units carried out surveys with a total of 421 participants. Positive ratings were received for our technical expertise, customer focus and delivery reliability in particular. On the other hand, the customers surveyed still saw room for improvement in terms of pricing and delivery flexibility. In 2016, the other five business units will follow with their own surveys.

Our daily commitment to high product quality and customer satisfaction is regularly recognized and honored with awards and prizes. For example, in 2015 LANXESS was named Top Influential Brand at the China International Rubber Industry Exposition, a key industry event. U.S. company Dayco, the world leader in manufacturing toothed belts for engine drives and a major customer for our high-performance elastomer Therban, once again rated us its best supplier in China.

### *Acting together – maintaining effective 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 therefore participate in 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. The initiative has also set itself the goal of developing new economic, environmental and social progress indicators in the area of sustainability by 2017.

CHEMIE 3
DIE NACHHALTIGKEITSINITIATIVE
DER DEUTSCHEN CHEMIE

→ We have been supporting the **Chemie³** initiative in Germany since 2013.

www.chemiehochdrei.de

In addition to trade shows, high-level congresses provide us with important forums for discussion with potential and existing business partners, competitors, scientists and opinion leaders on current developments and future challenges in the area of sustainability. In November 2015, more than 150 international participants accepted our invitation to attend the second LANXESS Pigments Symposium in Shanghai, China. The two TfS Supplier Days that we organized in São Paulo, Brazil, and Shanghai, China, in the reporting year attracted around 750 visitors in total.

→ **GRI**
G4–26
G4–27

We often contribute to studies concerning socially relevant issues, such as an environmentally friendly approach to mobility. In the reporting year, a European Climate Foundation study we supported entitled “Fuelling Britain’s Future” received a great deal of attention and was even presented in the British House of Commons. The central finding of this study was that, like alternative vehicle powertrains, high-tech plastics can make a significant contribution to climate protection. In addition, in a long-term test conducted jointly with energy provider RheinEnergie and confirmed by TÜV Rheinland, we demonstrated that the use of green tires can reduce fuel consumption in urban traffic by up to 7%.

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. LANXESS representatives are also active in a number of industry associations.

Another important element of our stakeholder communication is structured dialogue with residents in the immediate vicinity of our sites. For example, our affiliate Currenta operates 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.

### *Awards for sustained commitment*

Our commitment was again recognized with various awards in 2015. For the first time, the China Enterprise Evaluation Association (CEEA) and the Social Science Faculty of Tsinghua University published a list of 500 companies in China which best fulfill their responsibility to society. In 130th place, LANXESS ranked in the top third of the listing. At the Salute to the China Dream financial summit, LANXESS received the Best CSR Award for the second time in succession in recognition of our leading position in the area of corporate social responsibility and environmentally compatible corporate development.

# Employees

Our long-term entrepreneurial success is fundamentally based on our employees' sense of responsibility, professionalism and focus on solutions. We as a company will only be able to continue successfully exploiting the opportunities presented by evolving markets if we constantly invest in employee training and development – in particular in their ability to act on the basis of values, to take a fresh approach and swiftly implement ideas, and to work as part of a team in developing solutions.

In 2015, our HR strategy continued to support the successful realignment of the Group. In order to shape and steer the cultural shift we are seeking, the Board of Management and senior executives used an interactive approach to develop a new value model, which they discussed with employees in numerous workshops held at almost all our sites around the world. Other focal points of HR strategy were implementing and supporting global restructuring activities and designing the organization of our new partnership with Saudi Aramco.

The ongoing realignment of the LANXESS Group was reflected in our global headcount in 2015. A total of 825 new employees joined the company worldwide in fiscal 2015. 155 new employees were hired in Germany, where our focus was on the recruitment of specialists from various disciplines.

**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 | | | | 1 | | | | | | |
| 20–29 | 7 | 24 | 17 | 52 | 6 | 12 | 18 | 26 | 30 | 184 |
| 30–39 | 13 | 17 | 11 | 39 | 2 | 19 | 16 | 21 | 23 | 142 |
| 40–49 | 5 | 17 | 6 | 17 | 2 | 19 | 1 | 4 | 6 | 28 |
| 50–59 | 5 | 9 | 1 | 10 | 1 | 5 | 1 | 1 | | 2 |
| ≥60 | 1 | | | 1 | 1 | 2 | | | | |
| **Total** | **31** | **67** | **35** | **120** | **12** | **57** | **36** | **52** | **59** | **356** |

Of approximately 1,000 positions worldwide earmarked for elimination through 2016 as part of the realignment (see “Strategy” section, page 24), 933 were eliminated through the end of 2015, as planned, as the result of early retirement and severance agreements. To cushion the impact in a socially responsible way, we have taken measures such as appointing an advisory and placement agency in Germany.

Against the backdrop of our headcount adjustment program, we recorded increasing turnover during the reporting period. In Germany, the turnover resulting from voluntary resignations was 1.1% in the reporting period (2014: 0.69%). Globally, it was around 2.9% (2014: 3.29%).

**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 |
| 20–29 | 0.0 | 1.9 | 7.5 | 3.5 | 12.4 | 22.3 | 10.1 | 3.5 | 15.6 | 14.5 |
| 30–39 | 6.0 | 1.3 | 3.1 | 1.9 | 5.7 | 6.3 | 12.6 | 1.1 | 11.0 | 7.3 |
| 40–49 | 3.6 | 1.0 | 1.4 | 0.8 | 5.6 | 2.9 | 4.0 | 0.3 | 4.4 | 5.3 |
| 50–59 | 1.0 | 0.5 | 0.0 | 0.3 | 0.8 | 0.8 | 3.1 | 0.0 | 9.3 | 3.7 |
| ≥60 | 26.7 | 4.0 | 0.0 | 0.0 | 4.6 | 12.5 | 0.0 | 0.0 | 0.0 | 13.3 |
| **Total** | **4.0** | **1.1** | **1.8** | **1.0** | **4.1** | **5.3** | **9.2** | **1.0** | **10.3** | **8.2** |

**Total Turnover** (%, Including 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 |
| 20–29 | 6.1 | 2.4 | 12.5 | 4.0 | 16.5 | 24.6 | 20.3 | 9.9 | 17.2 | 15.4 |
| 30–39 | 8.0 | 3.8 | 8.5 | 3.4 | 7.6 | 8.6 | 21.8 | 7.4 | 12.5 | 9.1 |
| 40–49 | 8.6 | 3.6 | 8.2 | 2.3 | 7.0 | 5.1 | 9.9 | 7.6 | 8.9 | 8.3 |
| 50–59 | 5.1 | 7.3 | 12.3 | 6.6 | 2.4 | 9.0 | 9.4 | 12.9 | 15.5 | 12.2 |
| ≥60 | 133.3 | 39.4 | 48.8 | 41.0 | 13.9 | 27.2 | 0.0 | 24.2 | 0.0 | 53.3 |
| **Total** | **9.3** | **6.0** | **11.0** | **6.2** | **7.0** | **11.0** | **17.5** | **9.5** | **12.8** | **10.8** |

## Enthusing talent worldwide

As part of our sustainable, value-based 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 in experienced specialists and managers.

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. 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.

## Global Reach of Education Programs ←

LANXESS is committed to education worldwide

**U.S.A.**

- Collaboration with the Community College of Beaver County (Pittsburgh); support for training process technicians
- Partnership with the Schey Sales Centre at Ohio University, offering internships in sales

**Canada**

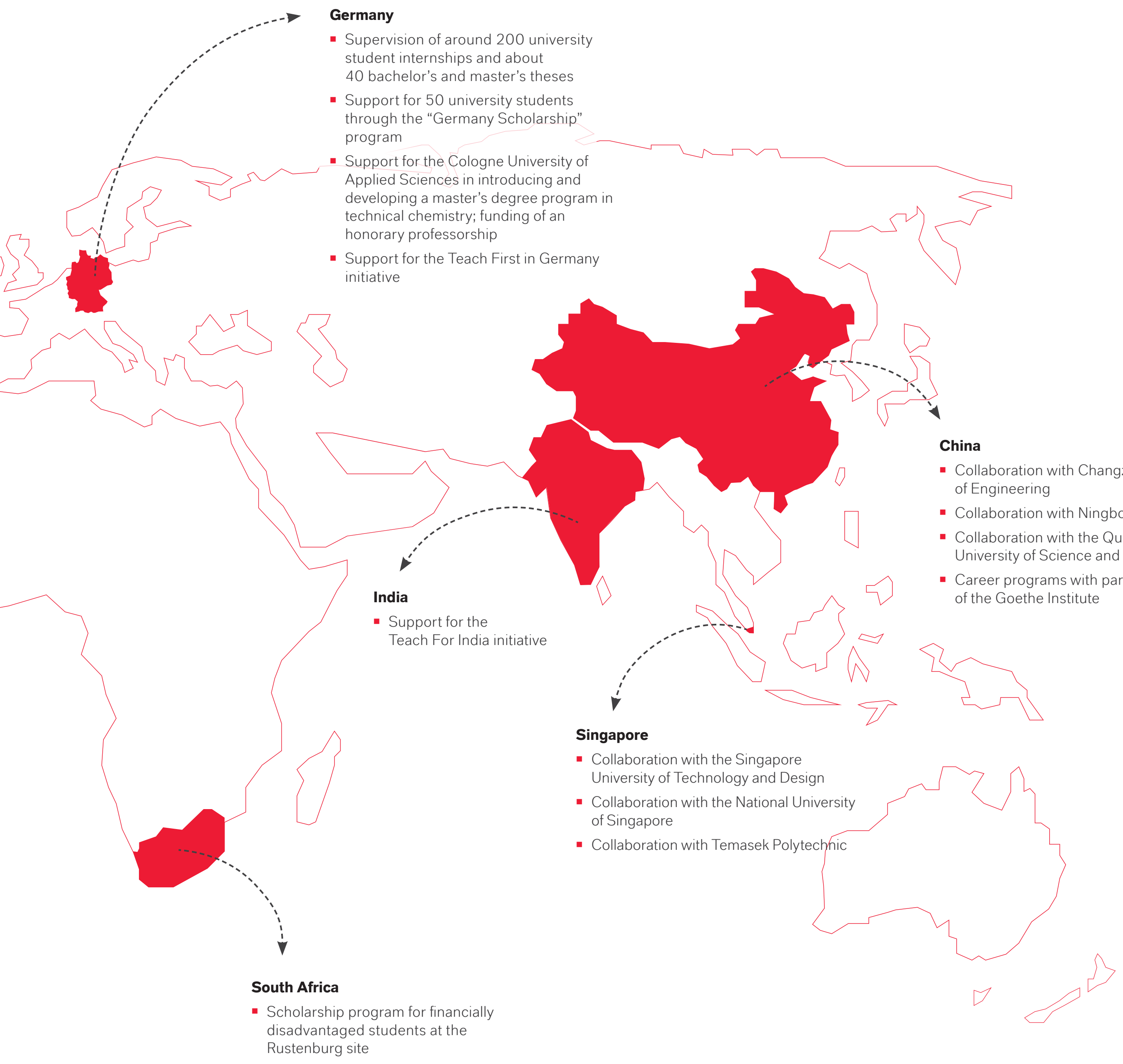
- Collaboration with Western University
- Post-doctoral internships at our research center in London, Ontario
- Support for the Polymer Research Institute at the University of Waterloo
- Collaboration with Lambton College of Applied Arts and Technology, Sarnia, Ontario

**Brazil**

- Two-year internship program for university students
- Collaboration with the Universidade Federal do Rio de Janeiro; scholarships for master's students in rubber technology

In fiscal 2015, we continued to seek direct contact worldwide with talented university and school students through dialogue with universities and our presence at scientific conferences and by organizing our own events.

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. As well as providing financial support, we also greatly value an exchange of information on specialist and career-related issues.



Interns who display above-average qualities may be offered further support through our “eXclusive” talent program. The goal is to give preference to candidates who have completed this program when filling positions within the company.

www.teachforall.org ←
www.teachfirst.de
www.teachforindia.org

A successful recruiting tool which also benefits society is our partnership with Teach First in Germany and Teach For India (TFI). We have been one of the main sponsors of these not-for-profit organizations since 2010. Both organizations are national network partners of the global Teach For All initiative, which aims to help school students who have had a difficult start in life, fostering their individual talents and developing their 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.

## Acquiring and retaining specialists and managers

9 ←

international trainee programs offer university graduates attractive entry opportunities at LANXESS.

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. In 2015, nine international trainee programs were launched in Germany with a total of 16 participants (12 women and 4 men). The focus was on marketing, controlling, engineering, human resources and finance.

We also offer **local trainee and university student programs** in various regions. In the United States, we collaborate with a number of universities to provide trainee and intern programs in the fields of finance and engineering.

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 2015, 29 students, graduates and prospective managers received training and guidance in one of these programs. LANXESS in India runs a further one-year training program in collaboration with the Industrial Training Institute (ITI) which allows 14 young people to continue their training after completing an apprenticeship as a production specialist or technician.

On account of their location away from the main business centers, our South African sites have traditionally faced a particular challenge in attracting suitably qualified university graduates. For that reason, we offer attractive trainee programs in a number of engineering and business fields. In 2015, we employed a total of 11 trainees.

## Vocational training valuable in recruiting

500 ←

young people were in vocational training at LANXESS on the reporting date.

We have always given priority to training young people as a means of safeguarding the company’s future and as an element of our social responsibility. Vocational training is an integral part of our strategy to develop our own skilled workers for our German sites. In 2015, 139 (2014: 147) young people (126 men and 13 women) started a vocational training or combined vocational training and study program at LANXESS in Germany. As of December 31, 2015, LANXESS had a total of 500 young people (82 women and 418 men) in 19 different career paths, including six combined vocational training and study programs. In 2015, despite our restructuring program, we hired 80% of those who completed their vocational training with us in Germany. We aim to maintain both the number of training places we offer and the proportion of young people subsequently hired at this high level in the years ahead.

In addition, our one-year orientation program “XOnce” provides young people with guidance on their way to vocational training if they are not ready to take this route at the current time. We also aim to help the steadily rising number of people who have sought refuge in Germany from war and poverty. To this end, we are currently developing a concept for offering refugees guidance in their career choice. We are also examining whether we could offer additional, specifically tailored internships, apprenticeships and jobs in the medium term.

## An exemplary model

Our company in South Africa provides proof that Germany’s vocational training model – with its balanced mix of theory and practice – can be transferred to other countries. As of the end of 2015, 18 young people were participating in a two- to three-year training program in various manual trades. Of course, we aim to hire as many of them as possible in permanent positions at LANXESS once they have completed their examinations. However, even those who do not work for us afterwards will have good career prospects with the qualification they have acquired – in the mining industry, for example. In this way, we are also fulfilling an important social role at our South African sites.

### Redefining leadership and performance – optimizing development worldwide

Successful change is primarily the result of successful leadership, which in turn is underpinned by clear, globally binding values and standards. For that reason, we have translated our new value model into five management principles that are applicable worldwide. By the end of 2016, we will integrate these principles into all relevant HR processes and tools.

Our management principles were also taken into account when developing our Executive Database, a global talent management tool that facilitates the matching of job profiles against the candidate profiles produced in annual HR development conferences. At these conferences, we review the performance, potential, individual development needs and future career planning of all our managerial employees around the world. During 2016, we intend to implement the Executive Database worldwide for senior management levels.

→ The **Executive Database** will enable us to optimize selection when filling management positions in the future.

In connection with the changes we are making, the question of how well a person represents LANXESS’s target performance culture in all its facets is also becoming more important for employees taking on their first managerial role. In India, an analysis of this aspect has been a fixed element of promotion procedures since 2015. We are also pursuing a similar approach in Brazil.

It goes without saying that employee training and development remained important elements of our HR development activities in 2015. Alongside formal training sessions and seminars, which amounted to 10,973 hours in France, for example, employees were able once again to take advantage of many informal measures, such as mentoring and peer-to-peer coaching, which foster continuous knowledge sharing across the company.

In Germany, the Summer Academy format has been translated into a new program that is offered throughout the year. This program, which is available to all specialist and managerial employees at our German sites, provided a total of 19 training sessions enabling staff to improve their hard and soft skills and to participate in an intensive interdisciplinary exchange of ideas. 194 employees from various business units (62% men and 38% women) took advantage of the offering.

At the Singapore site, we introduced a Skills Matrix Program aimed specifically at production technicians. The program enabled participants to engage in a learning process which they themselves shaped in order to extend their knowledge of production processes beyond their own area of responsibility.

**LANXESS Employee Structure by Employment Type, Gender and Region** (Also Including Employees on Fixed-Term Contracts)

| | 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 | 406 | 2,477 | 891 | 6,118 | 299 | 995 | 259 | 1,150 | 550 | 2,275 |
| Permanent contract, part-time | 84 | 176 | 366 | 149 | 17 | 1 | 2 | 1 | 7 | 3 |
| Temporary contract, full-time | 37 | 62 | 127 | 552 | 0 | 0 | 22 | 42 | 23 | 53 |
| Temporary contract, part-time | 4 | 1 | 6 | 7 | | 2 | 11 | 17 | 3 | |
| **Total** | **531** | **2,716** | **1,389** | **6,826** | **316** | **998** | **294** | **1,210** | **583** | **2,331** |

## Experience for international markets

Our global alignment is a key strategic advantage. LANXESS currently employs people from 69 (2014: 77) countries across the world. We do not view training, the transfer of know-how and international experience as a matter of origin or hierarchy. Both new talents and top managers from all regions are given the opportunity to acquire and deploy experience worldwide.

International assignments are a key component of our systematic HR development process. We advertise expatriate positions globally on an internal platform. 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 necessary for project work, are becoming increasingly important at LANXESS. At the same time, they offer employees with only short-term international mobility the opportunity to gain experience working in other countries. We have therefore enhanced the framework conditions for these short-term assignments. For example, an attractive mix of fringe benefits and special training is now offered for short-term assignments, too.

Since 2014, in the course of our realignment, we have tangibly reduced the number of employees on long-term international assignments. At year end 2015, a total of 87 employees (2014: 136 employees) – around 2.7% (2014: 4%) of our specialists and managers – were working as expatriates outside their home countries. The focus was in the EMEA and Asia-Pacific regions.

In addition to achieving a focused 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 employees. At sites outside Germany, 81.1% (2014: 80.9%) of our management functions are currently filled by local employees.

Our **Diversity & Inclusion (D&I)** project is aimed at enhancing diversity at LANXESS and using its positive effects to benefit our company and our employees. The D&I project is focused on the dimensions of age, gender and nationality. It is helping us to become more innovative and effective and to attract and retain promising talents – which is essential given that our business is becoming increasingly international and demographic change has presented us with major challenges in many of our core countries.

→ Our **Diversity & Inclusion** project is focused on the dimensions of age, gender and nationality.

The D&I Dashboard 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.

Since the project was launched, we have implemented a large number of measures and created the appropriate structures. In the reporting year, the project – which was established in 2011 as a Group-wide Board of Management initiative under the patronage of Board of Management member and Labor Relations Director Dr. Rainier van Roessel – was incorporated into the regular HR organization and operations.

For example, we successfully extended our global mentoring program in 2015. In China, more than ten managerial employees agreed to be mentors and share their experience and insights with promising young talents.

Our HR organization in India created an initiative named EmpowHER to represent the interests of women. In the future, it will develop specific measures for the development of women and serve as a first point of contact for all female employees. Moreover, an experiential learning program is aimed specifically at women, encouraging them to pursue on their own career paths. Two network events across all sites rounded off the varied offering for our female employees in India.

Through these measures, our D&I initiative is making an important contribution to reaching the goal we set ourselves in 2012, in connection with the voluntary undertaking by the DAX 30 companies, of raising the proportion of women in middle and upper management to 20% worldwide by 2020. The figure currently stands at 15.6%.

→ By 2020, the proportion of women in middle and upper management is to be

20 %

In accordance with the law on the equal representation of women and men in management positions in the private and public sectors, which came into force on May 1, 2015, certain companies in Germany are required to define targets for the proportion of women on the first two management levels below the Board of Management and to specify when these targets are to be met. In the case of first-time targets, the deadline for implementation may not be later than June 30, 2017. Against the backdrop of LANXESS's ongoing restructuring program, the Board of Management of LANXESS AG resolved to retain the existing proportion of women as the target for the first and second management levels through June 30, 2017. At the time this resolution was taken, the proportion of women on the first and second management levels below the Board of Management was 9.8% and 20.5%, respectively. The proportion of women at both management levels together should be 18.6% at the closing date. We have already taken and are continuing to pursue measures to increase the number of women in management positions across the company.

## Meeting demographic challenges

To address the challenges posed by demographic change, LANXESS worked closely with the employee representatives in 2009 to develop "XCare," a comprehensive demographic program based on the collective agreement on lifelong working time and demography in the chemical industry. This program, which applies to our German companies, 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 measures brought together within the "XCare" program encompass five areas of activity:

- People and health
- Work and training
- Time and organization
- Career and family life
- Savings and retirement provision

Balancing work and family life remains a main focus of the "XCare" program and is important to an increasing number of employees. A total of 7.0% (2014: 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 43% (2014: 42%) were fathers. 97% (2014: 82%) of the employees who ended a parental leave period in 2015 returned to a job at LANXESS.

Our "Xkids" company daycare center in Leverkusen is now in its third 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. In addition, we offer a needs-based number of places at daycare centers in Cologne, emergency places for those instances when regular care arrangements are unavailable, and a Germany-wide agency service for childcare providers.

Statutory maternity leave is a matter of course in Germany and similar models are in place in other European Union countries. However, it is by no means standard practice around the world. For that reason, we investigate whether country-specific models can be introduced or extended at our sites outside Europe. In Brazil, for example, we have reached agreement with the trade unions to benefit our employees by extending maternity leave from the statutory four months to over six months. Also in Brazil, we pay preschool fees for children up to the age of two whose parents return to work for us after their parental leave.

**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 | | 3 | | | 1 | | | |
| 20–29 | 50 | 201 | 125 | 487 | 24 | 81 | 54 | 187 | 119 | 532 |
| 30–39 | 195 | 673 | 263 | 979 | 51 | 173 | 124 | 380 | 265 | 992 |
| 40–49 | 136 | 849 | 418 | 2,046 | 68 | 275 | 50 | 294 | 138 | 556 |
| 50–59 | 103 | 833 | 419 | 2,438 | 128 | 373 | 31 | 262 | 33 | 190 |
| ≥60 | 6 | 96 | 32 | 316 | 45 | 94 | 1 | 28 | 2 | 8 |
| **Total** | **490** | **2,653** | **1,256** | **6,267** | **316** | **996** | **261** | **1,151** | **557** | **2,278** |

Against the backdrop of demographic change in Germany, providing care is an important aspect of the "career and family life" area of activity of the "XCare" program. Alongside advice from an external service provider and the arrangement of care placements throughout Germany, we offer our employees paid short-term release from duties. Caregiver leave remains at the heart of the LANXESS caregiving 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. To date, 40 employees in Germany have taken advantage of caregiver leave and other job release options.

More flexible worktime models are becoming increasingly important at our sites outside Germany as well. For example, we introduced three new worktime models in 2015 for our administrative employees in China, encompassing flextime, part-time and home office working. In Brazil, meanwhile, we offer our administrative employees a model with flexibilized starting times.

→ We are promoting flexible worktime models as part of our **demography initiative.**

## Health and preventive action

Protecting the health and safety of our employees remained a focus of activity in 2015. These issues are a regular aspect of the dialogue between employee and employer representatives in all countries where collective agreements apply.

Our occupational health management is based on raising all employees' awareness of their own health and motivating them to adopt healthy behaviors in their professional and private lives. In many plants and departments, employees have taken part in running groups. We also offer influenza vaccinations to all employees at the different sites. In addition, the members of our top management can undergo an extensive medical check-up. If health problems have already arisen, such as musculoskeletal disorders, we offer services such as access to orthopedic specialists, who treat our employees much more quickly than would be the case in the regular health system.

We have successfully deployed reintegration management at all German sites for a number of years. Employees who are suffering illness or have had long periods of absence from work in the past twelve months are provided with extensive advice by our workplace reintegration officers – appointed by the employer – and the reintegration teams made up of employee representatives. Among other things, the teams arrange external contacts and provide individual support for technical or organizational issues at the workplace. In 2015, as in the previous year, more than 40% of the employees invited to participate accepted the offer of an individual consultation with the respective site workplace reintegration team.

In Germany, our occupational health management and workplace reintegration programs are based on agreements with employee representatives. The operational teams are managed by steering committees made up equally of employer and employee representatives.

We also offer employee health promotion initiatives at our sites outside Germany. For example, all our employees in the United States have access to health check-ups paid for by their health insurance. In Canada, our employees receive financial support to pay for membership at a gym or other health-promoting establishment. Our Employee Assistance Program in South Africa offers support in a range of areas over and above health. Employees with personal, family, financial or health issues can turn in confidence to qualified external advisory services.

97%

of our non-managerial employees have a long-term account that enables them to retire earlier.

In the area of savings and retirement provision, we continued the long-term account for non-managerial employees as regulated by the agreement with the employee representatives and the collective agreement. In 2015, the very good participation rate was further increased to around 97%. The reporting year was the first in which employees were able to take the time accumulated in their accounts as leave before they retired.

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. Our core workforce comprises all employees with a permanent full-time or part-time position. As of December 31, 2015, they made up 93.3% of our total workforce worldwide. In fiscal 2015, we employed a total of 140 temporary staff (134 men and 6 women) at our German companies – LANXESS GmbH, Saltigo GmbH and IAB Ionenaustauscher GmbH.

88.3% (2014: 88%) of our employees worldwide receive variable compensation. A total of 64.7% (2014: 65%) of our employees worldwide benefit from unfunded company pension plans.

## Rewarding performance transparently and fairly

LANXESS offers its employees worldwide transparent, market-rate compensation, which also includes a bonus system linked to the company's long-term success. An employee's individual income is based on his or her responsibilities and performance. As well as collective agreements that are the basis for the compensation of non-managerial staff in Germany and many other countries, legal requirements such as minimum wage levels are also important in ensuring fair compensation. In Germany, for example, we obtain temporary employees only from agencies that are covered by the collective agreement for temporary employment. In addition, the chemical industry pays industry-specific supplements.

The fixed salaries of managerial staff – and of some non-managerial staff – are supplemented by a performance-based variable compensation component known as the Annual Performance Payment (APP), which is paid to employees in countries that participate in this program. The Annual Performance Payment is linked to the attainment of the Group's defined EBITDA target. Additional individual targets are set for top management. In 2015, our employees around the world shared in the company's success in 2014 with a payout totaling €63 million.

In 2015, we rewarded outstanding individual performance with payments totaling.

€11.2 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). In fiscal 2015, payments of €11.2 million worldwide were made solely for outstanding individual performance. Around 82% of our employees around the world are currently eligible for IPP, which also provides them with a prompt assessment of their performance and career prospects.

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 and the Netherlands. The Long-Term Stock Performance Plan (LTSP) 2014 – 2017 consists of four tranches, one commencing each year, and compares the performance of LANXESS stock against the MSCI World Chemicals Index over a four-year period. Since participants make a personal investment and there is the chance that the stock will increase in value, this program is an attractive long-term incentive and a means of enhancing employee loyalty. The participation rate for all eligible employees in the current program is 99.8%.

## Recognizing, rewarding and using good ideas

In 2015, we further optimized the processes and structures of our idea management system. A new works agreement, which became effective on September 1, 2015, is intended to simplify and accelerate the processing and evaluation of ideas. In addition, Saltigo GmbH was integrated into the LANXESS idea management system.

In 2015, employees at our German companies submitted a total of 2,027 (2014: 2,807) suggestions, a rate of 274 (2014: 373) per thousand employees. In the same period, 1,077 ideas (2014: 1,312) were implemented, yielding total savings of €2.56 million (2014: €2.52 million). In addition, 789 suggestions (2014: 887) led to improvements in occupational safety and environmental protection. A total of €0.95 million (2014: €1 million) was paid out to employees whose ideas were put into practice.

## Shaping change processes 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 International Labour Organization (ILO) standards and the U.N. Global Compact in respecting our employees' freedom of association and valid collective agreements. Worldwide, 66.9% (2014: 67%) of our employees are covered by collective agreements; in Germany the figure is just under 90% (2014: 90%).

We maintain a dialogue with employee representative bodies in Germany, Europe and around the world to discuss our corporate goals on a regular basis and involve these bodies in organizational changes at an early stage. In the context of the realignment and associated global restructuring program, management and the employee representatives in various countries collaborated during the reporting period to develop and implement socially acceptable solutions. In August 2015, the annual meeting of the European Forum – the company's codetermination platform in Europe – was also dominated by the Group's realignment.

→ We attach great priority to fair dealings with employee representatives and trade unions.

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. The Economics Committee is also informed on a regular basis about the company's economic affairs. We fully comply with our legal obligations with respect to the responsible bodies. Notification periods are defined in the collective agreements in Germany and other countries. In Germany, for instance, it is four weeks. Similar periods in other countries are also always complied with.

Outside Europe, too, we give high priority to fair dealings with employee representatives and trade unions. In South Africa, for instance, we comply with International Labour Organization (ILO) standards with respect to our employees' freedom of association. This includes regular dialogue between local management and trade union representatives as well as binding collective agreements on compensation and working conditions. In the reporting year, local management and trade union representatives at our Sarnia site in Canada worked together to draw up an action plan aimed at improving communication and collaboration between the two parties.

# 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.

## Uniform standards in production

Across the globe, LANXESS operates at 52 production sites in which it holds an interest of more than 50% (as of December 31, 2015). 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. Wherever in the world we operate, we systematically identify these risks and the hazard potential – both for existing and new facilities – and minimize them by implementing defined 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 formulation and implementation of technical and organizational protective measures and the environmentally friendly handling of raw materials, products and waste.

In 2015, we audited ←

45

production facilities

in the context of HSE (health, safety, environment) compliance checks.

To ensure compliance with LANXESS directives and local regulations for the safe operation of facilities, experts on site conduct audits based on targeted spot checks that are carried out with a frequency appropriate to the relevant risk profile and results. At each facility across the globe, compliance with the safety standards must be certified regularly, at least at the intervals required by local legislation. A total of 45 production facilities (2014: 38), 19 of them in Germany (2014: 19), were audited in the context of HSE (health, safety, environment) compliance checks in 2015.

## “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 all employees to work together to improve safety throughout the company and at raising their awareness of this issue.

→ **GRI**
G4–26
G4–27

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.

### 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.

After familiarizing our employees around the world with the cultural elements of our occupational safety program in 2014, we launched five more HSE standards in 2015. These incorporate new, stricter regulations for technical activities with a higher risk potential, such as entering containers or tight spaces and using forklift trucks. After receiving extensive training from the “Xact” regional managers, our managerial staff communicated these standards throughout the entire organization during the reporting year.

At the same time, we also continued to drive forward implementation of the program’s cultural elements. One important format in this regard is the safety dialogue, when 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 suppliers who provide us with technical services, for example, 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 give employees of our partner companies individual safety briefings as a matter of course.

→ We actively integrate suppliers into our safety culture, applying the principle of “select, train, support and evaluate.”

**GRI** ←
G4–26
G4–27

Another “Xact” tool that is becoming increasingly well established is the Pulse Check survey, which was again conducted among all LANXESS employees in 2015. This gave them a fresh 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 practices, whether they feel involved in safety activities and whether they receive positive feedback for working safely. More than 10,000 employees – a response rate of 61% – provided feedback on their experiences. The level of participation was therefore almost double that for the first survey in 2014 and the responses to all specific questions were generally more positive than last time. For example, 87% of respondents are now familiar with the six “Xact” safety regulations. Our employees believe there is room for improvement regarding the degree to which supervisors acknowledge their safe working practices. Furthermore, the view that all accidents are avoidable is not shared by as many of our employees as we would like.

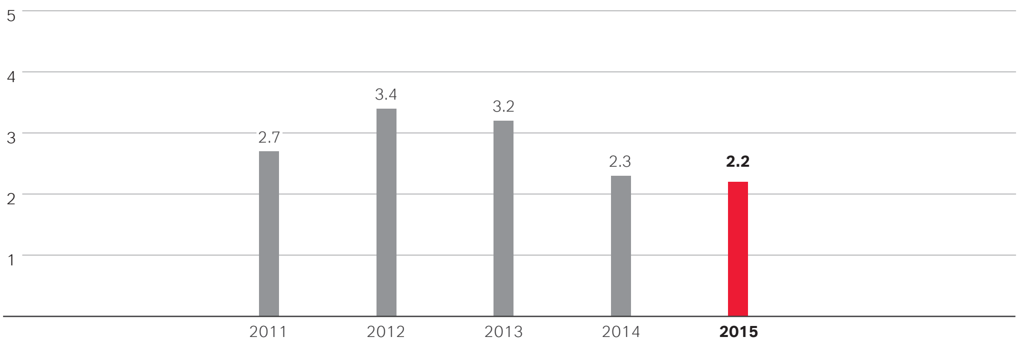
## Recording accidents and incidents

Thanks to our electronic Incident Reporting System (IRS), we are able to record accidents and incidents worldwide using standardized procedures. The incidents that are documented include accidents involving people, transport accidents, near accidents, safety-relevant incidents, 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.

LANXESS uses the recordable incident rate (RIR, the number of injuries per 200,000 working hours that are reportable as per OSHA rules) and the lost time injury frequency rate (LTIFR, known as MAQ in Germany and describing the number of injuries for every million hours worked) as indicators for evaluating occupational safety. The LTIFR was 2.2 in 2015, slightly lower than the previous year’s level. It was 3.2 in 2013 and 3.4 in 2012. This substantial medium-term reduction shows that the measures implemented over the past three years to improve occupational safety at LANXESS are taking effect. For example, we have seen a significant decrease in the number of work-related injuries at our chrome oxide mine in South Africa. The RIR, which was recently introduced to enhance international comparability, was 0.8 in 2015 and 2014, down from 1.1 in 2013.

Carrying forward the positive trend of recent years will require further concerted efforts supported by “Xact.” We should benefit from our employees being much more safety-conscious than they were in the past owing to the raised profile of occupational safety.

**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, a comprehensive product stewardship initiative by the world's chemical industry launched 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 assessments for substances so that the impact of chemicals on human health and the environment can be minimized and products can be manufactured and distributed 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 participation of everyone involved. This applies in particular to those substances in our product portfolio that are classified as hazardous. Our Central Product Surveillance Directive systematically governs worldwide tracking of our products and their use in respect of potential health and environmental impacts. The information acquired is used by our product developers and product safety experts in their evaluations.

### *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. Material safety data sheets in more than 30 languages inform our customers worldwide about substance data and the safety measures that are necessary when using the relevant chemicals. 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 2015, we integrated our country organization in Spain and the Rhein Chemie organization in the United States into the system.

→ Material safety data sheets in more than

**30**

languages

inform our customers worldwide about substance data and the safety measures that are necessary when using our products.

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. 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 participate in the substance analysis programs of the responsible authorities by supplying all available information and collecting new data if necessary. Efforts to meet the new requirements in chemicals legislation in Taiwan and South Korea – in terms of registration requirements for both new and previously listed substances – continued in 2015. Our experience in implementing REACH in the European Union helped with this.

www.echa.europa.eu

We expressly support the protection goals of the E.U. REACH regulation, which aims to ensure a high level of safety for human health and the environment in the manufacture and use of chemicals. We have so far pre-registered all the substances that are relevant for LANXESS with the European Chemicals Agency (ECHA) in Helsinki, Finland, by the stipulated deadlines. By the third deadline, on May 31, 2018, all substances we produce in volumes exceeding one ton will have been registered in Europe. 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 that our products meet 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.

## No Pellets Emission – making sure everything stays where it belongs

A good example of how we use the information gained from product monitoring to develop our own measures is the No Pellet Emission project. This focuses on plastic pellets, which may be released into the marine environment due to inattentiveness at various stages of the value chain – during 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. We therefore joined forces with PlasticsEurope Deutschland to launch the No Pellet Loss project as part of the Responsible Care® initiative, with the goal of motivating all stakeholders to handle plastic pellets in a responsible way.

As part of the internal LANXESS No Pellet Emission project, our facilities in Germany that handle pellets have systematically analyzed all potential emission sources and put in place measures designed to effectively prevent water pollution caused by pellets. Based on our experience and findings to date, we want to give the No Pellet Emission project global scope in 2016.

## *Procurement in the supply chain*

Responsible action begins in procurement. At LANXESS, raw and other materials, plant and services must satisfy globally uniform 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 material 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 (see page 119).

## *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, while at the same time respecting regional and local specifics.

Classification determines, among other things, the form of encapsulation (packaging and tanks), marking and labeling, permitted modes of transport and transport routes and the measures that emergency services must take in the event of a transport incident. The corresponding classification data are archived in LANXESS's safety data system for chemicals. In 2015, we expanded the central dangerous goods classification for Mexico and Uruguay and made preparations to incorporate Australia into the system. In the years ahead, we aim to consistently pursue this approach and integrate the remaining countries – Argentina, India, Japan, Russia and South Korea.

## *Storage management*

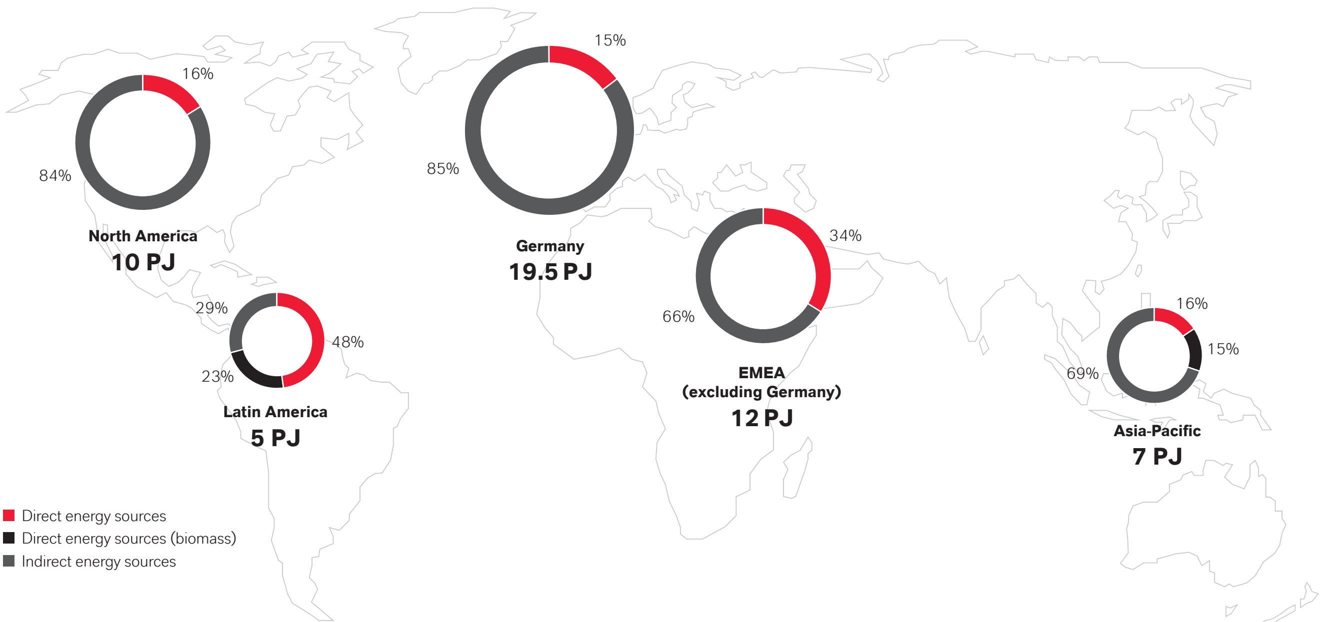
We operate our own warehouses, but also commission external warehousing service providers, selecting them on the basis of a specified process that considers relevant aspects such as logistics, safety and security, environmental protection and cost-effectiveness. In line with a chemical industry concept, 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.

**Direct and Indirect Energy Consumption by Region**

petajoule/%




*Systematic energy management*

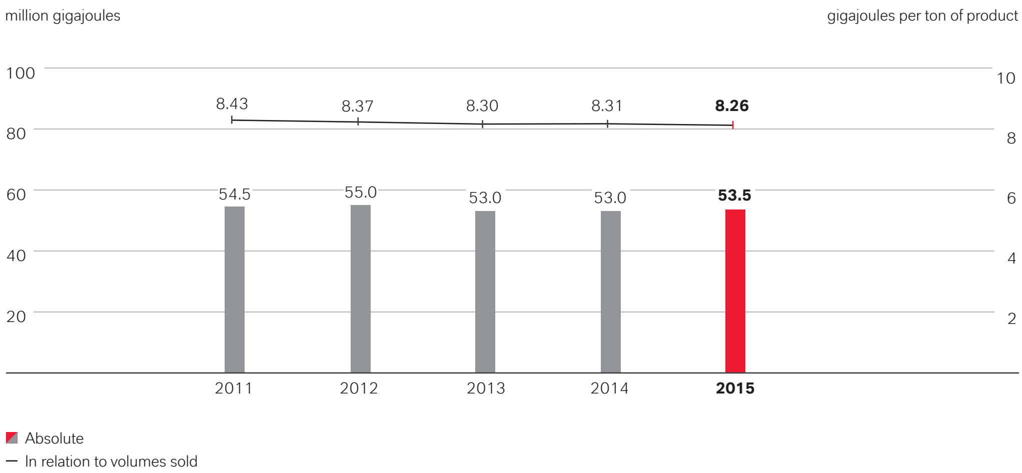
Resource and energy efficiency are key factors both for the cost-efficiency of our company and in climate and environmental protection. In this connection, we have established a global procedure for an energy management system in line with ISO 50001. The centrally managed global implementation project was completed in 2014. Our certification in Germany was reconfirmed in 2015. 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 the future, decisions will be taken locally on the basis of regulatory requirements. For example, LANXESS Liyang in China successfully obtained certification in April 2015.

In 2015, we concluded the LANXESS Energy Efficiency Program (LEEP), in which we had combined our measures to increase energy efficiency since 2012, and handed over ongoing projects to the relevant business units for further implementation. A number of cross-business unit projects had already been concluded by this time. The results achieved by LEEP are now being fed into the business units' potential analyses and optimization projects.

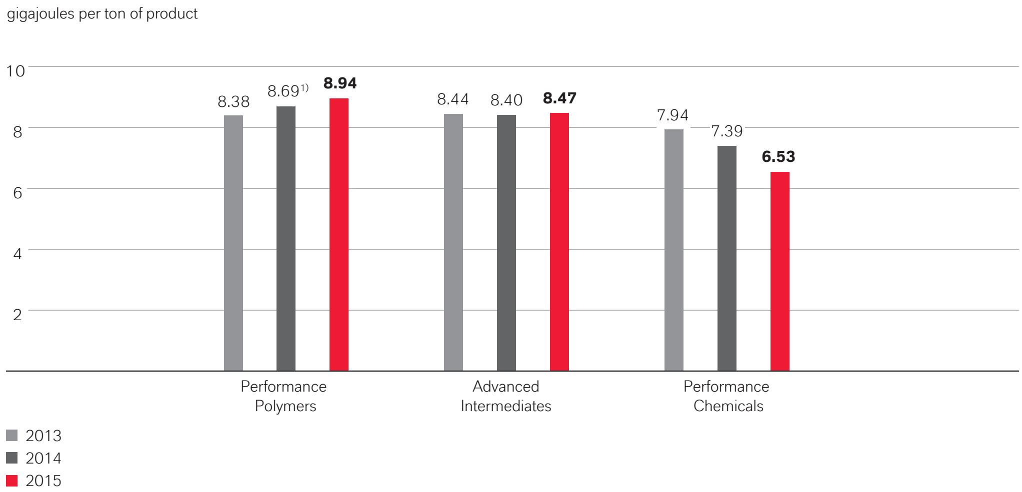
## Energy consumption

As the volumes produced and our product mix play 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**

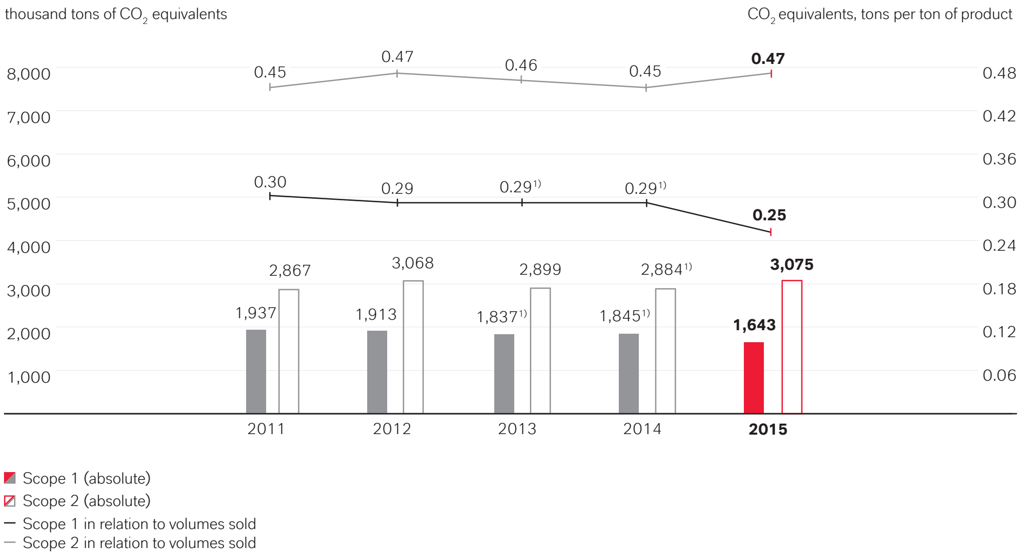



1) Figure restated

## *Reduction of climate gas emissions*

In the reporting period, we recorded a decline in both absolute and specific Scope 1 $CO_2e$ emissions. Scope 1 emissions cover direct emissions from production and our own energy generation operations. Scope 2 $CO_2e$ emissions are indirect emissions associated with the procurement of energies.

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

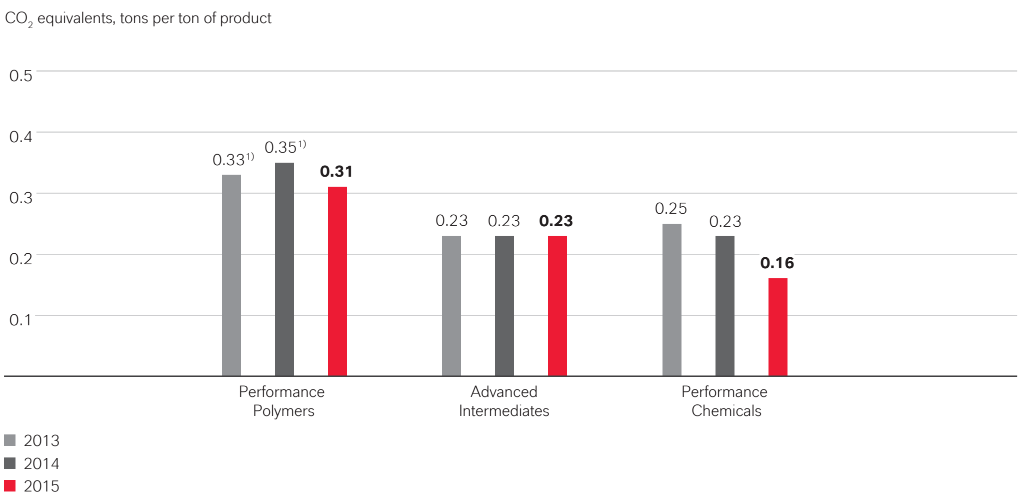



1) Figure restated

In 2015, we participated for the tenth 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 which have joined forces in order to improve transparency for the financial market on questions linked to climate change and the requisite corporate guidelines. We achieved a disclosure score of 98 out of a possible 100 points in 2015, having created a very high level of transparency for the greenhouse gas emissions caused by LANXESS and our strategies and activities designed to reduce our environmental impact.

In Europe, 17 LANXESS facilities and/or sites are subject to the European Emissions Trading System. Trading in $CO_2$ emission rights – or allowances – is a cost-effective way of reducing harmful $CO_2$ emissions. Since all our facilities that are eligible for emissions trading are at the cutting edge of technology and compete on the international market, we expect to receive an adequate number of free allowances up to the end of the third trading period in 2020 to cover our anticipated $CO_2$ emissions.

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




1) Figure restated

## *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.

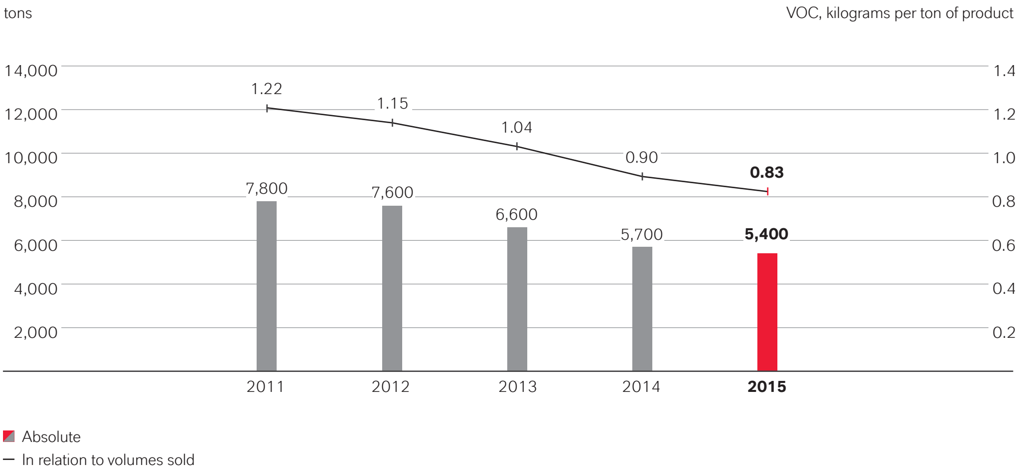
Today, we already use ships as the means of transport with the lowest emissions for around 90% of all ton-kilometers (tonnage transported multiplied by the distance transported in kilometers). In Germany, we continue to use the TÜV SÜD-approved Eco Plus solution offered by logistics provider DB Schenker Rail for transporting our products by rail. The electricity required for transport is obtained from renewable energy sources. This enables us to reduce the $CO_2$ emissions from our German rail transport operations by almost 75% compared with the standard solution. In 2015, we further extended our tried-and-tested railshuttle concept for our Uerdingen site. Every day, up to 20 export containers now leave the site by rail, bound for seaports. We also use this concept to bring in raw materials that are landed at the same ports.

Packaging is an often critical aspect in sustainable logistics processes. However, it is of lower significance to a chemical company like LANXESS because at least 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 we had taken to achieve our environmental protection target of cutting VOC emissions by 30% through the end of 2015 (base year: 2010).

**VOC Emissions**



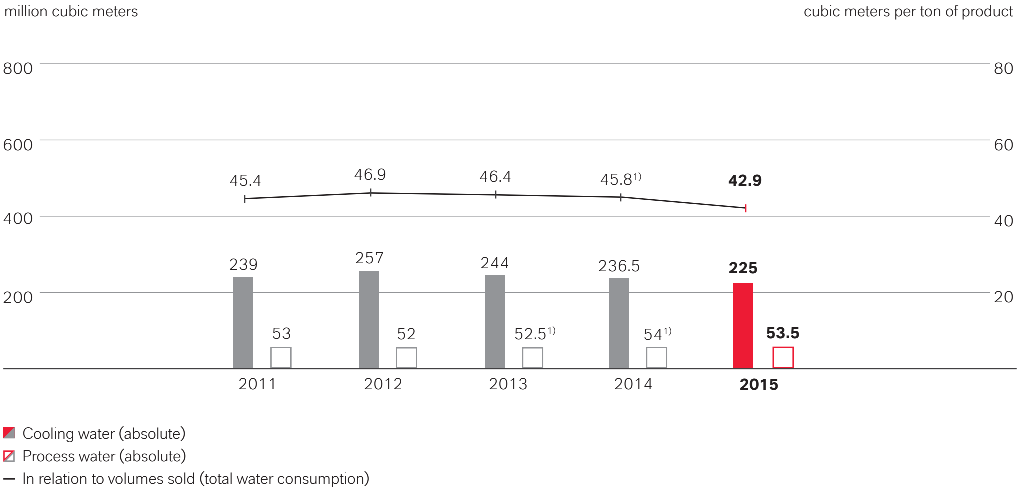

## *Responsible use of water resources*

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 the authorities issue an operating permit, an assessment is carried out on 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 are thus maintaining consumption at a stable level.

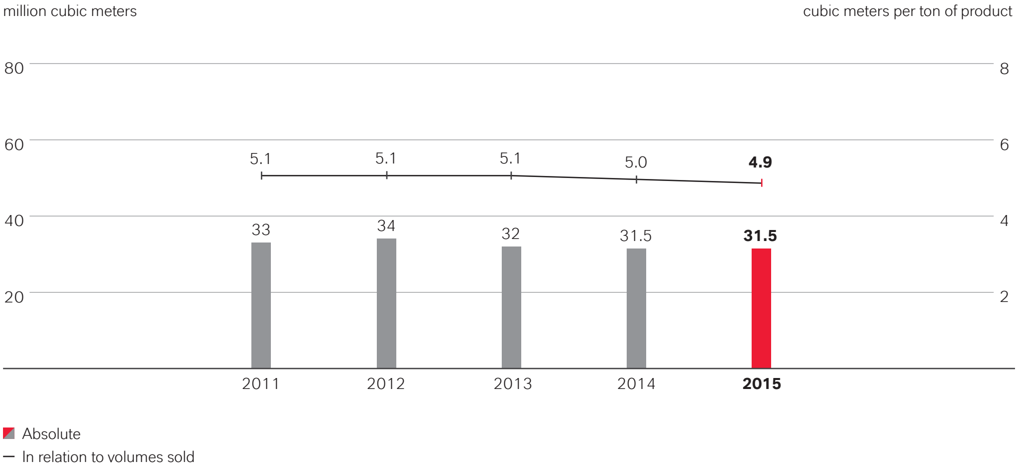
**Water Consumption**




1) Figure restated

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

**Wastewater**

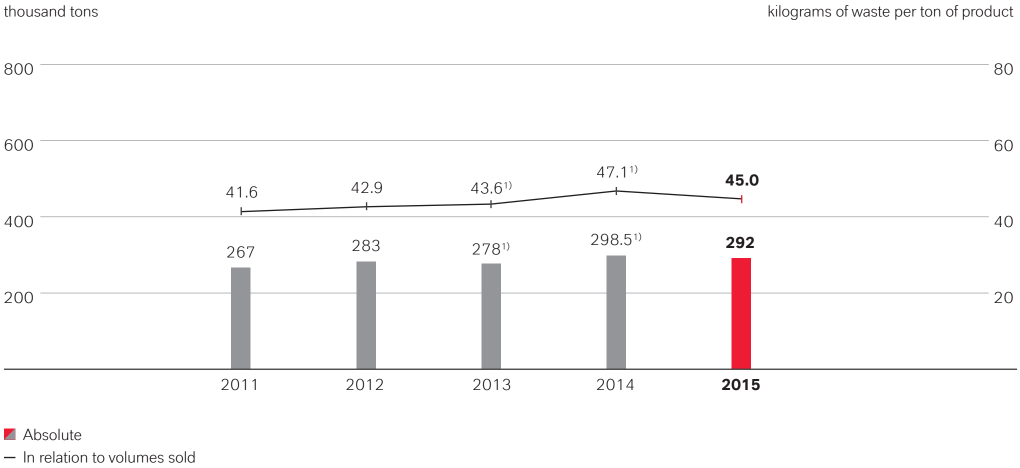



## *Sustainable waste management*

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 deploy 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.

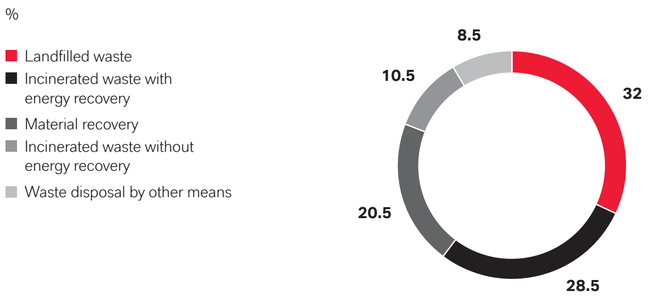
The total amount of waste generated in relation to volumes sold dropped slightly compared with the previous year. The amount of waste classified as hazardous also declined at the same time. All forms of waste are disposed of or reused in compliance with statutory requirements. Almost half of our waste is used in material or energy recovery.

**Total Waste**

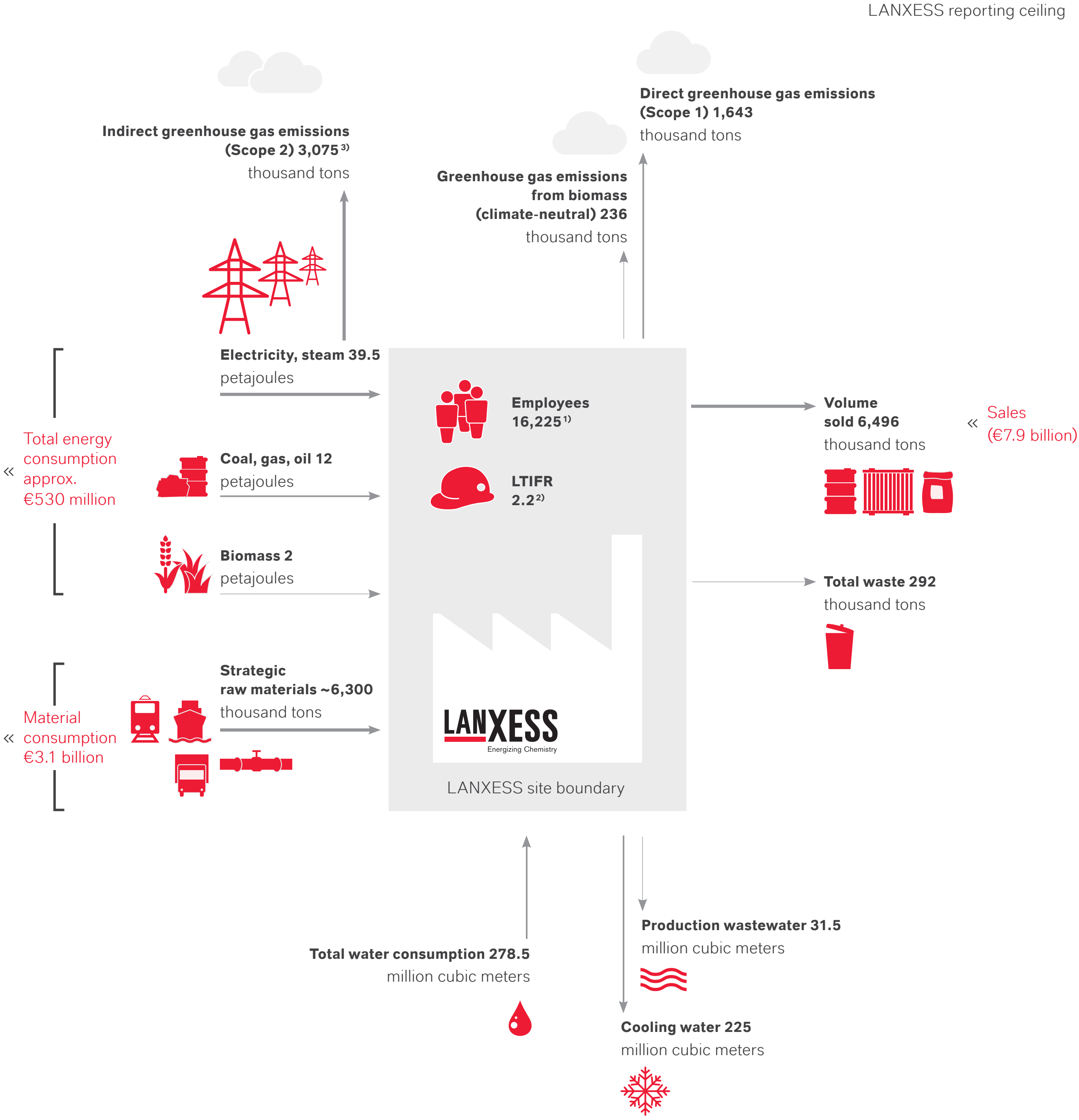



1) Figure restated

**Waste for Disposal**



**Input-Output Balance Sheet 2015**




1) Permanent workforce at the core companies (excluding temporary workers) as of December 31, 2015.
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.
3) Calculated using the market-based method in accordance with the GHG Protocol

## *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 define a broad range of HSE performance data for each business unit and site worldwide. These provide a valid database for internal and external reporting and map the progress we are making toward achieving our globally applicable HSEQ targets (see table on page 72). 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.

PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft assessed our HSE indicators for 2013 to 2015 (see below) 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 can be found on page 245.

**Environmental and Safety Performance Data ***

| | 2013 | 2014 | 2015 |
|---|---|---|---|
| **Safety** | | | |
| Occupational injuries to LANXESS employees resulting in at least one day's absence (per million hours worked) [1] | 3.2 | 2.3 | 2.2 |
| **Volume sold** [2] in thousand tons/year | 6,371 | 6,343 | 6,496 |
| **Energy** in petajoules ($10^{15}$ joules) [3] | 53 | 53 | 53.5 |
| **Direct energy sources** | | | |
| Non-renewable | 13 | 13 | 12 |
| Renewable | 0 | 0 | 0 |
| **Indirect energy sources** | | | |
| Non-renewable | 38 | 38 | 39.5 |
| **Other direct energy sources** | | | |
| From biomass | 2 | 2 | 2 |
| **Water** in million cubic meters/year | | | |
| **Total water consumption** | 296.5 [a] | 290.5 [a] | 278.5 |
| Surface water | 138 | 120.5 | 107 |
| Groundwater | 7 | 6 | 7 |
| Rainwater | 0.5 | 0.5 | 0.5 |
| Wastewater | 1 [a] | 1 | 1 |
| Other water sources | 150 [a] | 162.5 [a] | 163 |
| **Cooling water in total water consumption** [4] | 244 | 236.5 | 225 |
| **Process water in total water consumption** | 52.5 [a] | 54 [a] | 53.5 |
| **Atmospheric emissions** in thousand tons $CO_2e$/year | | | |
| **Total greenhouse gas emissions $CO_2e$** | 4,736 [a] | 4,729 [a] | 4,718 |
| Direct (Scope 1) [5] | 1,837 [a] | 1,845 [a] | 1,643 |
| Indirect (Scope 2) [6] | 2,899 | 2,884 [a] | 3,075 |
| **Ozone-depleting substances** | 0.00115 | 0.00132 | 0.00113 |
| **$NO_x$, $SO_x$ and other emissions** | | | |
| $NO_x$ [7] | 2.5 | 2.8 | 2.8 |
| $SO_2$ [8] | 1.1 | 1.1 | 1.0 |
| CO | 2.1 | 2.1 | 2.2 |
| $NH_3$ | 0.1 | 0.1 | 0.1 |
| NMVOC [9] | 6.6 | 5.7 | 5.4 |

**Environmental and Safety Performance Data***

| | 2013 | 2014 | 2015 |
|---|---|---|---|
| **Wastewater** in million cubic meters/year | | | |
| **Total wastewater discharge** | 276 | 268 | 256.5 |
| Cooling water (uncontaminated, without treatment)[4] | 244 | 236.5 | 225 |
| Production wastewater (with treatment) | 32 | 31.5 | 31.5 |
| **Emissions in wastewater (after treatment)** in thousand tons | | | |
| Total nitrogen | 0.48 | 0.52 | 0.54 |
| Total organic carbon (TOC) | 2.0 | 2.2 | 1.9 |
| Heavy metals[10] | 0.0045 | 0.0065 | 0.0059 |
| **Waste** in thousand tons/year | | | |
| **Total weight of waste** | 278[a] | 298.5[a] | 292 |
| Incineration with energy recovery | 68[a] | 82.5[a] | 84 |
| Incineration without energy recovery | 24[a] | 26.5[a] | 30 |
| Landfilling | 99 | 111 | 93.5 |
| Material recovery | 64 | 56.5 | 59.5 |
| Other forms of disposal | 23[a] | 22[a] | 25 |
| **Type of waste** | | | |
| Hazardous | 160 | 191 | 188 |
| Non-hazardous | 118[a] | 107.5[a] | 104 |

**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%.

2013/2014/2015: 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 $CO_2$e 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 $CO_2$e. 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: 2013: 223 kt $CO_2$, 2014: 217 kt $CO_2$, 2015: 236 kt $CO_2$.
6) All Scope 2 greenhouse gases are calculated as $CO_2$e. 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 2011 were used for fiscal year 2013, factors from 2012 were used for fiscal year 2014 and factors from 2013 were used for fiscal year 2015.
The Scope 2 $CO_2$e emissions are calculated using the market-based method in accordance with the GHG Protocol. Using the location-based method, Scope 2 $CO_2$e emissions for 2015 amounted to 4,508 kt.
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) Values restated due to supplementary notifications

## *Mid-term emissions targets achieved*

In 2010, we set ourselves the target of reducing both the specific energy consumption and specific $CO_2$e emissions of each of our business segments by 10% through the end of fiscal 2015. We also formulated the target of reducing our VOC emissions by 30% through the end of 2015. Due to various influencing factors, we achieved both our $CO_2$e and VOC targets (unadjusted) by the end of 2015, but did not achieve our energy target. First, we did not achieve our planned business growth targets, which had been used as the basis for setting both the aforementioned targets and the budget for the corresponding investment in efficiency measures. Second, portfolio adjustments in the form of acquisitions and new facilities also had a substantial effect and, in some cases, hindered progress in achieving the targets. As the volumes produced and the respective product mixes are significant factors alongside efficiency, the savings effects cannot be directly depicted in absolute energy and emissions data.

### Specific energy consumption

Comparing the specific energy consumption in the individual segments in 2015 with the figures from the base year 2010 shows that only the Advanced Intermediates segment has improved, while the other two segments have not. On the one hand, this outcome can be attributed to LANXESS's business development, which resulted in production and sales volumes that were below original assumptions. On the other hand, measures associated with the "Let's LANXESS again" program and changes to the way energy is recorded are also involved. For example, one consequence of the realignment program was that the energy efficiency measures identified by LEEP could only be implemented to a limited extent, if at all. Furthermore, due to the continuous expansion of our energy recording systems, far more energy sources are now included in our reporting than was the case in the base year 2010.

### Specific $CO_2$ emissions

In terms of specific $CO_2$ emissions, all segments achieved their reduction targets. With a reduction of around 30%, the Performance Chemicals segment substantially exceeded its target. The situation was also very encouraging in the two other segments – Performance Polymers and Advanced Intermediates – where we succeeded in cutting specific $CO_2$ emissions by approximately 13%. One key reason for this achievement is the partial switchover to climate-neutral biomass for in-house power generation. We were able to reduce our specific $CO_2$ emissions across all segments by more than 15%.

## Absolute VOC emissions

The situation regarding VOC emissions is also encouraging. Focused measures enabled us to exceed our reduction target of 30% (in absolute terms). For example, at our sites in Belgium, Brazil and Canada alone, which are responsible for a significant share of our total volatile organic compound emissions, we reduced emissions by some 3,000 tons.

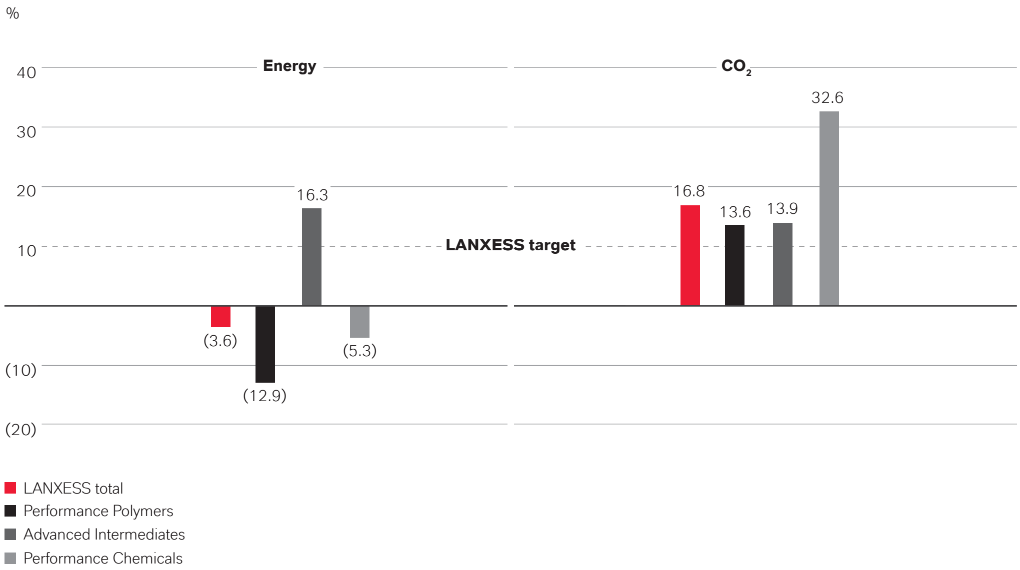
## Analysis of adjusted values

In terms of specific energy consumption, the picture is slightly different if we factor in the effects of portfolio adjustments and larger volumes of energy data being collected. Here, too, the Advanced Intermediates segment achieved its energy efficiency target and the Performance Polymers segment succeeded in slightly reducing its specific energy consumption. The Performance Chemicals segment cannot point to any improvement in energy efficiency for the period from 2010 through 2015. However, the LANXESS Group as a whole achieved a 5% reduction in specific energy consumption.

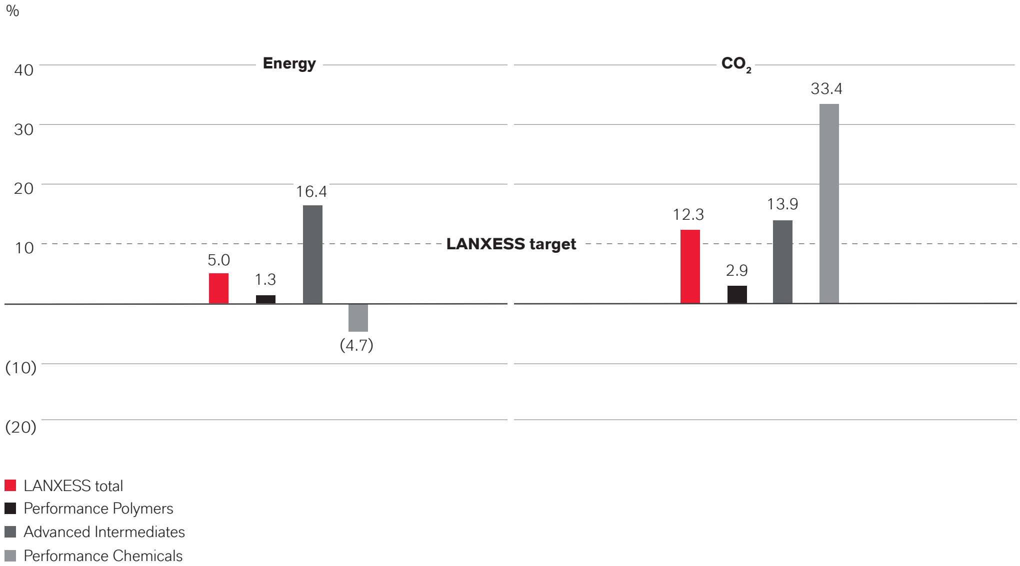
In terms of $CO_2$ emissions per ton of product sold, the Advanced Intermediates and Performance Chemicals segments achieved their targets with reductions of 13.9% and 33.4%, respectively. Although the reduction of 2.9% in the Performance Polymers segment is below the target value, it still contributed toward the overall result. We succeeded in lowering our specific $CO_2$ emissions across all segments by 12.3%.

In terms of volatile organic compounds, we not only achieved but substantially exceeded our adjusted target. This demonstrates the effectiveness of the measures implemented in the facilities that already belonged to LANXESS in the base year 2010.

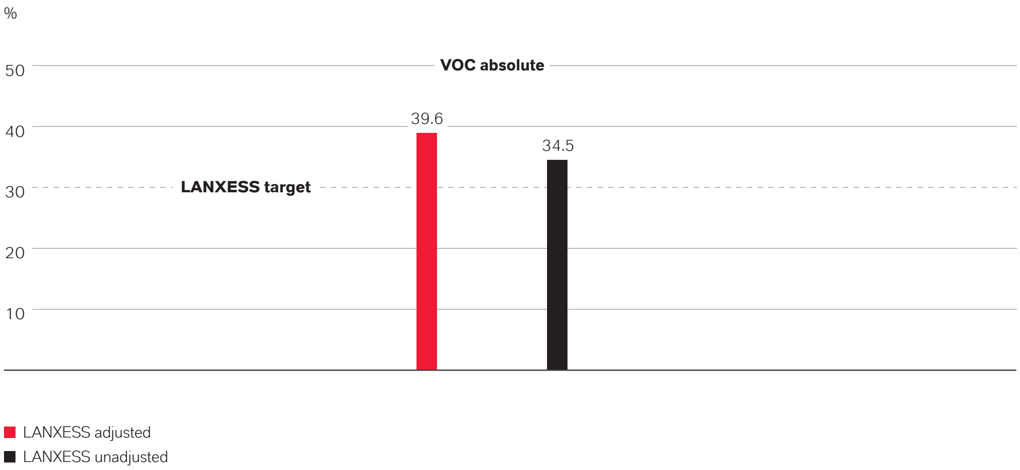
**Target Attainment Energy and $CO_2$ (Unadjusted)**



**Target Attainment Energy and $CO_2$ (Adjusted)**




**Target Attainment VOC Emissions**



**HSEQ – 2015 targets**

| Subject Area | Program/Action | Target Date | Target Attainment |
|---|---|---|---|
| Management of HSEQ-related 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 | In the course of preparations for the upcoming standard revision (ISO 9001/14001 Revision 2015), a team was put together to identify risk-related requirements and transfer these to HSEQ-related areas of activity, for example:<br>▪ "Xact" Pulse Check survey as a key indicator for the global safety culture<br>▪ Project for enhanced load securing in freight containers<br>▪ Controls in the area of process and plant safety to be extended to toll manufacturers and external warehouses |
| 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 | A standardized audit process was developed and rolled out by the TfS working groups.<br>A global audit framework was established for third-party audits. Starting in 2016, the number of audits will be greatly increased.<br>Collaboration in the TfS working groups was intensified. |
| 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 | The results achieved through the central LANXESS Energy Efficiency Program (LEEP) were adapted to a local approach and transferred to the business units.<br>The Operational Eco Efficiency project, including the water management risk assessment, was launched at the end of 2015. |
| | Continued from prior years:<br>▪ Reduction in specific $CO_2$ emissions by 10% per business segment through 2015 (base year: 2010)<br>▪ Reduction in specific energy consumption by 10% per business segment through 2015 (base year: 2010)<br>▪ Reduction in emissions of volatile organic compounds (VOC) by 30% through 2015 (base year: 2010) | 2015 | See detailed description under "Mid-term emissions targets achieved" |
| Product stewardship | Compilation of life-cycle analyses for the most important key products (e.g. for all "green" products) | 2016 | The Product Stewardship project, which includes a risk-based assessment of the Group's portfolio, was initiated at the end of 2015. |

### *New environmental protection and climate targets formulated for 2025*

Environmental and climate protection continue to be a top priority at LANXESS. That is why, at the start of 2016, we set new long-term targets for $CO_2$ and VOC emissions and for reducing energy consumption. By 2025, we aim to cut our specific $CO_2$ and VOC emissions by 25% (base date: December 31, 2015). We also aim to reduce specific energy consumption by 25% through 2025. In the future, assessment will no longer be based on the performance of the reporting segments, but rather on that of LANXESS as a whole. This approach takes account of the company's changing structures.

**HSEQ – 2016 targets**

| Subject Area | Program/Action | Target Date |
| --- | --- | --- |
| Management of HSEQ-related risks | Continued from prior year:<br><br>Development and introduction of a global HSEQ risk identification and evaluation process with the following objectives:<br><br>▪ Strengthen awareness of occupational safety<br>▪ 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 |
| Sustainable supplier management | Continued from prior year:<br><br>Development and establishment of a new sustainability standard for our suppliers:<br><br>▪ Work on advancing the development of the sustainability standard for our suppliers in tandem with relevant industry initiatives, with the aim of further expanding a sustainable supply chain<br>▪ Support for the Together for Sustainability initiative, which aims to standardize and share sustainability assessments of suppliers in the same industry | 2020 |
| Climate protection and resource management | Continued from prior year:<br><br>Consolidation of existing efficiency measures in a global resource efficiency program with the following goals:<br><br>Improved eco-efficiency within the LANXESS Group:<br>▪ Development of an integrated business strategy/operational eco-efficiency<br>▪ Further development of the LANXESS Climate Strategy<br>▪ Establishment of a water management system at all sites in water-scarce areas<br><br>» Transfer to the Operational Eco Efficiency project | 2016 |
| | New targets:<br>▪ Reduction in specific Scope 1 $CO_2e$ emissions by 25% for the LANXESS Group through the end of 2025 (base date: December 31, 2015)<br>▪ Reduction in specific Scope 2 $CO_2e$ emissions by 25% for the LANXESS Group through the end of 2025 (base date: December 31, 2015)<br>▪ Reduction in specific energy consumption by 25% for the LANXESS Group through the end of 2025 (base date: December 31, 2015)<br>▪ Reduction in emissions of volatile organic compounds (NMVOC) by 25% through the end of 2025 (base year: December 31, 2015) | 2025 |
| Product stewardship | Life cycle assessment concept for key sustainability-relevant products<br><br>» Transfer to the Product Stewardship project | 2016 |

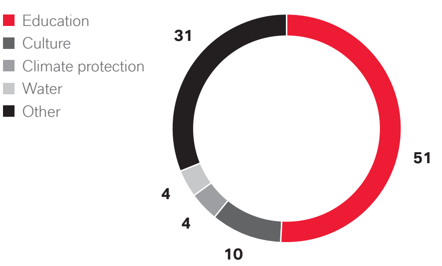
# Society

As a company, we draw numerous benefits from the society in which we operate – well-trained employees, satisfied customers, legal and political stability and a good infrastructure. We believe it is only right that, in line with the concept of corporate citizenship, we assume responsibility and thus contribute to the evolution of society.

We focus on four areas of activity: education, climate protection, water and culture. In 2015, we again initiated or supported a number of projects worldwide in these areas of activity. The regional focus of our activities in the reporting year was Europe, where more than half of all projects were implemented. Overall, more than 335,000 (2014: more than 218,000) mainly young people benefited from our projects, which we funded with some €2 million in 2015 (2014: some €0.9 million).

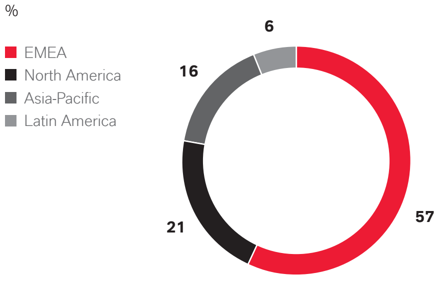
**Social Activities by Topic** [1]

%




**Social Activities by Region** [1]

%




1) Basis: 161 projects undertaken in 2015

## The LANXESS education initiative – a global success story

We endeavor to encourage young people worldwide 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. Within the context of the LANXESS education initiative, we have established projects at many of our sites to pursue these objectives in varying ways.

We underscore our clear commitment to **Germany** as a business location and a base for the chemical industry not just through financial assistance for schools close to our sites but also through collaboration in the provision of scientific teaching materials. For instance, we have worked with an experienced partner specializing in education media to develop teaching materials on the subjects of mobility, globalization, urbanization and water for use in elementary schools. We distributed the materials to a total of 269 elementary schools throughout Germany. The "TuWaS!" (Do Something!) project initiated by the Cologne Chamber of Commerce and Industry and supported by LANXESS also targets elementary school students with the aim of getting children interested in scientific and technical questions through play. We have provided a total of €90,000 in funding for middle and high schools close to our sites at Krefeld, Leverkusen, Dormagen, Brunsbüttel and Cologne. This has enabled these schools to implement projects in MINT subjects (mathematics, information technology, natural sciences and technology), for example on acids, photometry, computer-assisted measurement recording and the generation and storage of electricity.

In **Brazil**, we promote scientific knowledge and environmental awareness at our various sites through the "Green Cycle" competition, which gives participants the opportunity to develop their own environmental protection projects. LANXESS provides full funding for implementing the winning projects. Participants receive assistance from an agency that specializes in environmental projects. Since the competition began in 2010, we have successfully initiated 38 projects that have benefited more than 8,000 people. In addition, our employees in Brazil participate in Community Day once a year and spend the day providing practical assistance to facilities such as kindergartens, hospitals, schools and social centers.

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. Since the initiative began in 2007, more than 40 projects have been implemented, directly or indirectly benefiting about 10,000 people. The "La Basura Sirve" (Waste is Useful) initiative launched in Zárate in 2012 also promotes 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 finance purchases.

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 complete a four-week internship with LANXESS. In Liyang, we provide support to particularly gifted or very committed school students. 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 have been working for a number of years with the aid organization Save the Children Japan. In August 2015, under the motto “Exciting Experiments,” our Japanese company arranged workshops at three schools in Miyagi Prefecture. In one of these workshops, participants made batteries from vegetables.

Each year, we support “Fun Chemistry World” in **South Korea**, an initiative organized by the South Korean Responsible Care Council in four different cities. Through a variety of experiments, LANXESS employees provide insights into the exciting world of chemistry for the more than 1,000 school students who regularly participate.

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 areas and their counterparts in urban centers. 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. In 2015, twelve schools in the vicinity of our Rustenburg site benefited from these measures.

Our partnership with the Junior Achievement organization in the **United States** also fully reflects our commitment to corporate volunteering. LANXESS employees regularly visit schools in the Pittsburgh area to teach first- to fifth-grade classes basic aspects of economics, entrepreneurship and corporate responsibility. Another project which LANXESS has been supporting for some time is the Neighborhood Academy, which supports and mentors disadvantaged young people from Pittsburgh in preparing for their high school diploma examinations.

The LANXESS education initiative has already reached tens of thousands of children, adolescents and young adults worldwide. ←

Since its launch, the LANXESS education initiative has reached tens of thousands of children, adolescents and young adults worldwide. Feedback from teachers, principals and school authorities shows that the initiative has significantly enhanced the importance of the MINT subjects in school timetables.

## Committed to protecting the climate and water resources

A further focus of our corporate responsibility is enhancing awareness worldwide of the causes and consequences of climate change and water scarcity – for both drinking and industrial uses. In Brazil, we collaborated in 2015 with Valdemir Cunha, one of the country’s best-known landscape and nature photographers, to organize photography workshops for school students at five sites. Previously, Cunha had documented Brazilians’ day-to-day relationship with water in a book entitled Água (Water) that was sponsored by LANXESS. In China, to mark the publication of the Chinese government’s Water Action Plan, we initiated a new research competition in the reporting year. Students from five universities were asked to develop approaches for protecting water as a vital resource.

## 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 partnering its sister event phil.COLOGNE, a top-class international philosophy festival.

The second mainstay of our cultural commitment is support for musical training, especially for young people. The Young Euro Classic initiative brings together talents from Germany and LANXESS's main markets around the world. LANXESS SNYO Classic sponsors an exchange and mentoring program for the Singapore National Youth Orchestra. In Japan, we support the Ozawa International Chamber Music Academy (OICMA), which enables talented young musicians from across Asia to receive a top-quality musical education. Furthermore, we are 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 initiatives such as a discounted concert subscription for university students.

## Alleviating distress, creating opportunities

In 2015, more than one million refugees came to Germany to escape war and poverty in their countries of origin. We, like others, wish to make a helpful contribution to alleviating the immediate distress of these people and to providing them with opportunities for the future. We have therefore provided €400,000 to support selected refugee aid projects in Cologne, Leverkusen, Dormagen, Krefeld and Brunsbüttel. These funds will be used mainly to finance language teaching for children at schools as part of their preparatory classes and for adults at further education centers. We consider language skills to be the key to successful integration.

In addition, we are expressly fostering our employees' individual involvement. They can take paid leave for up to eight days to help established aid organizations in their work. And we are granting two days' leave for local or self-initiated aid projects. We also aim to provide career opportunities for people seeking refuge and – in light of demographic change – acquire well-trained employees for LANXESS at the same time. Therefore, as a first step, we have created twelve additional places on the one-year preparatory course prior to vocational training. In addition, we are organizing trial weeks to help with career choices. In the medium to long term, we intend to offer additional internships, vocational training places and jobs, some of which will be specifically tailored to refugees' particular needs. We are working closely with the responsible public agencies and, when the time comes, will offer assistance in assessing refugees' skills.

# LANXESS on the Capital Market

» **BBB–**
Standard & Poor's

» **Baa3**
Moody's

» **32.2%**
equity ratio

## » STABILITY »

We pursue a conservative financing policy that is guided by clear criteria and focused on maintaining our **investment-grade rating** and achieving a strong free cash flow. Our good access to the capital markets ensures a **balanced financing structure** and a very solid liquidity position, regardless of cyclical fluctuations.

# LANXESS on the Capital Market

In a year in which the stock market was again characterized by a high level of volatility, LANXESS stock outperformed the DAX and its two industry benchmark indices. Year on year, the share price rose by around 11%. After switching index at the end of September, our stock is again listed in the MDAX.

In 2015, the German stock market performed positively overall, but was subject to sharp price fluctuations over the course of the year. The German lead index, the DAX, made a very strong start to the trading year. This was stimulated by the European Central Bank (ECB) asset purchase program announced in January as well as by improved economic data from the eurozone and the continuation of expansionary monetary policy in key economies such as the United States and China. A rally lasting more than three months pushed the index to record levels. On April 10, for example, the DAX closed at a new all-time high of 12,375 points.

However, shortly thereafter negative factors gained the upper hand for several months. In particular, the ongoing sovereign debt crisis in Greece, weaker macroeconomic data from China, a sharp correction on Chinese equity markets and growing discussion of an interest rate rise in the United States sent the DAX back below the 9,500 point mark by the end of September. There was no clear turnaround in this trend until October, when the ECB announced that it might further ease its expansionary monetary policy at the end of the year. However, market participants' hopes of increased bond purchases were dashed in December. Moreover, the impact of the U.S. Federal Reserve's long-anticipated interest rate increase was felt. On December 30, the DAX closed at 10,743 points – 9.6% higher than the 2014 closing price. Viewed over the full year, the MDAX was much more stable, rising by 22.7% to 20,775 points.

By contrast, the LANXESS benchmark indices – the Dow Jones STOXX 600 Chemicals$^{SM}$ and the MSCI World Chemicals Index – were much weaker in 2015. The Dow Jones STOXX 600 Chemicals$^{SM}$ rose by only 5.6% to close the year on 829 points. The more comprehensive and international MSCI World Chemicals Index declined 2.8% year on year, closing 2015 at 250 points.

Of all the benchmarks, only the MDAX posted a stronger performance in the reporting year. ←

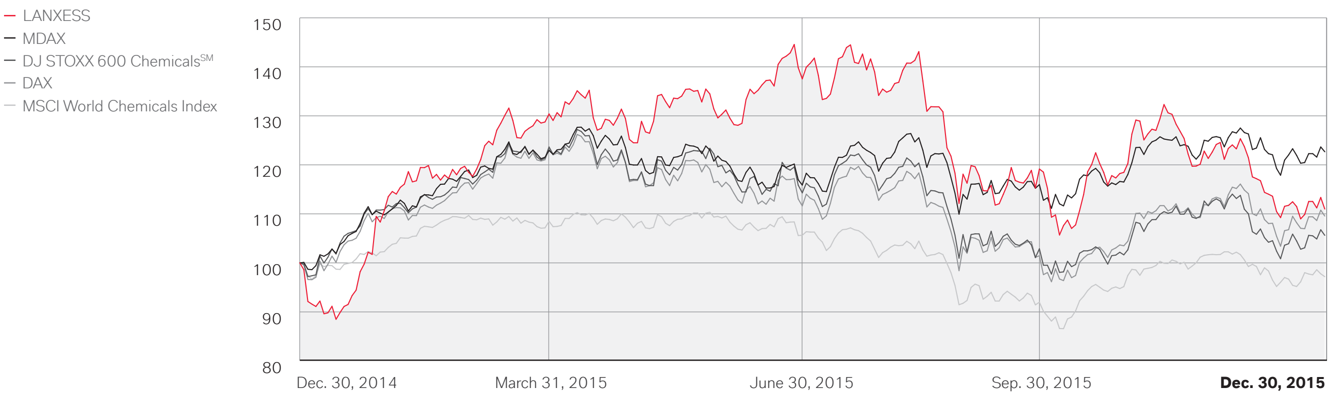
After being heavily impacted in 2014 by company-specific news, LANXESS stock moved largely parallel with the market as a whole during the reporting year. Positive news, such as the successful implementation of our realignment program and a significantly improved operating performance, contrasted with the switch from DAX to MDAX as a result of insufficient market capitalization. LANXESS has again been listed in the MDAX since September 21, 2015. Our stock reached its high for the year of €55.59 on June 26 but remained below the €50 mark in the second half of the year. The closing price on December 30 was €42.68. Thus, in 2015, LANXESS stock gained 11.0% in value, significantly outperforming its two industry benchmark indices and also faring better than the DAX. Of all the benchmarks, only the MDAX posted a stronger performance in the reporting year.

**LANXESS Stock Performance since Listing**

%


**LANXESS Stock Performance 2015**

%




**Performance Data 2015**

| | | Q1 2015 | Q2 2015 | Q3 2015 | Q4 2015 | Year 2015 |
|---|---|---|---|---|---|---|
| Capital stock/no. of shares [1] | €/no. of shares | 91,522,936 | 91,522,936 | 91,522,936 | 91,522,936 | **91,522,936** |
| Market capitalization [1] | € billion | 4.54 | 4.84 | 3.83 | 3.91 | **3.91** |
| High/low for the period | € | 51.00/33.53 | 55.87/47.05 | 56.50/39.99 | 51.92/40.80 | **56.50/33.53** |
| Closing price [1] | € | 49.63 | 52.89 | 41.82 | 42.68 | **42.68** |
| Volatility [2] | % | – | – | – | – | **31.15** |
| Trading volume [3] | million shares | 62.838 | 36.504 | 53.481 | 29.748 | **181.333** |
| Earnings per share | € | 0.24 | 0.95 | 0.45 | 0.16 | **1.80** |
| Price/cash flow ratio [1] [4] [5] | | – | – | – | – | **5.64** |

1) End of quarter: Q1: March 31, 2015, Q2: June 30, 2015, Q3: September 30, 2015, Q4 and full year: December 31, 2015
2) Source: Bloomberg
3) Source: Xetra/Frankfurt Stock Exchange
4) Data, especially cash flow, are influenced by exceptionals, which restricts the significance accordingly
5) Reference value: operating cash flow

**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 | MDAX, DAXsupersector Basic Materials, Dow Jones STOXX 600 Chemicals$^{SM}$, MSCI Germany Standard, MSCI Germany Mid Cap, Dow Jones Sustainability Index World, FTSE4Good |
| Investment-grade ratings (outlook) | Standard & Poor's: BBB– (positive)<br>Moody's: Baa3 (stable) |

# Sustainability

Exercising responsibility in our entrepreneurial activities is a key element of our corporate strategy. We therefore aim to position LANXESS as a sustainable investment for providers of equity and debt capital.

In 2015, we were included in the Dow Jones Sustainability Index (DJSI) World for the fifth time. ←

In 2015, for the fifth time in succession, we were included in the respected Dow Jones Sustainability Index (DJSI) World. The index applies the best-in-class principle and includes only the top ten percent of the companies evaluated. This year, we received special recognition for our commitment in the areas of occupational health and safety, codes of conduct and compliance, risk and crisis management, customer relationship management, corporate citizenship and innovation management. 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 – gave us a corporate responsibility rating of C.

In the Carbon Disclosure Project, we achieved ←

98

out of a possible 100 points for disclosure.

Climate protection and correspondingly transparent reporting about our achievements in this area have a key role in our sustainability activities, which we again demonstrated through our annual participation in the Carbon Disclosure Project (CDP). In 2015, we achieved 98 out of a possible 100 points for disclosure. In addition, environmental data are an important component of our sustainability reporting.

Detailed information about sustainability can be found in the "Corporate Responsibility" section starting on page 32 and on our website.

# Stockholder structure

The majority of LANXESS's stockholders are institutional investors whose strategy is oriented toward growth or value. At January 31, 2016, these investors held around 89% of the stock. The remaining share of around 11% of LANXESS stock is owned by private investors, including our employees, who hold around 1%. Since LANXESS was first listed on the stock exchange, most of our private investors have been located in Germany.

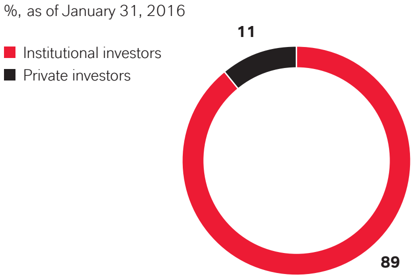
In 2015, as in the past, many of our institutional investors were based in the United States, the United Kingdom and Germany. The proportion of our stockholders in the United States increased further and at January 31, 2016, was around 35% (2014: 31%). At the same date, some 17% (2014: 18%) of LANXESS stock was held in the United Kingdom. Institutional investors from Germany represented about 15% (2014: 14%) of our stock. Taking private and institutional investors together, ownership of our shares in Germany increased slightly to around 26% (2014: 25%).

In other regions, LANXESS is represented in France, the Netherlands and Switzerland, in particular. The proportion of institutional investors from the rest of Europe declined year on year to 12% (2014: 18%). For other regions, on the other hand, the figure increased to around 10% (2014: 8%), due especially to growing ownership of our stock by Asian investors.

An overview of the institutional investors which have issued mandatory notices reporting ownership of at least 3% of LANXESS's outstanding shares is published in the Investor Relations section of our website.

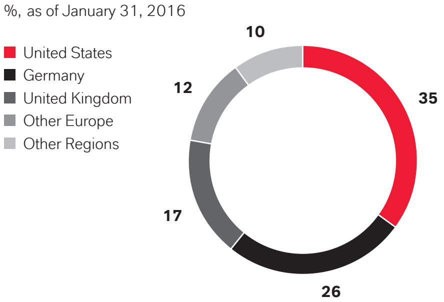
**Stockholder Profile**

%, as of January 31, 2016




**Geographical Breakdown**[1]

%, as of January 31, 2016




1) Based on the stockholders identified

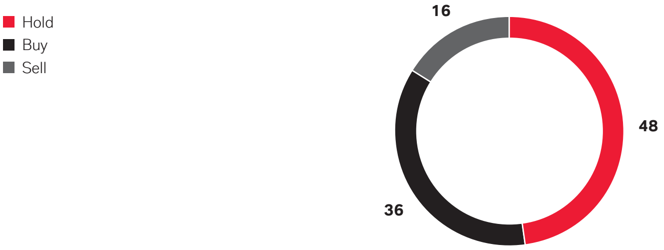
## Analysts

We accord high priority to regular and extensive dialogue with analysts. In fiscal 2015, around 30 sell-side analysts again issued reports detailing their estimates of our company's current and future development. Key themes were implementation of the realignment and – following announcement of our strategic alliance with Saudi Aramco in the rubber business – the future direction of LANXESS. Alongside our dialogue with the sell side, we maintained our close interaction with fixed-income analysts during the reporting year.

As of January 31, 2016, 36% of analysts (2014: 37%) recommended buying LANXESS stock. A further 48% (2014: 42%) said to hold our stock, while 16% (2014: 21%) gave a sell recommendation. In the Investor Relations section of our website we publish consensus estimates compiled by an independent service provider on the basis of current analyst evaluations.

**Recommendations**

%, as of January 31, 2016




## Annual Stockholders' Meeting

At our Annual Stockholders' Meeting on May 13, 2015, 47,783,228 shares and the same number of votes – equivalent to 52.21% of the voting capital – were represented. This was an improvement against the prior year, when representation was already at a good level. LANXESS stockholders passed all the agenda items. Detailed voting results and additional information about LANXESS's Annual Stockholders' Meeting are available in the Investor Relations section of our website.

## Dividend

A dividend of ←

€0.60

has been proposed for fiscal 2015.

LANXESS follows a consistent dividend policy. We aim for our stockholders to share in our business performance in an appropriate and sustainable way. That remains the case in challenging fiscal years. The Board of Management and Supervisory Board of LANXESS AG will therefore propose to the Annual Stockholders' Meeting on May 20, 2016, that a dividend of €0.60 per share be declared for fiscal 2015 (2014: €0.50 per share). The 20% increase in the dividend is a signal of the company's increased profitability and financial solidity.

Relative to the price of €42.68 at which LANXESS shares ended 2015, this equates to a dividend yield of 1.4%. Subject to approval of the corresponding resolution by the Annual Stockholders' Meeting, the dividend will be paid on May 23, 2016.

## Bonds

We placed no new bonds in fiscal 2015. Our offshore renminbi bond issued in February 2012 matured after a three-year term in February 2015 and was redeemed. It had a total volume equivalent to around €62 million and an annual coupon of 3.950%.

**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% |
| XS0855167523 | €500 million | November 21, 2012–November 21, 2022 | 2.625% |

All existing LANXESS Eurobonds are listed on the Luxembourg Stock Exchange. Their term sheets are available in the Investor Relations section of our website. Further information about our bonds may also be found in the combined management report on page 141 ff.

## Ratings

LANXESS's creditworthiness is regularly evaluated by the rating agencies Standard & Poor's and Moody's Investors Service. It is our strategic corporate goal to retain an investment-grade rating in the BBB range.

In September 2015, Standard & Poor's confirmed LANXESS's investment-grade rating at BBB– and raised its outlook from stable to positive. The reason given by the rating agency for this improvement was the company's financial profile, which it considered to have been tangibly improved by the pending cash inflow from the Saudi Aramco transaction. Our consistently conservative financing policy and improved operating performance in the course of the fiscal year additionally supported this assessment. In July 2015, Moody's confirmed LANXESS's investment-grade rating of Baa3 with stable outlook. It also took a positive view of our strategic partnership with Saudi Aramco in September 2015. Rating agency Fitch, which latterly gave LANXESS a BBB– rating with stable outlook, discontinued its unsolicited rating in March 2015.

# Investor relations activities

Maintaining an active, broad and uninterrupted dialogue with investors and analysts is a top priority for LANXESS. Our objective is to provide a continuous and sustained flow of information about our company. Our activities remain focused on addressing equity-side investors. However, we also maintain a close dialogue with fixed income investors and with institutional investors focused on sustainability.

The Chief Financial Officer and the Investor Relations team represented LANXESS at roadshows and capital market conferences on ←

76

days.

We consider **roadshows** and **conferences** to be highly relevant because they give LANXESS management and Investor Relations the opportunity to engage in a broad and personal dialogue with institutional investors. Key roadshow locations are international capital market centers such as Boston, New York, London, Paris, Frankfurt and Zurich. Elsewhere in Europe, the Benelux and Scandinavian countries, Italy and Spain have also become destinations for regular roadshows. Other regions where there is interest in our shares are Asia (Singapore and Japan) and North America. As far as conferences are concerned, we focus on international cross-industry events organized by well-known banks. 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 fiscal 2015, 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 76 days (2014: 72).

However, we also use our own events to explain and discuss central issues for our company. For example, our **LANXESS Capital Markets Day** on November 6, 2015, centered on our new strategic focus following successful implementation of our realignment. All presentations from the Capital Markets Day can be downloaded from the Investor Relations section of our website.

**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 being 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. Of course, here you will also find all key presentations, our financial publications and information about our stock and bonds.

The high quality of our investor relations work again received external acknowledgment in 2015. For example, the sell-side analysts surveyed each year by U.S. magazine Institutional Investor ranked LANXESS first among European chemical companies in the Best Investor Relations and Best IR Professional categories. LANXESS was also included in the Most Honored Companies list from among almost 1,300 companies named by survey participants.

## Investor Relations contacts

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# Corporate Governance

» Southeast Asia

» China

# » North America

## » BALANCE

We aim to reduce financial dependence on individual industries or closely correlated markets in the future. In regional terms, too, we aim to achieve an even better balance in our portfolio by increasing the share of our business accounted for by **growth markets.**

»

# Corporate Governance Report

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.

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.

## 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, regulations pertaining to codetermination 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 9, 2015, 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 10 December 2014, LANXESS AG has complied with the recommendations of the Government Commission on the German Corporate Governance Code ("Government Commission") as amended on 24 June 2014, which was published on 30 September 2014 by the Federal Ministry of Justice in the official portion of the Federal Gazette with the exceptions described in the declaration of 10 December 2014 in Sections 4.2.3, Paragraph 2, Sentence 6, 4.2.3, Paragraph 2, Sentence 8, 5.1.2 Paragraph 2 Sentence 3, 5.4.1 Paragraph 2 Sentence 1 as well as the meanwhile inapplicable exception in Section 4.2.3 Paragraph 4, Sentence 1. LANXESS AG has and will henceforth comply with the recommendations of the Government Commission as amended on 5 May 2015, which was published on 12 June 2015, with the following exceptions:

**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.

**Section 4.2.3, Paragraph 2, Sentence 8**
*Changing such performance targets or the comparison parameters retroactively shall be excluded.*

When the Supervisory Board resolved in December 2014 the conditions of the variable salary component Annual Performance Payment (APP) for the members of the Board of Management for fiscal year 2015 it reserved the right to retroactively adapt the comparison parameters of the APP. In order to synchronize the conditions with those applicable to the other management, the Supervisory Board exercised its right of modification and agreed to adapt the relation of target achievement and potential payout of the APP for the Board of Management in fiscal year 2015.

**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.

**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 a regular limit of length of membership to be specified for the members of the Supervisory Board as well as 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 criterion 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 10 December 2014, LANXESS AG has complied with the suggestions of the Government Commission as amended on 24 June 2014, which was published on 30 September 2014 by the Federal Ministry of Justice in the official portion of the Federal Gazette, with the following exceptions and will continue to comply the suggestions of the Government Commission as amended on 5 May 2015, which was published on 12 June 2015, with the following exceptions:

**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.

**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 integrity and compliance at LANXESS," which is applicable throughout the Group, specifies minimum standards and gives our 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.

An effective compliance management system, which is regularly examined, 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 four members: Matthias Zachert (Chairman), Dr. Hubert Fink, Michael Pontzen 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.

By way of implementing the law on the equal representation of women and men in management positions in the private and public sectors, which came into force on May 1, 2015, the Supervisory Board resolved to maintain the status quo with a target for the proportion of women on the Board of Management of LANXESS AG of 0% through June 30, 2017, in light of the fact that the appointments and service contracts of the members of the Board of Management serving at the time the resolution was taken are valid beyond June 30, 2017. In the future, however, the Supervisory Board will seek to appoint women with the appropriate professional qualifications and personal skills as members of the Board of Management.

## 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, Manuela Strauch, Werner Czaplik, Dr. Hans-Dieter Gerriets, Thomas Meiers and Ralf Sikorski serve as the employee representatives on the Supervisory Board. Claudia Nemat, Dr. Friedrich Janssen, Lawrence A. Rosen, Dr. Rolf Stomberg, Theo H. Walthie and Dr. Matthias L. Wolfgruber serve as the stockholder representatives. The Chairman of the Supervisory Board is Dr. Rolf Stomberg. The Vice Chairwoman is Gisela Seidel. 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 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 consider it appropriate to apply a rigid age limit for its members as it does not view age alone as a measure of their qualification and competence. The company should not have to forgo extensive experience. This takes into account the maximum length of membership of the Supervisory Board of generally not more than three full terms of office (15 years) that has been specified by the Supervisory Board.

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. Two members of the Supervisory Board are not German citizens. The members of the Supervisory Board have professional knowledge of the chemical industry and other sectors that are important for the company's business.

Diversity applies equally to gender. In accordance with the law on the equal representation of women and men in management positions in the private and public sectors, codetermined stock corporations like LANXESS AG are required to appoint at least 30% women and 30% men when refilling Supervisory Board positions that become vacant from January 1, 2016. Existing appointments – including those of substitute members – can run until they end regularly. Three of the twelve members currently serving on the LANXESS AG Supervisory Board are women, which is a proportion of 25%. Future new appointments must be made in accordance with the legal stipulations.

## 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), Ms. Seidel, Ms. Strauch, Mr. Sikorski, Mr. Walthie and Dr. Wolfgruber.

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 members of the Audit Committee are Dr. Janssen (Chairman), Ms. Nemat, Mr. Czaplik, Dr. Gerriets, Mr. Meiers and Mr. Rosen. Dr. Janssen, 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 **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), Ms. Seidel, Mr. Meiers and Dr. Wolfgruber.

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), Mr. Rosen and Dr. Wolfgruber.

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 2015, 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, 2015 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 2015 fiscal year was audited by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft

("PwC"), the auditors chosen at the Annual Stockholders' Meeting held in 2015. PwC also reviewed the 2015 half-year financial report. Mr. Bernd Boritzki has been the lead auditor since 2011. 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 26, 2016, the Board of Management of LANXESS AG issued its declaration for fiscal 2015 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 Board of Management Members

(as of December 31, 2015)

| 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. Hubert Fink**<br>Member of the Board of Management | | ▪ Member of the Executive Board of LANXESS Deutschland GmbH<br>▪ Chairman of the Board of Directors of LANXESS (Liyang) Polyols Co., Ltd. |
| **Michael Pontzen**<br>Chief Financial Officer | ▪ 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>▪ Chairman of the Supervisory Board of Saltigo GmbH<br>▪ Member of the Board of Directors of LANXESS Corp. |
| **Dr. Rainier van Roessel**<br>Member of the Board of Management and Labor Relations Director | ▪ Member of the Supervisory Board of Currenta Geschäftsführungs-GmbH, Leverkusen<br>▪ Member of the Board of the German Chemical Industry Association (VCI) in North Rhine-Westphalia<br>▪ Chairman of the VCI Trade Policy Committee<br>▪ Member of the German Committee on Eastern European Economic Relations<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 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 LANXESS Chemicals S.L.<br>▪ Chairman of the Board of Directors of LANXESS Corp.<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 Pte. Ltd.<br>▪ Chairman of the Board of Directors of LANXESS International S.A. |

# LANXESS AG Supervisory Board

Serving members (as of December 31, 2015)

**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

**Gisela Seidel (Vice Chairwoman)**

- Chairwoman of the Works Council at the Dormagen site

**Further offices:**

- LANXESS Deutschland GmbH, Cologne* (Vice Chairwoman)

**Werner Czaplik**

- Chairman of the LANXESS Central Works Council

**Further offices:**

- LANXESS Deutschland GmbH, Cologne*

**Dr. Hans-Dieter Gerriets**

- Chairman of the LANXESS Group Managerial Employees' Committee and 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*
- Hoberg & Driesch GmbH, Düsseldorf (Chairman)

**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

**Further offices:**

- LANXESS Deutschland GmbH, Cologne*
- BuyIn SA, Brussels, Belgium (Chairwoman)
- Hellenic Telecommunications Organization S.A. (OTE S.A.), Maroussi, Athens, Greece

**Lawrence A. Rosen**

- Member of the Board of Management of Deutsche Post AG

**Further offices:**

- LANXESS Deutschland GmbH, Cologne*
- Qiagen N.V., Venlo, Netherlands

**Ralf Sikorski**

- Member of the Executive Committee of the German Mining, Chemical and Energy Industrial Union, Hannover

**Further offices:**

- LANXESS Deutschland GmbH, Cologne*
- RAG AG, Herne*
- RAG Deutsche Steinkohle AG, Herne*
- RWE AG, Essen*
- RWE Power AG, Cologne and Essen* (Vice Chairman of the Supervisory Board)
- RWE Generation AG, Essen*
- KSBG – Kommunale Beteiligungsgesellschaft GmbH & Co. KG, Essen*
- KSBG – Kommunale Verwaltungsgesellschaft GmbH, Essen* (Vice Chairman of the Supervisory Board)

**Manuela Strauch**

- Chairwoman of the LANXESS Works Council at the Uerdingen site

**Further offices:**

- LANXESS Deutschland GmbH, Cologne*

**Theo H. Walthie**

- Self-employed consultant
- Former Global Business Group President for the Hydrocarbons & Energy Business of the Dow Chemical Company

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

**Dr. Matthias L. Wolfgruber**

- Self-employed consultant
- Former Chairman of the Management Board of ALTANA AG

**Further offices:**
- LANXESS Deutschland GmbH, Cologne*
- Grillo Werke AG, Duisburg*
- ARDEX GmbH, Witten (Chairman of the Advisory Committee)
- Cabot Corporation, Boston, Massachusetts, United States

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, 2015).

* Statutory supervisory boards

# Report of the Supervisory Board

**Dear Stockholders,**

Behind LANXESS lies another challenging year. The company took on and successfully mastered the challenges it faced.

With an EBITDA pre exceptionals of €885 million, we were able to substantially improve the company's earning power – despite the persistently difficult competitive environment for the rubber business. All three segments contributed to this result. The Board of Management of LANXESS, with the support of the Supervisory Board, systematically implemented the extensive realignment program initiated in the previous fiscal year. We have improved our administrative structures, initiated optimization measures in production operations and found a strategic partner for our rubber business: Saudi Aramco. We are on schedule with the implementation of the joint venture named ARLANXEO and, working together with our strong partner, will soon be able to drive our rubber business forward.

Fiscal 2016 will continue to be shaped by the challenges in the synthetic rubber business. However, with the approval of the Supervisory Board, the Board of Management has set the course for new growth in our Advanced Intermediates and Performance Chemicals segments and in the High Performance Materials business unit. Alongside the integration of the joint venture and ongoing stabilization of our financial position, growth should again become the focus for LANXESS.

During 2015, the Supervisory Board duly and fully performed the tasks and duties incumbent upon it under the law, the articles of association and the rules of procedure for the Supervisory Board. It advised the Board of Management regularly on the management of the company and monitored its work. In particular, it dealt with matters relating to the company's realignment, its strategic development, the various options for the rubber business and measures to increase 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, management development, compliance and material events.

## Principal topics discussed by the Supervisory Board

The Supervisory Board met a total of eight times in 2015.

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

The focus of the Supervisory Board meeting held on **March 17, 2015**, was the review of the annual financial statements and consolidated financial statements for fiscal 2014 and the proposal for use of the distributable profit. The Supervisory Board also discussed and passed motions for resolution by the Annual Stockholders' Meeting and reviewed corporate governance matters. An important topic at this meeting was the discussion of personnel matters pertaining to the Board of Management. The Supervisory Board approved the mutually agreed termination of the appointment of Dr. Bernhard Düttmann as a member of the Board of Management effective March 31, 2015, and the severance agreement in respect of his service contract. Effective April 1, 2015, Michael Pontzen was appointed as a member of the Board of Management. At the same time, responsibilities were reassigned within the Board of Management. Furthermore, the Supervisory Board defined the variable compensation components for the members of the Board of Management on the basis of target attainment in fiscal 2014.

At the meeting held on **May 6, 2015**, we discussed with the Board of Management the impact on energy costs at LANXESS that will result from Germany's Renewable Energy Act and the emissions trading system. The Board of Management made a full report on environmental protection and occupational and plant safety, which was subsequently discussed by the full Supervisory Board.

The meeting that took place immediately prior to the Annual Stockholders' Meeting on **May 13, 2015**, served to prepare that meeting. Following the Annual Stockholders' Meeting, a constituent meeting of the Supervisory Board took place with the stockholder representatives newly elected by the Annual Stockholders' Meeting and the employee representatives who had already been elected by the LANXESS workforce in April. Dr. Rolf Stomberg was re-elected Chairman of the Supervisory Board. Ms. Gisela Seidel was appointed Vice Chairwoman. In addition, new committee members were elected.

At the meeting on **August 5, 2015**, the Board of Management reported in detail on the status of various options for the rubber business and on the planned legal separation of the organizational units affected.

We also discussed with the Board of Management the factors relevant to calculating the provisions for pensions in Germany. Moreover, we resolved the awarding of the audit contract for the consolidated financial statements for fiscal 2015. The Board of Management explained the implementation of the new law on equal representation of women and men in management positions in the private and public sectors. In light of the fact that the appointments and service contracts of the members of the Board of Management serving at the time the resolution was taken are valid beyond June 30, 2017, the Supervisory Board resolved to maintain the status quo with a target for the proportion of women on the Board of Management of LANXESS AG of 0% through June 30, 2017.

At an extraordinary meeting on **September 22, 2015**, the Supervisory Board reviewed the advanced status of negotiations with potential partners for the rubber business. The offers were subsequently assessed in terms of the opportunities and risks they presented. In conclusion, we decided to approve the proposal of the Board of Management for a joint venture with Saudi Aramco in which each partner would hold 50% and to which LANXESS would contribute its entire rubber business. With a view to the company's realignment, the Supervisory Board also decided to fill the vacant position for a second operational member of the Board of Management. Effective October 1, 2015, Dr. Hubert Fink was appointed as a member of the Board of Management. At the same time, a change to the assignment of Board of Management responsibilities was also decided.

At the meeting on **November 4, 2015**, the Board of Management reported on decisions taken in respect of capital expenditures in the Saltigo business unit, which we discussed at length. We were also informed about the status of the closure of the Marl site and other measures aimed at strengthening the competitiveness of the rubber business. Additionally, the Board of Management described the company's financial position and financial policy. We approved the creation of a new financing framework for concluding further finance agreements with a total value of €1 billion. Lastly, the Board of Management explained the company's internal control, risk management and auditing systems.

At its meeting on **December 9, 2015**, the Supervisory Board reviewed in full and approved the corporate planning for 2016 proposed by the Board of Management. It also discussed the company's strategic alignment and capital expenditure policy. As in previous years, current developments in corporate governance were a topic on the agenda of the December meeting. After reviewing compliance with the recommendations and suggestions of the Corporate Governance Code, we resolved to issue a declaration of compliance. We also specified a regular limit of three full terms of office (15 years) for the length of membership of the members of the Supervisory Board and agreed changes to the rules of procedure of the Supervisory Board. In order to synchronize the conditions with those applicable to the other management levels, the Supervisory Board agreed to adapt the relation between target achievement and potential payout of the Annual Performance Payment (APP) – a variable compensation component – for the members of the Board of Management for fiscal 2015. Lastly, the Supervisory Board defined the conditions for the Board of Management's variable compensation components for fiscal 2016.

All members of the Supervisory Board and its committees performed their duties diligently and conscientiously. The German Corporate Governance Code recommends that this report should contain a remark if any member of the Supervisory Board attends only half or fewer of the meetings of the full Supervisory Board and of the committees of which he or she is a member. Until he left the Supervisory Board on conclusion of the Annual Stockholders' Meeting on May 13, 2015, Robert J. Koehler had attended fewer than half of the meetings of the full Supervisory Board and of the Presidial Committee on account of ill health. 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 2014, the consolidated financial statements and combined management report for fiscal 2013, the interim reports issued during fiscal 2015, and the condensed consolidated financial statements and interim management report included in the 2015 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, the development of pension provisions and the determination of the principal areas of focus for the audit of the 2015 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 2015 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** and the **Committee formed pursuant to Section 27, paragraph 3 of the German Codetermination Act** did not convene in 2015.

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 9, 2015, by the Board of Management and Supervisory Board pursuant to Section 161 of the German Stock Corporation Act can be viewed by stockholders at any time on the company's website. As expressed in the declaration, LANXESS AG complies with the Code's recommendations and suggestions except in a few justified cases. No conflicts of interest on the part of Supervisory Board members became known last year. Further information about corporate governance can be found in the Corporate Governance Report and in the Board of Management's declaration pursuant to Section 289a of the German Commercial Code.

# 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 2015 fiscal year in accordance with the rules of the German Commercial Code, the consolidated financial statements for fiscal 2015 in accordance with the International Financial Reporting Standards (IFRS) and the combined management report for 2015. 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 14, 2016. 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 15, 2016. 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 Supervisory Board was newly constituted in fiscal 2015. With the conclusion of the 2015 Annual Stockholders' Meeting, the terms of office of all employee representatives and of five of the six stockholder representatives routinely ended.

The following employee representatives were elected in April 2015 by delegates elected by the workforce: Gisela Seidel, Werner Czaplik, Dr. Hans-Dieter Gerriets, Thomas Meiers, Hans-Jürgen Schicker and Ralf Sikorski. Axel Berndt and Ulrich Freese are no longer members of the Supervisory Board. On June 30, 2015, Mr. Schicker resigned as a representative of the LANXESS workforce. He was succeeded as a member of the Supervisory Board by Manuela Strauch, who was his elected substitute member.

At the Annual Stockholders' Meeting of LANXESS AG on May 13, 2015, Dr. Friedrich Janssen, Lawrence A. Rosen, Dr. Rolf Stomberg, Theo H. Walthie and Dr. Matthias L. Wolfgruber were elected as the stockholder representatives on the company's Supervisory Board. Robert J. Koehler and Rainer Laufs resigned from the Supervisory Board. Mr. Koehler passed away in May 2015 after a serious illness. The Supervisory Board greatly valued Mr. Koehler's commitment and input and will continue to hold his memory in high esteem.

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 15, 2016

The Supervisory Board

**Dr. Rolf Stomberg**
Chairman

# Financial Information

» €100–150 million
Advanced Intermediates

» €100–150 million
Performance Chemicals

## » GROWTH »

In order to further improve the alignment of our businesses, we aim to invest around **€400 million** in our organic growth through 2020. We are additionally seeking external growth opportunities in those areas of business in which LANXESS already operates and in neighboring areas of business with an appropriate fit.

» €**50–100** million
**High Performance Materials**

# 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 is a wholly owned subsidiary of LANXESS AG and in turn controls 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 (Changzhou) Co., Ltd., Changzhou, China | 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 Chemicals, 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 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

There were no material changes to our business portfolio in the course of 2015. In the course of 2014, we had divested our wholly owned subsidiary Perlon-Monofil GmbH, Dormagen, Germany.

## 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 support 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 "Let's LANXESS again" realignment program, LANXESS has agreed with Aramco Overseas Company B.V., The Hague, Netherlands, a subsidiary of Saudi Aramco, to form a strategic alliance for the synthetic rubber business named ARLANXEO, in which each party will hold a 50% interest. Saudi Aramco is expected to pay LANXESS around €1.2 billion for its share after deduction of debt and other financial liabilities. The transaction has been approved by all relevant antitrust authorities and financial completion is expected on April 1, 2016. It is planned that the business concerned will continue to be included in the consolidated financial statements of the LANXESS Group and will be fully consolidated in the first three years.

As part of our realignment, we combined some of our business units effective January 1, 2015. The LANXESS Group is still structured in three segments, which 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. To improve comparability, the prior-year figures have been restated wherever necessary.

Group functions 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.

In the Asia-Pacific region, the new plants for our Tire & Specialty Rubbers and High Performance Elastomers business units came on stream during the reporting period. Further information on this can be found in the "Financial condition and capital expenditures" section.

In connection with the optimization of the plant networks for rubber products, LANXESS intends to discontinue production of ethylene propylene diene monomer (EPDM) rubber at the site in Marl, Germany, at the end of the first quarter of 2016. Within LANXESS's EPDM rubber production network, the Marl facility is no longer competitive due to its relatively small capacity and comparatively high energy and raw material costs.

## The segments in brief

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

**Performance Polymers**

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

1) Discontinuation of production planned at the end of Q1 2016

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

**Advanced Intermediates**

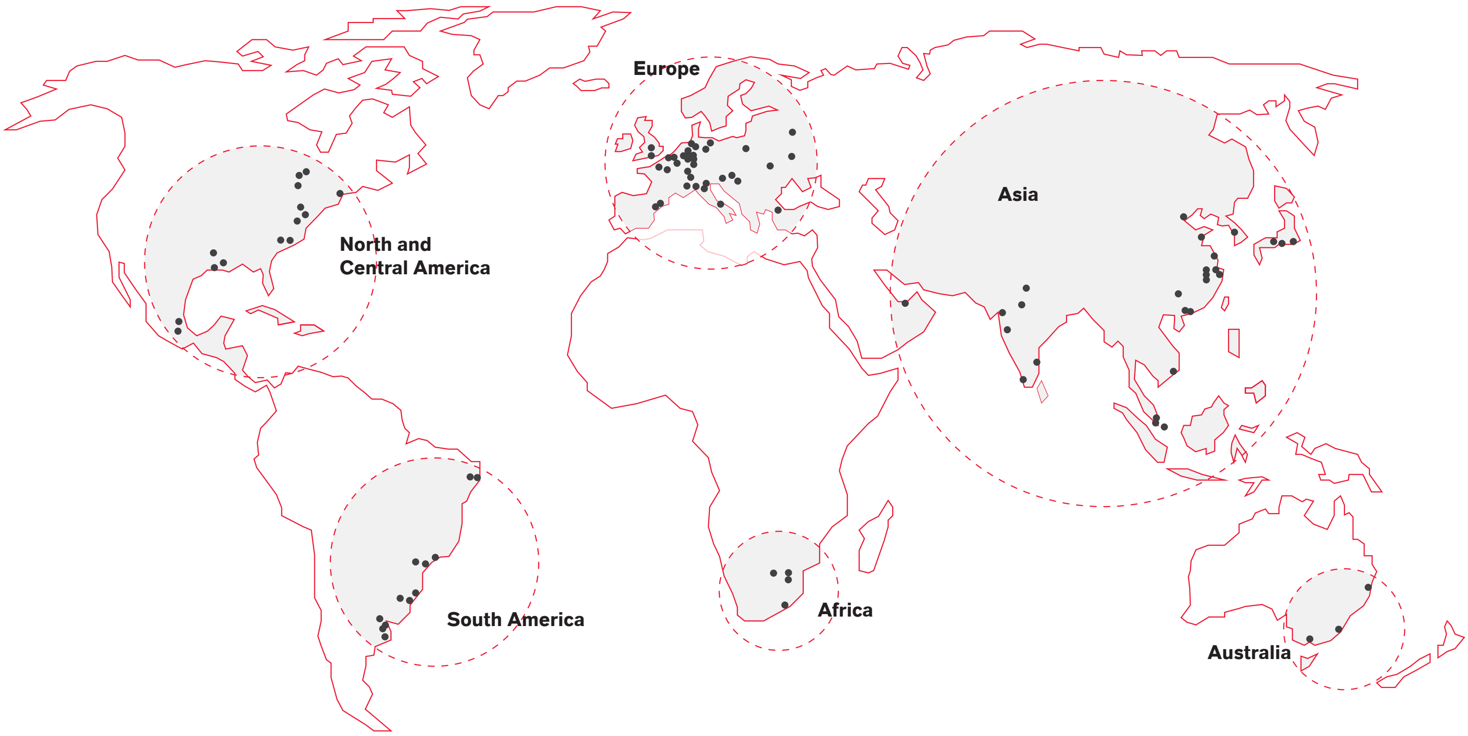
| | |
|---|---|
| **Business units** | Advanced Industrial Intermediates |
| | Saltigo |
| **Sites** | Brunsbüttel, Dormagen, Krefeld-Uerdingen and Leverkusen, Germany |
| | Antwerp, Belgium |
| | Baytown and Bushy Park, U.S.A. |
| | Liyang, China |
| | Nagda and Jhagadia, India |
| **Applications** | Agrochemicals |
| | Automotive |
| | Construction |
| | Dyestuffs |
| | Coatings |
| | Pharmaceuticals |
| | Tire chemicals |

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 |
| | Leather |
| | Rhein Chemie Additives |
| | Liquid Purification Technologies |
| **Sites** | Bitterfeld, Dormagen, Krefeld-Uerdingen, Leverkusen and Mannheim, Germany |
| | Epierre, France |
| | Branston, United Kingdom |
| | Filago, Italy |
| | Lipetsk, Russia |
| | Vilassar de Mar, Spain |
| | Merebank, Newcastle and Rustenburg, South Africa |
| | Burgettstown, Chardon, Greensboro, Little Rock and Pittsburgh, U.S.A. |
| | Porto Feliz, Brazil |
| | Burzaco, Merlo and Zárate, Argentina |
| | Changzhou, Qingdao and Shanghai, China |
| | Jhagadia, India |
| | Toyohashi, Japan |
| | Sydney, Australia |
| | Singapore |
| **Applications** | Disinfection |
| | Protection and preservation of wood, construction materials, coatings and foodstuffs |
| | Color pigments |
| | Polymer additives |
| | Products for leather processing and water treatment |

**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 and an entrepreneurial management structure. The company's portfolio ranges from polymers to industrial, specialty and fine chemicals.

Although the chemical industry achieves growth rates worldwide that are in part much higher than the overall growth of the global economy, European chemical companies in particular will find it increasingly difficult to benefit from this generally positive situation in the medium term. The reason for this is to be found in profound change processes which have impacted market structures and mechanisms – some of which have been in place for decades – and which will continue to shape the industry's operating environment over the coming years:

- The commissioning of major new plants for the production of synthetic rubbers in recent years has created considerable overcapacities in this market, which has exacerbated the existing pressure on prices worldwide.
- In the price-sensitive synthetic rubber business, producers in the emerging economies, the Middle East and the United States, for example, mostly have better access to low-priced raw materials and energy, thus benefiting from cost advantages which European suppliers can barely compensate with efficiency gains.
- The ongoing expansion of local production capacities in the global growth regions, especially Asia, means the progressive decline of export opportunities for European suppliers. In addition, the United States and the Middle East are transitioning from importers to exporters in the commodity segment in particular, bringing inexpensive products to the world's markets.
- According to estimates from market research company IHS, China is likely to account for around 40% of global chemicals demand in 2030. A significant proportion of this demand will

probably be met domestically. Suppliers wishing to participate in this growth will have to build not just individual plants but entire value chains in the country.

- In view of the enormous scientific advances being made and the high cost of registering new substances, there are now fewer opportunities for bringing commercially viable new chemical compounds to market. For the broad majority of chemical companies, innovation in the future will mean accessing new fields of application for existing products and making production processes as safe and efficient as possible.
- With growing environmental awareness, sustainable production standards worldwide will converge at a high level. In the medium term, this development will offer a further opportunity for consolidation, because, in the growth markets in particular, not all competitors will make the necessary capital investments to upgrade their plants to meet regulatory requirements. However, in the long term, producers that have always applied high standards will lose this distinguishing feature.

We, like others, face the challenge of reacting to these change processes. Our measures can be condensed into six strategic approaches, which are reflected in the three-phase global realignment program we initiated in 2014 and in the areas of activity for strategic optimization of the Group defined in 2015:

1. Raw materials: reduce dependency on volatile raw materials such as ethylene and butadiene
2. Costs: process and cost optimization as an ongoing business requirement
3. Value chains: further expansion of our integrated value chains
4. Growth: sustained growth in China, North America and Southeast Asia
5. Plants: strengthen the competitiveness of our existing networked sites
6. Markets: increase focus on profitable mid-sized markets

## Three-phase realignment program is being systematically implemented

We already succeeded in fully realizing the annual cost savings of around €150 million resulting from our new and more efficient organizational structure and from extensive optimization measures in our business units and group functions in the reporting year.

As a result of our manufacturing excellence initiative, we intend to discontinue the manufacture of EPDM rubber at the Marl site in Germany by the end of the first quarter of 2016. We are also reducing capacities for NBR and ESBR rubber at our sites in La Wantzenau, France, and Duque de Caxias, Brazil. In conjunction with many other process improvement and efficiency enhancement measures, we aim to achieve a further €150 million in annual cost savings by the end of 2019. As part of our commercial and supply chain excellence initiative, several other projects have been implemented which are aimed mainly at improving efficiency.

In September 2015, we agreed a partnership with Saudi Aramco for the synthetic rubber business, in which each party will hold a 50% interest. We are contributing our Tire & Specialty Rubbers and High Performance Elastomers business units and management support functions to the alliance, which is named ARLANXEO. Our partner will facilitate competitive access to strategic raw materials for this business area in the medium term. Saudi Aramco is expected to pay around €1.2 billion for its 50% share after deduction of debt and other financial liabilities. This cash inflow will not only allow us to pay down more of our debt but will also give us the financial headroom for the strategic optimization of the Group over the coming years.

## Strategic optimization through 2020

Through its new strategic alignment, LANXESS aims by 2020 to become a less cyclical specialty chemicals group with a strong cash flow and a balanced portfolio. To this end, we will be building in particular on our strengths in medium-sized markets, which we address above all through our Advanced Intermediates and Performance Chemicals segments.

It is our declared aim to reduce economic dependency on individual sectors or closely correlated markets in the future. In regional terms, too, we aim to achieve an even better balance in our portfolio by increasing the share of our business accounted for by the growth markets of China, North America and Southeast Asia.

As in the past, we will ensure stability through a conservative financing policy that is guided by clear criteria and focused on maintaining our investment-grade rating and achieving a strong free cash flow. In terms of capital requirements and capital investment, we will 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.

In order to further improve the alignment of our businesses and leverage future growth potential, we aim to invest around €400 million of the proceeds from the rubber transaction in our organic growth. The following principles guide our capital expenditure activities:

- We are targeting investment on measures to improve efficiency and expand existing plants as well as on new plants for the Advanced Intermediates and Performance Chemicals segments and the High Performance Materials business unit.
- We invest in sustainably growing markets that are the strategic focus for our operating segments.
- Capital expenditures must satisfy clear financial criteria which, at a minimum, ensure a return on capital employed (ROCE) that is higher than our capital costs.
- 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.

We are additionally seeking external growth opportunities with a view to benefiting from consolidation options in those areas of business in which LANXESS already operates, on the one hand, while at the same time reviewing opportunities to extend our portfolio to neighboring areas of business with an appropriate fit.

## Value management and control system

To achieve our strategic goals, we need indicators that we can use to measure the outcomes 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 or as a basis for monitoring.

**Value Management and Control System**

| | | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|
| EBITDA pre exceptionals | € million | 1,146 | 1,223 | 735 | 808 | 885 |
| EBITDA margin pre exceptionals | % | 13.1 | 13.4 | 8.9 | 10.1 | 11.2 |
| Capital employed | € million | 4,784 | 5,442 | 4,969 | 5,093 | 5,043 |
| ROCE | % | 17.2 | 15.6 | 5.8 | 7.9 | 8.4 |
| Days of inventory outstanding (DIO) | Days | 73.7 | 82.8 | 70.7 | 79.1 | 84.3 |
| Days of sales outstanding (DSO) | Days | 49.9 | 47.4 | 47.8 | 48.0 | 47.6 |
| Net financial liabilities | € million | 1,515 | 1,483 | 1,731 | 1,336 | 1,211 |
| Net financial debt ratio | | 1.3x | 1.2x | 2.4x | 1.7x | 1.4x |
| Investment ratio [1] | % | 7.7 | 7.7 | 7.5 | 7.7 | 5.5 |

1) 2014 figure restated

The calculation of specific indicators is founded on a reliable, readily understandable financial and controlling information system. We are constantly working to improve the budget, forecast and actual data provided by the Accounting and Corporate Controlling group functions through consistent reporting.

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, expenses for portfolio adjustments and reversals of impairment charges. 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, generally has 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, we prepare operational forecasts 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 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 earning power 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 contribution 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 because of the greater risk involved in acquiring shares rather than 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 2015, ROCE was 8.4% – against 7.9% in 2014 – and thus slightly above 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 show receivables in relation to sales and inventories in relation to the costs of goods sold for the previous quarter. In 2015, DIO was at 84.3 days (2014: 79.1 days) and DSO at 47.6 days (2014: 48.0 days).

Expenditures for property, plant and equipment are subject to rigorous capital discipline and are systematically aligned with the 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. The investment rate is an indicator which describes cash outflows for capital expenditures divided by sales. For more detailed information about our capital expenditure guidelines, please see “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, 2015, the net financial debt ratio decreased to 1.4, against 1.7 at the previous year's reporting date. Our net financial liabilities declined by €125 million to €1,211 million. Moreover, at Group level, we consider provisions for pensions and other post-employment benefits to be components of debt. They decreased by €75 million compared with the end of 2014, to €1,215 million.

**Net Financial Liabilities**

| € million | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| Non-current financial liabilities | 1,465 | 2,167 | 1,649 | 1,698 | 1,258 |
| Current financial liabilities | 633 | 167 | 668 | 182 | 443 |
| Less: | | | | | |
| Liabilities for accrued interest | (55) | (54) | (53) | (26) | (24) |
| Cash and cash equivalents | (178) | (386) | (427) | (418) | (366) |
| Near-cash assets | (350) | (411) | (106) | (100) | (100) |
| | **1,515** | **1,483** | **1,731** | **1,336** | **1,211** |

# 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 facilitates purchasing synergies, so that we can move efficiently in the market and exploit price advantages. We avoid delivery bottlenecks or reliance on individual suppliers by 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. We procure key raw materials like butadiene and utilities in the form of steam and biomass from the immediate vicinity at several of our production sites. 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 2015 included BASF, BP, Braskem, Covestro, ExxonMobil, INEOS, LyondellBasell, Nova Chemicals, Sabic and Shell Chemicals.

Among the most important strategic raw materials by far for our production operations in 2015 were ammonia, butadiene, caustic soda, cyclohexane, ethylene, isobutylene, propylene, raffinate 1, styrene and toluene. In all, strategic raw materials accounted for a purchasing volume of about €2.5 billion in fiscal 2015 (2014: about €3.0 billion), or around 81% of our total expenditure for raw materials and goods in 2015, which amounted to approximately €3.1 billion (2014: about €3.7 billion). Around 76% (2014: 78%) 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 24%, nearly two-thirds were accounted for by supplies from Brazil, China and India. Our total procurement spend in 2015 was around €5.9 billion (2014: about €6.2 billion).

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. At the end of 2015, about 70% of all items ordered (2014: around 66%) were handled in e-procurement systems. In this context, we have linked in 214 new catalogs globally and maintained a catalog use rate of at least 25%.

Our HSEQ management process begins when raw materials and services are procured. Across the LANXESS Group, a global procurement directive defines how our employees should behave toward suppliers and their employees. In the reporting year, our procurement transactions involved more than 18,000 suppliers. Based on the principles of the U.N. Global Compact, the International Labour Organization (ILO), Responsible Care® and other corporate responsibility codes, we expect our suppliers to comply with all applicable national and other laws and regulations in order to safeguard the environment, ensure health and safety in the workplace and deploy appropriate labor and hiring practices. These provisions of our Supplier Code of Conduct are key criteria in our selection and evaluation of suppliers. A successful sustainability assessment and/or audit are a fundamental requirement for major new suppliers seeking to be included in our portfolio. In the reporting year, to support the global rollout of the assessment process, we trained employees in Brazil, China and North America to conduct sustainability assessments of our suppliers.

As a founder of the Together for Sustainability (TfS) initiative, we aim to enhance supply chain transparency and thus further minimize procurement risks. This initiative, membership of which rose to 18 international chemical companies in the reporting year, aims to develop and implement a global audit program 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 4,600) and audit reports (466) at the end of 2015. Suppliers whose sustainability-related activities have been assessed currently account for 57% of our relevant procurement spend. Countries such as Brazil, China and India remained the focus of the 179 audits conducted in 2015. These identified a continuing need for action in respect of labor and human rights and occupational safety. However, no serious deficiencies were identified that would have resulted in termination of a business relationship. In 2015, around 750 participants attended the TfS Supplier Days in São Paulo, Brazil, and Shanghai, China, the purpose of which was to explain to 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.

Our production facilities are organizationally assigned to individual business units. 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; Changzhou 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 2015:

- In Singapore, the new plant for manufacturing neodymium-based performance butadiene rubber (Nd-PBR) came on stream. The plant, which is assigned to the Tire & Specialty Rubbers business unit, has an annual production capacity of 140,000 tons.
- At the site in Changzhou, China, our High Performance Elastomers business unit commissioned a new EPDM rubber plant with a nominal annual capacity of 160,000 tons.

Including the measures described above, cash outflows for capital expenditures came to €434 million in fiscal 2015. Further information about the capital expenditures can be found in the "Statement of financial position and financial condition" section of this combined management report.

In connection with the optimization of our global production network, we also intend to discontinue production of EPDM rubber at the site in Marl, Germany, at the end of the first quarter of 2016. Within LANXESS's EPDM rubber production network, the Marl facility is no longer competitive due to its relatively small capacity and comparatively high energy and raw material costs.

# 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 flexible marketing and sales structures. We manage our sales throughout the world through 46 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 50 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 2015, 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 €1.7 billion.

Selling costs in the reporting year came to 9.6% of LANXESS Group sales, up 0.3 percentage points on the prior-year level of 9.3%.

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

**Selling Costs**

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| **Selling costs (€ million)** | 732 | 763 | 755 | 742 | 759 |
| % of sales | 8.3 | 8.4 | 9.1 | 9.3 | 9.6 |
| **Breakdown by segment** | | | | | |
| Performance Polymers | 262 | 284 | 286 | 277 | 280 |
| Advanced Intermediates | 127 | 125 | 126 | 143 | 152 |
| Performance Chemicals | 320 | 335 | 328 | 310 | 321 |
| Reconciliation | 23 | 19 | 15 | 12 | 6 |

2014 figures restated

## 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. We regularly review individual sales and marketing strategies on the basis of 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**

| % | 2015 |
|---|---|
| Tires | ~20 |
| Automotive | ~20 |
| Chemicals | ~15 |
| Agrochemicals | ~10 |
| Construction, electrical/electronics, leather/footwear | ~15 |
| Others (cumulative share) | ~20 |

In 2015, as in the prior year, our top ten customers accounted for about 22% of total sales. None of our customers accounted for more than 10% of Group sales. 55 (2014: 50) 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 3,700 customers in 2015 (2014: 3,600), while Advanced Intermediates and Performance Chemicals had about 3,400 (2014: 3,100) and around 10,400 (2014: 11,300), 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 2015, as part of our realignment program, we also adjusted the organizational framework for research and development. As we merged various business units, we also combined the associated R&D units. The existing Innovation & Technology Group Function was integrated into the newly established Production, Technology, Safety & Environment Group Function. We are continuing to concentrate on projects with a short- to medium-term time horizon for 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.

Other 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.

The specialist departments within our Production, Technology, Safety & Environment Group Function support and complement the business units' research and development activities to ensure that synergies are exploited to the full and innovations can be applied in various LANXESS units. Cross-business unit projects are also bundled in this group function. In this context, our research concentrates on both process and product innovation, which are handled by separate departments.

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, we have identified potential savings on raw materials and energy, developed process concepts to exploit these savings and already realized them in several areas. We have also succeeded in further reducing our operating costs by developing new model-based process control concepts that we have implemented with the incorporation of state-of-the-art online analytics. These concepts enable us to run our plants even closer to the optimum operating point and make them even more efficient in terms of raw material and energy consumption.

Product innovation is focused on developing new products and new applications for existing products as well as on product modifications. Here, product development is more broadly based than in the business units – the main areas of focus 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 us.

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

## Main research and development projects

In the Performance Polymers segment, work continued in 2015 on further developing our portfolio of high-quality rubber and plastic products, focusing especially on green tires. BUNA FX is a functionalized SSBR (solution styrene-butadiene rubber). The products from this family are characterized by improved interaction between the rubber and filler, which significantly reduces the rolling resistance of tires. Buna VSL 3038-2HM improves wet performance while at the same time facilitating good rolling resistance. Thanks to their outstanding material properties, both these rubber grades are ideal for high-quality summer tires. With Durethan BKV 25 FN27, LANXESS developed a new halogen-free, flame-retardant polyamide 6 for electrical switches. Compared with the mineral-filled polyamide 6 grades often used in this area, the glass-reinforced material impresses through its high mechanical strength and thermal stability. Components made from this material can therefore withstand the enormous mechanical stresses and high temperature peaks associated with a short circuit. Furthermore, the halogen-free flame retardance package additionally equips the polyamide with good fire resistance.

The Advanced Intermediates segment is systematically expanding its range of screed additives. The new "pro-Linie" product family was introduced to the market in September 2015. These modern, formaldehyde-free additives make the screed material easier to process and require less water, which increases firmness and reduces drying time.

The Performance Chemicals segment likewise brought important innovations to market. For instance, innovative halogen-free, phosphorus-based flame retardants were introduced for flexible foams. These are characterized by lower emissions (fogging) and less scorching and are therefore ideal for use in the furniture and automotive industries. In fact, foams manufactured from Levagard TP LXS 51114 meet the stringent standards of the German Automotive Industry Association for the properties of materials used in motor vehicles. With Preventol A31-D, we have also developed a new preservative for exterior coatings. It can be used, for example, in algicidal and fungicidal facade paints. Thanks to an innovative combination of fungicides and a slow-release mechanism, the product displays a broad spectrum of activity even in low concentrations.

In our central research unit, work with the Tire & Specialty Rubbers business unit is ongoing to develop a technology which maintains air pressure in a tire that has been punctured by an object such as a screw or a nail. The puncture closes in a self-healing process. In the medium term, this technology means there will be no need to carry spare tires or repair kits in a car, thereby further reducing weight and fuel consumption. The technology will additionally enhance the reliability of tires.

The research-intensive product and process development activities coordinated by the Production, Technology, Safety & Environment Group Function are also conducted via alliances with universities and research institutes. Generating knowledge in this way substantially complements LANXESS's in-house research activities. In 2015, we had a total of 153 (2014: 154) major research and development alliances, 35 (2014: 41) of which were with universities, 97 (2014: 79) with suppliers or customers, and 21 (2014: 34) with research institutes.

## Cost trend and employees

Research and development expenses in 2015 totaled €130 million, or 1.6% of sales (2014: €160 million or 2.0%). The High Performance Elastomers, Tire & Specialty Rubbers, High Performance Materials and Saltigo business units together accounted for the largest share of these expenses in 2015 at 57%. Material Protection Products, Saltigo, Liquid Purification Technologies 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 was the result of focusing our R&D pipeline on our core businesses and of organizational changes made when combining individual business units.

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

**Research and Development Expenses**

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| Research and development expenses (€ million) | 144 | 192 | 186 | 160 | 130 |
| % of sales | 1.6 | 2.1 | 2.2 | 2.0 | 1.6 |

At the end of 2015, we employed 585 people – against 708 in 2014 – in our research and development laboratories worldwide. In our central research unit, the number of employees declined to 213 from 309 on December 31, 2014. This adjustment brought headcount in R&D back into line with business requirements.

**Number of Employees in Research and Development**

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| Year end | 731 | 843 | 931 | 708 | 585 |
| % of Group employees | 4.5 | 4.9 | 5.4 | 4.3 | 3.6 |

### 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 2015, we conducted 223 projects (2014: around 210), 128 of which (2014: around 120) aimed to develop new products and applications or improve existing ones. The remaining 95 projects (2014: some 90) concerned process technology issues with a view to reducing costs, improving efficiency or increasing capacity. We plan to have about 41% of the research and development projects we started in 2015 in the market or in technical implementation stages by the end of 2016 (2014: roughly 20%).

The results of our activities are protected by patents, where this is possible and expedient. In the course of 2015, we submitted 52 priority applications worldwide. As of December 31, 2015, the full patent portfolio included approximately 1,060 patent families covering around 6,850 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 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 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 expertise.

We consider compliance with laws and ethical principles to be the basis for sustainable corporate governance. The "Code of conduct – Code for integrity and compliance 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 affirmed our commitment in 2014 by signing the Responsible Care® Global Charter. 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 and ISO 50001 for energy management. External, independent experts regularly audit the progress of integrating new sites into our management system 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 the recertification audit in 2015.

As of December 31, 2015, our matrix certificate covered 48 companies with 80 sites in 23 countries. The sites in Epierre, France; Lipetsk, Russia; and Little Rock, United States, were included 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 2016, we intend to integrate the production sites in Neville Island, United States; Rustenburg, South Africa; and Joo Koon, Singapore, into the matrix certificate.

In addition, we have established a global procedure for an energy management system in accordance with ISO 50001. Our certification in Germany was reconfirmed in 2015. Outside Germany, the ongoing implementation and preparation for local certification are taking place decentrally at the sites. For example, the site at Liyang, China, was successfully certified in April 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 are gathered only at those production sites in which the company has a holding of more than 50%. PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft assessed our HSE indicators for 2013 to 2015 and the necessary data recording processes in the course of a business audit, 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 reached tens of thousands of children, adolescents and young adults worldwide.

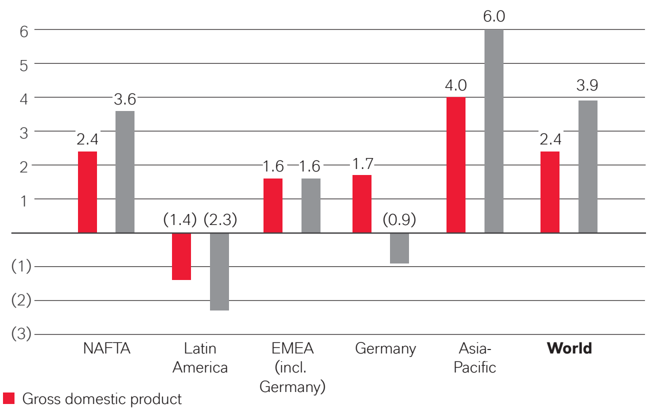
# Legal environment

There were no changes in the legal environment in 2015 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 2015**

Change vs. prior year in real terms (%)




## The economic environment

In the reporting year, development of the economic environment varied. The continuing decline in the oil price acted as a positive stimulus in countries with a high demand for oil. In the eurozone, by contrast, economic activity was held back by the ongoing discussion of the crisis in Greece and persistent debt issues. Growth was also dampened by the smoldering conflicts in eastern Ukraine and escalation of the situation in the Middle East. Uncertainty caused by the growing terrorist threat also proved increasingly detrimental to economic sentiment.

Global economic growth weakened slightly over the course of 2015, ending the year at 2.4%. It was held back by factors including declining capital investment in the energy sector due to the collapse of the oil price. Growth varied regionally. Asia-Pacific posted comparatively low growth of 4.0% owing to slower growth momentum in the Chinese economy. This also impacted other major economies in the region. Growth in EMEA (including Germany) came to 1.6%, with a positive trend in the eurozone because of the weaker euro and low oil price. Economic output in Germany expanded by 1.7%, driven mainly by rising consumer spending. On the other hand, Russia remained mired in recession because of ongoing sanctions and the collapse of the oil price. In Latin America, the downward trend resulted in a decrease of 1.4% in gross domestic product.

The U.S. dollar continued to gain in value against the euro in a trend which began in 2014. In terms of monetary policy, the two currency zones diverged significantly during the course of the year. While the European Central Bank consistently pursued its policy of expanding the money supply through negative deposit rates for commercial banks, purchases of government bonds and other quantitative easing measures, the U.S. Federal Reserve gradually scaled back its bond purchases and finally discontinued them at the end of October. At the end of December, the Federal Reserve then initiated a turnaround in interest rates in the United States with a slight increase in its key rate, ending a period of interest rate reductions lasting several years. Against this backdrop, the

U.S. currency appreciated continually through mid-April, starting at US$1.21 against the euro and reaching US$1.06. After a short phase of depreciation, the exchange rate then settled in a range of around US$1.09 to US$1.15 against the euro, in which it remained until about the beginning of November. This was followed by a brief phase of appreciation by the U.S. dollar, although it corrected downward again at the end of the year. One euro was worth US$1.09 at the end of 2015, representing 9.9% growth in the value of the U.S. dollar. The average for the year was US$1.11 to the euro, after US$1.33 in 2014, which highlights the depreciation of the euro against the U.S. dollar. 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.

Compared with the end of 2014, the price level for raw materials dropped appreciably by the end of the reporting year. The marked downward trend in the first quarter was interrupted by a period of rising prices in the second quarter, followed by a sharp decline in the price level up to the end of the year. We are particularly affected by the prices of petrochemical raw materials as they have a material impact on our production costs. The price of our most important strategic raw material, butadiene, declined over the course of the year. Reflecting the development of the oil price, the prices of feedstocks such as benzene and toluene also decreased.

## The chemical industry

The chemical industry increased global production in 2015 by 3.9%, although the picture varied regionally. Asia-Pacific continued to expand rapidly at 6.0%, but production in China grew more slowly. Growth in NAFTA was also dynamic, at 3.6%, owing to low energy prices and the favorable raw materials situation. By contrast, production in Latin America was impacted by the economic environment and contracted by 2.3%. The expansion in production in EMEA (including Germany) was 1.6%, with dynamic growth in Russia. In Germany, on the other hand, production declined by 0.9%.

## Evolution of major user industries

The global **tire industry** recorded growth of 2.2% in 2015, with sharp differences between the regions. EMEA (including Germany) registered a healthy 5.5% increase in production. Only demand in the original equipment business in Russia was very weak. In Germany, production rose by 0.6%. NAFTA saw an increase of 3.2%, driven by higher demand for replacement tires; imports fell slightly at the same time. Production in Latin America declined by 3.2% due to the general recessionary environment. Increased demand for replacement tires failed to compensate for the decline in the original equipment business. Asia-Pacific posted slight growth of 1.0%. Falling exports in conjunction with a significant rise in local demand for replacement tires led to a small increase in production in China.

Global **automotive production** recovered toward the end of 2015 and rose by a slight 0.8%. NAFTA proved to be an anchor of stability, with growth of 3.7%. Latin America, on the other hand, saw a very considerable contraction of 19%. Growth in EMEA (including Germany) was uneven, but came in nonetheless at 3.7% overall. In Europe, growth was substantial although it was held back by a decline in production in Russia. Germany recorded slight expansion of 0.6%. Production in Asia-Pacific stagnated. China saw slight growth toward the end of the year as a result of tax relief, while the trend in Japan was downward.

With the prices for agricultural products falling, global production of **agrochemicals** rose by a modest 1.0% in the reporting year. Asia-Pacific recorded growth of 2.3%. EMEA (including Germany) likewise trended positively overall, with expansion of 1.9%. Production in Germany declined by 0.8%. NAFTA posted only weak growth at 0.2%, while Latin America recorded a significant decline of 7.1%.

The **construction industry** worldwide posted growth of 3.1%. NAFTA was the driver of this development, with robust expansion of 5.8%. Latin America, on the other hand, was unable to escape the effects of recession in this sector as well, which resulted in a contraction of output of 2.5%. Asia-Pacific proved to be a growth driver with expansion of 3.3%, even if momentum weakened in China in particular. EMEA (including Germany) achieved growth of 1.6%, which was held back by the sharp downward trend in Eastern Europe. Production in Germany fell by a slight 0.7%.

**Evolution of Major User Industries in 2015**

| Change vs. prior year in real terms (%) | Chemicals | Tires | Automotive | Agrochemicals | Construction |
|---|---|---|---|---|---|
| NAFTA | 3.6 | 3.2 | 3.7 | 0.2 | 5.8 |
| Latin America | (2.3) | (3.2) | (19.0) | (7.1) | (2.5) |
| EMEA (incl. Germany) | 1.6 | 5.5 | 3.7 | 1.9 | 1.6 |
| Germany | (0.9) | 0.6 | 0.6 | (0.8) | (0.7) |
| Asia-Pacific | 6.0 | 1.0 | 0.0 | 2.3 | 3.3 |
| **World** | **3.9** | **2.2** | **0.8** | **1.0** | **3.1** |

## Key events influencing the company's business

Fiscal 2015 was characterized by the persistently difficult competitive situation in our synthetic rubber businesses. The decline in procurement costs for key raw materials, especially butadiene, resulted in corresponding adjustments to selling prices. Exchange rate developments, particularly for the U.S. dollar, had a positive effect.

During the reporting period, we brought the new plants for our Tire & Specialty Rubbers and High Performance Elastomers business units in the Asia-Pacific region on stream. The underutilization of these and other world-scale plants in Asia led to rising costs for idle capacities.

In the year under review, we continued to implement our extensive realignment program. In connection with the "Let's LANXESS again" program, we intend to discontinue production of ethylene propylene diene monomer (EPDM) rubber at the site in Marl, Germany, at the end of the first quarter of 2016. In the reporting year, earnings were impacted by adequate provisions for this purpose that were recognized in the balance sheet.

As a further key component of the realignment program, LANXESS and Saudi Aramco agreed a strategic alliance – named ARLANXEO – for the synthetic rubber business. We believe this alliance will give the business units concerned – Tire & Specialty Rubbers and High Performance Elastomers – competitive and reliable access to strategic raw materials in the medium term. The transaction has been approved by all relevant antitrust authorities and financial completion is expected on April 1, 2016. This agreement had no direct impact on business performance in the reporting year. Further information about the alliance can be found in the "Strategy" section of this combined management report.

As of January 1, 2015, we reorganized our business structure as part of the realignment. The Butyl Rubber and Performance Butadiene Rubbers business units were merged to form the Tire & Specialty Rubbers business unit. Also, the antioxidants and accelerators product lines of the Rubber Chemicals business unit – which was then dissolved – were integrated into the portfolio of the Advanced Industrial Intermediates business unit. For more detailed information, please see the "Business" and "Strategy" sections of this combined management report.

# Comparison of forecast and actual business

**Comparison of Forecast and Actual Business 2015**

| | Forecast for 2015 in Annual Report 2014 | Actual 2015 |
|---|---|---|
| **Business development: Group** | | |
| EBITDA pre exceptionals | Influences to have a largely offsetting effect on the individual segments; about on a comparable level to 2014 (€808 million) | €885 million |
| **Business development: segments** | | |
| Performance Polymers | Slight improvement in demand from main customer industries; continued price pressure; positive effects from continued strength of U.S. dollar; ramp-up costs totaling around €25 million and idle costs of some €50 million | Expanded volumes; improved earnings; favorable exchange rate effects; ramp-up and idle costs as forecast (EBITDA pre exceptionals: €502 million) |
| Advanced Intermediates | Continued good demand from key customer industries; rather restrained growth for agrochemical products; slight decline in fine chemicals and pharmaceutical products business | Expanded volumes; pleasing development in demand for agrochemicals (EBITDA pre exceptionals: €339 million) |
| Performance Chemicals | Slight improvement in demand situation | Lower volumes in all business units except Liquid Purification Technologies (EBITDA pre exceptionals: €326 million) |
| **Raw material prices** | Continuing volatile development; increasing procurement costs for petrochemical raw materials | Very volatile and substantially below prior-year level |
| **Financial condition: Group** | | |
| Cash outflows for capital expenditures | Around €450 million | €434 million |

In the combined management report for fiscal 2014, we predicted that EBITDA pre exceptionals for 2015 would be about on a comparable level to 2014. Influences were expected to have a largely offsetting effect on the individual segments. We narrowed this guidance over the course of the year and, in our interim report for the third quarter of 2015, forecast EBITDA pre exceptionals of between €860 million and €900 million. The actual result of €885 million was within this range and exceeded 2014 earnings of €808 million by 9.5%.

All segments posted earnings which were in some cases significantly above those recorded in 2014. While the Performance Polymers and Advanced Intermediates segments increased EBITDA pre exceptionals from €392 million to €502 million and from €308 million to €339 million, respectively, our Performance Chemicals segment improved earnings from €269 million in 2014 to €326 million.

Lower selling prices across all segments resulted from the decline in raw material prices. The overall positive development of earnings in the reporting year was attributable to exchange rates, especially in the Performance Polymers segment, which trended more favorably than we had anticipated in our original guidance for 2015. Volumes as a whole were flat with the prior year. While they expanded in the Performance Polymers and Advanced Intermediates segments, a decline was posted in the Performance Chemicals segment.

As expected, the tax rate for the LANXESS Group was 42.0% in the reporting year, thus exceeding the 30% threshold.

We had expected the earnings position of LANXESS AG in the reporting year to be substantially better than in 2014. Due mainly to a significant improvement in income from investments in affiliated companies, net income in 2015 amounted to €91 million after a net loss of €85 million in 2014.

# Business performance of the LANXESS Group

- LANXESS and Saudi Aramco enter into strategic alliance for synthetic rubber business
- Persistently challenging competitive situation for synthetic rubbers; good demand for agrochemicals
- Sales decline by 1.3% against the prior year
- Selling price adjustments due to lower raw material costs
- EBITDA pre exceptionals up 9.5% to €885 million
- EBITDA margin pre exceptionals at 11.2%, after 10.1% in 2014
- Positive exchange rate effect on sales and earnings
- Net income and earnings per share improved to €165 million and €1.80 after €47 million and €0.53, respectively
- Visible progress in reducing indebtedness

**Key Financial Data**

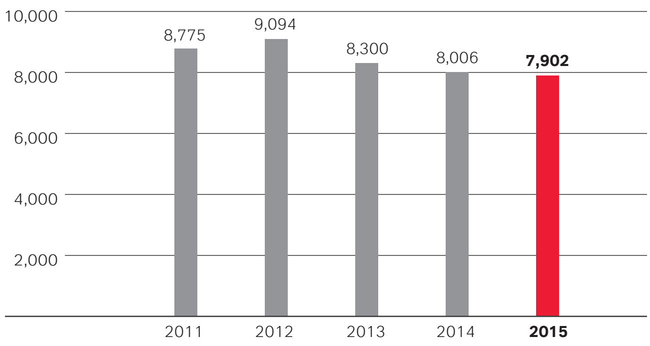
| € million | 2014 | 2015 | Change % |
|---|---|---|---|
| Sales | 8,006 | 7,902 | (1.3) |
| Gross profit | 1,588 | 1,748 | 10.1 |
| EBITDA pre exceptionals | 808 | 885 | 9.5 |
| EBITDA margin pre exceptionals | 10.1% | 11.2% | – |
| EBITDA | 644 | 833 | 29.3 |
| Operating result (EBIT) pre exceptionals | 402 | 422 | 5.0 |
| Operating result (EBIT) | 218 | 415 | 90.4 |
| EBIT margin | 2.7% | 5.3% | – |
| Financial result | (138) | (127) | 8.0 |
| Income before income taxes | 80 | 288 | > 100 |
| Net income | 47 | 165 | > 100 |
| Earnings per share (€) | 0.53 | 1.80 | > 100 |

## Sales and earnings

In 2015, LANXESS Group sales declined by 1.3% from €8,006 million in the prior year to €7,902 million. Lower selling prices, which resulted particularly from passing on lower procurement prices for raw materials, diminished sales by 9.8%. Moreover, portfolio effects had a marginally negative impact of 0.1%. Changes in exchange rates improved sales by 7.7%. In addition, higher volumes added 0.9% to sales. After adjustment for currency and portfolio effects, operational sales decreased by 8.9%.

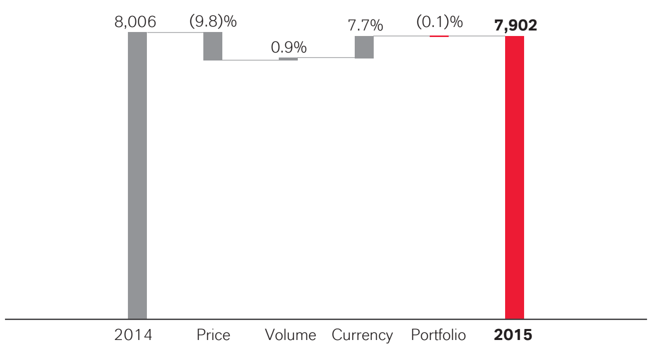
**Group Sales**

€ million




**Effects on Sales**

€ million/%




Our Performance Polymers segment recorded a decline in sales of 4.5%. Lower selling prices resulted particularly from lower procurement prices for raw materials and the challenging competitive situation in the synthetic rubber business. There was a slightly negative portfolio effect from the sale of the shares in Perlon-Monofil GmbH, Dormagen, Germany, in the previous year. Sales volumes were slightly above the prior-year level. Exchange rate developments had a positive effect on sales.

Sales in our Advanced Intermediates segment fell by 1.1%. They were diminished by lower selling prices caused by passing on lower procurement prices for raw materials. On the other hand, shifts in exchange rates had a positive impact on sales. In addition, good demand for agrochemicals and from broad areas of our other customer markets resulted in a positive effect from higher volumes.

Sales in our Performance Chemicals segment advanced by 4.8%. A decline in volumes was more than compensated by the positive development of exchange rates. Selling prices were level with the prior year.

**Sales by Segment**

| € million | 2014 | 2015 | Change % | Proportion of Group sales % |
|---|---|---|---|---|
| Performance Polymers | 4,128 | 3,944 | (4.5) | 49.9 |
| Advanced Intermediates | 1,847 | 1,826 | (1.1) | 23.1 |
| Performance Chemicals | 1,989 | 2,085 | 4.8 | 26.4 |
| Reconciliation | 42 | 47 | 11.9 | 0.6 |
| | **8,006** | **7,902** | **(1.3)** | **100.0** |

2014 figures restated

In the North America region, we achieved a slight increase in sales of 2.2% due to the effects of exchange rates. The EMEA region (excluding Germany) remained stable with growth of 1.3%. In all other sales regions, sales were down. Germany saw a decline in sales of 5.2%. The Latin America and Asia-Pacific regions posted sales declines of 3.4% and 2.8%, respectively. Development in the Performance Polymers segment was the key element of business performance in the various regions.

## 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

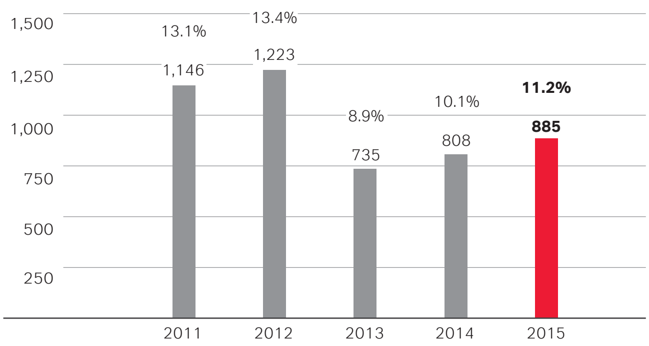
The cost of sales showed a decline of 4.1%, to €6,154 million, that was disproportionately large compared with sales. Cost relief was chiefly attributable to lower raw material and energy prices. This was countered particularly by the development of exchange rates, above all for the U.S. dollar, the expansion in volumes and higher manufacturing costs. The latter was partly due to lower capacity utilization and associated higher idle time costs, especially in connection with the start-up of our new plants in Asia. Due to factors including the low utilization of these plants, total capacity utilization at the LANXESS Group was 2 percentage points below the prior-year level at around 77%.

Gross profit was €1,748 million, up by €160 million or 10.1% against the prior year. The gross profit margin increased from 19.8% to 22.1%. The expansion of volumes and shifts in exchange rates had a positive impact on gross profit. Higher manufacturing costs had a negative effect.

## EBITDA and operating result (EBIT)

**EBITDA and EBITDA Margin Pre Exceptionals**

€ million




Our operating result before depreciation and amortization (EBITDA) pre exceptionals increased by €77 million, or 9.5%, to €885 million in 2015, after €808 million in the prior year. At Group level, the impact of lower raw material prices was passed on to the market in the form of selling price adjustments. Furthermore, the persistently challenging competitive situation in the synthetic rubber business had a diminishing effect. The overall positive development was principally attributable to favorable currency effects. Earnings were also buoyed by a positive volume effect. Selling expenses rose by 2.3% to €759 million, due especially to a volume-driven increase in freight costs and exchange rate developments. Research and development costs were down €30 million, to €130 million. General administration expenses increased by €6 million to €284 million. The Group's EBITDA margin pre exceptionals improved from 10.1% to 11.2%. Our realignment programs generated cost savings in all functional areas. However, they were countered by cost increases resulting from exchange rate developments.

EBITDA pre exceptionals in our Performance Polymers segment advanced by €110 million from the prior-year level of €392 million, to €502 million. This increase was attributable in particular to the favorable exchange rate movements. Earnings were additionally buoyed by a positive volume effect and lower research and development costs. The positive influence of lower procurement prices for raw materials was more than offset by lower selling prices due to the persistently difficult competitive situation in the synthetic rubber business. Earnings were additionally diminished by higher manufacturing costs.

In the Advanced Intermediates segment, EBITDA pre exceptionals increased by €31 million to €339 million. Earnings were improved by positive exchange rate effects. Continued good demand for agrochemicals and from other customer markets increased volumes and earnings. A positive net effect resulted from lower raw material prices and the adjustment of selling prices.

The Performance Chemicals segment generated EBITDA pre exceptionals of €326 million, up €57 million or 21.2% on the prior year. Favorable exchange rate developments and lower raw material prices resulted in improved earnings. Lower volumes had an opposing effect.

**EBITDA Pre Exceptionals by Segment**

| **€ million** | **2014** | **2015** | Change % |
|---|---|---|---|
| Performance Polymers | 392 | 502 | 28.1 |
| Advanced Intermediates | 308 | 339 | 10.1 |
| Performance Chemicals | 269 | 326 | 21.2 |
| Reconciliation | (161) | (282) | (75.2) |
| | **808** | **885** | **9.5** |

2014 figures restated

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

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

| **€ million** | **2014** | **2015** | Change % |
|---|---|---|---|
| **EBITDA pre exceptionals** | 808 | 885 | 9.5 |
| Depreciation and amortization | (426) | (474) | (11.3) |
| Reversals of impairment charges | – | 56 | – |
| Exceptional items in EBITDA | (164) | (52) | 68.3 |
| **Operating result (EBIT)** | **218** | **415** | **90.4** |

The operating result (EBIT) increased substantially from €218 million to €415 million in fiscal 2015. Depreciation and amortization amounted to €474 million. Of this total, write-downs accounted for €25 million (2014: €32 million). In turn, €11 million (2014: €20 million) of these write-downs were exceptional items. On the other hand, reversals of impairment charges totaling €56 million were recognized as exceptional items.

The other operating result, which is the balance between other operating income and expenses, improved by €30 million to minus €160 million. Adjusted for exceptional items, the other operating result came to minus €153 million, which was €147 million lower than in 2014. This decline was largely due to currency hedging transactions.

Net negative exceptional items of €7 million for the reporting year resulted from negative exceptional items of €106 million and positive exceptional items of €99 million. The negative exceptional items, €96 million of which impacted EBITDA, resulted mainly from expenses in connection with the planned discontinuation of EPDM rubber production at the Marl site in Germany at the end of the first quarter of 2016 and from further measures associated with the “Let’s LANXESS again” program. The negative exceptional items which did not impact EBITDA were accounted for by write-downs recognized in connection with the planned discontinuation of production at the Marl site in Germany. The positive exceptional items, €44 million of which impacted EBITDA, were mainly related to the sales of intangible assets and property, plant and equipment. The positive exceptional items that did not impact EBITDA were primarily the result of reversing impairment charges recognized in previous years, amounting to €56 million. €37 million of the reversals related to our High Performance Elastomers business unit and €19 million to the Advanced Industrial Intermediates business unit.

In the prior year, net negative exceptional items of €184 million were incurred, €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 negative exceptional items of €20 million that had no impact on EBITDA in the prior year were due above all to write-downs recognized on a pilot plant in what is now the Tire & Specialty Rubbers business unit.

**Reconciliation of EBIT to Net Income**

| € million | 2014 | 2015 | Change % |
|---|---|---|---|
| **Operating result (EBIT)** | **218** | **415** | **90.4** |
| Income from investments accounted for using the equity method | 2 | 0 | (100.0) |
| Net interest expense | (69) | (66) | 4.3 |
| Other financial income and expense | (71) | (61) | 14.1 |
| **Financial result** | **(138)** | **(127)** | **8.0** |
| **Income before income taxes** | **80** | **288** | **> 100** |
| Income taxes | (36) | (121) | < (100) |
| **Income after income taxes** | **44** | **167** | **> 100** |
| of which: | | | |
| attributable to non-controlling interests | (3) | 2 | > 100 |
| attributable to LANXESS AG stockholders [net income] | 47 | 165 | > 100 |

## Financial result

The financial result came in at minus €127 million in fiscal 2015, compared with minus €138 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 €0 million, against €2 million the previous year. Net interest expense was €66 million, which is €3 million lower than in the previous year because of repayments made and loans which fell due in the reporting period. The reduced capitalization of a portion of borrowing costs, a consequence of the completion of the new plants in Asia, had a negative effect on the financial result. The improvement in other financial income and expense items resulted mainly from reduced exchange losses. In addition, in the prior year they included expenses incurred for the early repayment of long-term loans.

## Income before income taxes

Due to the improved EBIT, income before income taxes increased by €208 million to €288 million.

## Income taxes

In fiscal 2015, tax expense amounted to €121 million, compared with €36 million the year before. The Group's tax rate was 42.0%, after 45.0% in the previous year.

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

The LANXESS Group posted net earnings of €165 million, an increase of €118 million year on year. A profit of €2 million was attributable to non-controlling interests, compared with a loss of €3 million in the previous year.

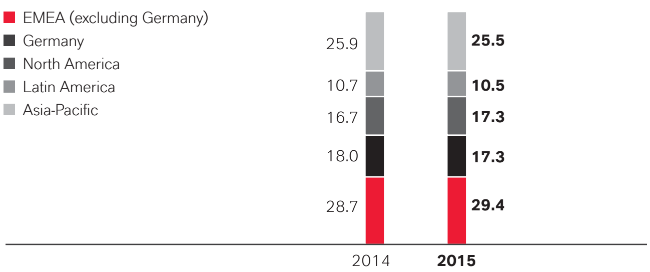
Earnings per share are calculated by dividing net income by the weighted average number of LANXESS shares in circulation during the reporting period. The number of shares in circulation rose by the shares issued for the capital increase in May 2014. Earnings per share were €1.80, ahead of the €0.53 recorded for the prior year.

Earnings per share pre exceptionals were €1.80, against €1.98 the year before. This value was calculated from the earnings per share adjusted for exceptional items and attributable tax effects. In the reporting year, the net negative exceptional items came to €7 million after €184 million in 2014.

# Business trends by region

**Sales by Market**

%




**Sales by Market**

| | 2014 | | 2015 | | Change |
|---|---|---|---|---|---|
| | € million | % | € million | % | % |
| EMEA (excluding Germany) | 2,296 | 28.7 | 2,325 | 29.4 | 1.3 |
| Germany | 1,440 | 18.0 | 1,365 | 17.3 | (5.2) |
| North America | 1,338 | 16.7 | 1,368 | 17.3 | 2.2 |
| Latin America | 859 | 10.7 | 830 | 10.5 | (3.4) |
| Asia-Pacific | 2,073 | 25.9 | 2,014 | 25.5 | (2.8) |
| | **8,006** | **100.0** | **7,902** | **100.0** | **(1.3)** |

Global sales performance was characterized by lower selling prices resulting from a net decline in procurement prices for key raw materials and positive exchange rate effects.

## EMEA (excluding Germany)

Sales in the EMEA region (excluding Germany) increased by €29 million, or 1.3%, to €2,325 million. After adjustment for currency changes and minor portfolio effects from the sale of the shares in Perlon-Monofil GmbH, Dormagen (Germany) in March 2014, sales were on a level with the prior year with growth of 0.1%. The Performance Polymers segment posted a marginal sales decline in the low-single-digit percentage range. Our Performance Chemicals and Advanced Intermediates segments, on the other hand, achieved a slight increase in sales of a similar magnitude. While the Group's performance in the region as a whole was balanced, sales declined in Italy, Ireland, Poland and the Netherlands in particular. However, sales were bolstered by positive growth in demand in other countries such as Belgium, Turkey, Portugal and Hungary.

With a 29.4% share of total sales, after 28.7% 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 €1,365 million in 2015, down €75 million, or 5.2%, on the previous year. Adjusted for slight exchange rate and portfolio effects, sales were down by 5.7%. The Advanced Intermediates and Performance Polymers segments posted sales declines in the mid-single-digit percentage range, while our Performance Chemicals segment recorded a decrease in sales in the low-single-digit percentage range.

Germany's share of Group sales fell slightly from 18.0% to 17.3%.

## North America

Sales in this region came to €1,368 million, up €30 million, or 2.2%, from the previous year. On the other hand, after adjustment for positive exchange rate effects, sales were down 13.9%. This was largely attributable to the decline in sales in the Performance Polymers segment, which was in the low-double-digit percentage range. Sales also moved back by a low-double-digit percentage and a low-single-digit percentage in the Advanced Intermediates and Performance Chemicals segments, respectively.

At 17.3%, North America's share of Group sales was 0.6 percentage points higher than in the prior year.

## Latin America

In the Latin America region, sales dropped by €29 million, or 3.4%, to €830 million. After adjusting for positive currency effects, which resulted from the development in the U.S. dollar exchange rate and the fact that most sales are denominated in that currency, sales declined by 13.7%. The crucial factor in business performance here was the development of the Performance Polymers segment, where sales declined by a low-double-digit percentage. The Advanced Intermediates segment likewise registered a decrease in business in the low-double-digit percentage range, while sales of the Performance Chemicals segment moved back by only a low-single-digit percentage. Business development in the region was mainly attributable to the contraction of sales in Brazil. Slightly positive impetus came from Mexico.

We generated 10.5% of Group sales in Latin America, compared with 10.7% in the prior-year period.

## Asia-Pacific

Sales in the Asia-Pacific region declined by €59 million, or 2.8%, to €2,014 million in 2015. Adjusted for positive currency effects and slight portfolio effects, sales were down by 16.1%. This decline was mainly attributable to the business performance of the Performance Polymers segment, which posted a decrease in sales in the low-double-digit percentage range. Business in the Advanced Intermediates and Performance Chemicals segments was likewise down by percentages just into double digits. Declining sales in China, Singapore, South Korea and Taiwan contributed significantly to operational performance in the region.

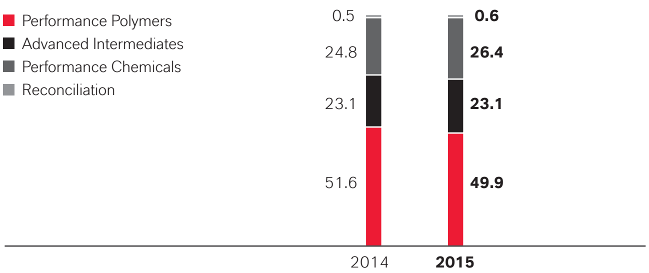
Asia-Pacific's share of Group sales was 25.5%, slightly down on the prior-year figure of 25.9%. Thus, it confirmed its position as the second-strongest region behind EMEA (excluding Germany) in terms of sales.

# Segment information

- Performance Polymers: challenging competitive situation for synthetic rubbers; lower selling prices impact sales; earnings substantially above prior year, however
- Advanced Intermediates: earnings improve with sales slightly reduced; good business development in agrochemicals
- Performance Chemicals: sales and earnings increase with prices more or less stable

**Sales by Segment**

%




2014 figures restated

## Performance Polymers

**Overview of Key Data**

| | 2014 | | 2015 | | Change |
|---|---|---|---|---|---|
| | € million | Margin % | € million | Margin % | % |
| Sales | 4,128 | | 3,944 | | (4.5) |
| EBITDA pre exceptionals | 392 | 9.5 | 502 | 12.7 | 28.1 |
| EBITDA | 351 | 8.5 | 507 | 12.9 | 44.4 |
| Operating result (EBIT) pre exceptionals | 181 | 4.4 | 249 | 6.3 | 37.6 |
| Operating result (EBIT) | 120 | 2.9 | 280 | 7.1 | > 100 |
| Cash outflows for capital expenditures | 428 | | 184 | | (57.0) |
| Depreciation and amortization/reversals of impairment charges | 231 | | 227 | | (1.7) |
| Employees as of Dec. 31 [1] | 5,240 | | 5,088 | | (2.9) |

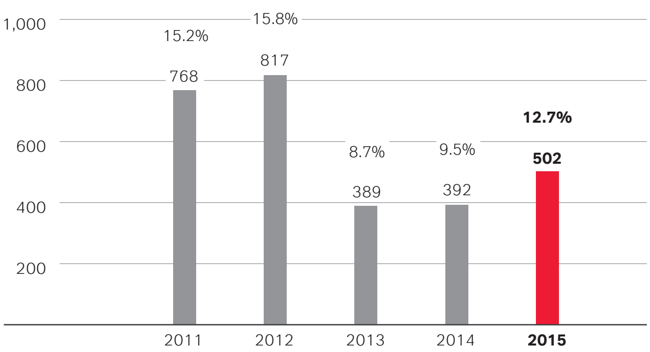
1) 2014 figure restated

Sales in our Performance Polymers segment declined by 4.5% year on year in fiscal 2015, to €3,944 million. A negative price effect of 14.9% was attributable in particular to lower procurement prices for raw materials being passed on to customers. Favorable exchange rate effects improved sales by 8.9%, with support from slightly higher volumes. All business units in this segment were impacted by lower selling prices. The Tire & Specialty Rubbers and High Performance Materials business units posted volume growth, but volumes declined in the High Performance Elastomers business unit. Shifts in exchange rates had a positive effect in all business units. While business in this segment was positive in the EMEA region (excluding Germany), sales in the other regions were below the prior-year level.

EBITDA pre exceptionals in the Performance Polymers segment, at €502 million, was well above the prior-year level of €392 million. Favorable exchange rate effects and expanded volumes lifted earnings. The effect of reduced selling prices outweighed the positive impact of cost relief resulting from lower raw material prices. The segment's EBITDA margin pre exceptionals improved from 9.5% to 12.7%.

**EBITDA and EBITDA Margin Pre Exceptionals**

€ million




The segment posted net positive exceptional items of €31 million, comprising positive exceptional items of €79 million and negative exceptional items of €48 million. The positive exceptional items, €43 million of which impacted EBITDA, related in particular to income from the sale of intangible assets and property, plant and equipment. The positive exceptional items of €36 million that did not impact EBITDA were mainly attributable to the reversals of impairment charges recognized by the High Performance Elastomers business unit in previous years. The negative exceptional items were made up of €38 million that impacted EBITDA and €10 million that did not. The negative exceptional items that impacted EBITDA resulted mainly from expenses in connection with the planned discontinuation of EPDM rubber production at the Marl site in Germany and from measures associated with the "Let's LANXESS again" program. The negative exceptional items that did not impact EBITDA resulted from write-downs recognized in connection with the planned discontinuation of production at the Marl site in Germany.

In the prior year, negative exceptional items amounted to €61 million, of which €41 million impacted EBITDA. The negative exceptional items of €20 million that had no impact on EBITDA were due above all to write-downs recognized on a pilot plant in the Tire & Specialty Rubbers business unit. The negative exceptional items that impacted EBITDA were related to measures associated with our realignment programs.

## Advanced Intermediates

**Overview of Key Data**

| | 2014 | | 2015 | | Change |
|---|---|---|---|---|---|
| | € million | Margin % | € million | Margin % | % |
| Sales | 1,847 | | 1,826 | | (1.1) |
| EBITDA pre exceptionals | 308 | 16.7 | 339 | 18.6 | 10.1 |
| EBITDA | 295 | 16.0 | 338 | 18.5 | 14.6 |
| Operating result (EBIT) pre exceptionals | 215 | 11.6 | 240 | 13.1 | 11.6 |
| Operating result (EBIT) | 202 | 10.9 | 258 | 14.1 | 27.7 |
| Cash outflows for capital expenditures | 90 | | 87 | | (3.3) |
| Depreciation and amortization/reversals of impairment charges | 93 | | 80 | | (14.0) |
| Employees as of Dec. 31 | 3,312 | | 3,264 | | (1.4) |

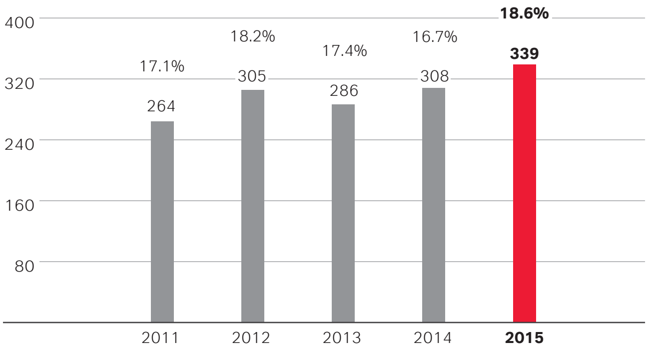
2014 figures restated

Our Advanced Intermediates segment recorded sales of €1,826 million in 2015, 1.1% or €21 million below the prior-year level. While the adjustment in selling prices, through which lower purchase prices for raw materials were largely passed on to customers, led to a negative price effect of 9.0%, exchange rate developments added 4.8% to sales. Volumes were up 3.2% compared with the prior year.

While both of the segment's business units grew volumes, selling prices in the Advanced Industrial Intermediates business unit were below the prior-year level, reflecting raw material prices. Continued good demand for agrochemicals and from other customer markets resulted in a positive effect from higher volumes. Exchange rate developments had a positive influence in the Advanced Industrial Intermediates business unit in particular. In the Germany region, the segment's sales were below the prior-year level. In the other regions, the segment posted a positive business performance.

**EBITDA and EBITDA Margin Pre Exceptionals**

€ million




2014 figures restated

EBITDA pre exceptionals in the Advanced Intermediates segment increased by €31 million, or 10.1%, to €339 million. Earnings were improved particularly by positive exchange rate movements and higher volumes. While lower raw material prices brought cost relief, earnings were diminished by these price effects largely being passed on to customers. The EBITDA margin pre exceptionals was 18.6%, up from 16.7% in the prior year.

In fiscal 2015, net positive exceptional items amounted to €18 million, resulting from positive exceptional items of €20 million and negative exceptional items of €2 million. The positive exceptional items, of which €19 million did not impact EBITDA, were mainly the result of reversing impairment charges recognized in previous years on assets of the former Rubber Chemicals business unit. The negative exceptional items of €1 million that impacted EBITDA were the balance of negative exceptional items related to measures associated with "Let's LANXESS again" program and positive exceptional items from the sale of non-current assets. Negative exceptional items in the prior year amounted to €13 million, which fully impacted EBITDA and were largely related to the "Let's LANXESS again" program.

## Performance Chemicals

**Overview of Key Data**

| | 2014 | | 2015 | | Change |
|---|---|---|---|---|---|
| | € million | Margin % | € million | Margin % | % |
| Sales | 1,989 | | 2,085 | | 4.8 |
| EBITDA pre exceptionals | 269 | 13.5 | 326 | 15.6 | 21.2 |
| EBITDA | 238 | 12.0 | 313 | 15.0 | 31.5 |
| Operating result (EBIT) pre exceptionals | 187 | 9.4 | 238 | 11.4 | 27.3 |
| Operating result (EBIT) | 156 | 7.8 | 225 | 10.8 | 44.2 |
| Cash outflows for capital expenditures | 71 | | 139 | | 95.8 |
| Depreciation and amortization | 82 | | 88 | | 7.3 |
| Employees as of Dec. 31 | 5,318 | | 5,260 | | (1.1) |

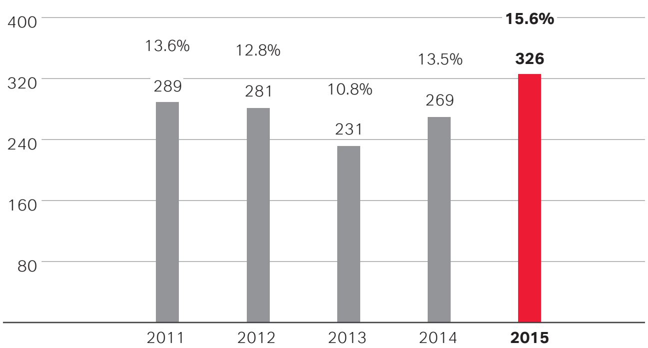
2014 figures restated

Sales in the Performance Chemicals segment in fiscal 2015 rose by €96 million, or 4.8%, to €2,085 million. With a share of 8.2%, positive exchange rate developments were the main contributor to this increase. While lower volumes reduced sales by 3.1%, selling prices nearly matched the prior-year level.

Development varied across the individual business units in this segment. While selling prices in the Material Protection Products and Inorganic Pigments business units were above the prior-year level, the other business units saw a slight decline in selling prices. With the exception of the Liquid Purification Technologies business unit, all business units posted lower volumes. All business units benefited from favorable exchange rate developments. While business receded in the Germany region, it expanded in the other regions.

**EBITDA and EBITDA Margin Pre Exceptionals**

€ million




2014 figures restated

EBITDA pre exceptionals for the Performance Chemicals segment advanced by €57 million, or 21.2%, against the prior year to €326 million. This increase was mainly attributable to the positive development of exchange rates. Additional support came from lower raw material prices and largely stable selling prices. Earnings were impacted by a decline in volumes. The EBITDA margin pre exceptionals improved from 13.5% to 15.6%.

The segment recorded negative exceptional items of €13 million in the reporting year, which fully impacted EBITDA. Some of these related to measures associated with the “Let’s LANXESS again” program. Negative exceptional items in the prior year amounted to €31 million and fully impacted EBITDA. They were largely related to measures associated with the “Let’s LANXESS again” and “Advance” programs.

## Reconciliation

**Overview of Key Data**

| € million | 2014 | 2015 | Change % |
|---|---|---|---|
| Sales | 42 | 47 | 11.9 |
| EBITDA pre exceptionals | (161) | (282) | (75.2) |
| EBITDA | (240) | (325) | (35.4) |
| Operating result (EBIT) pre exceptionals | (181) | (305) | (68.5) |
| Operating result (EBIT) | (260) | (348) | (33.8) |
| Cash outflows for capital expenditures | 25 | 24 | (4.0) |
| Depreciation and amortization | 20 | 23 | 15.0 |
| Employees as of Dec. 31 [1] | 2,714 | 2,613 | (3.7) |

1) 2014 figure restated

EBITDA pre exceptionals for the Reconciliation came to minus €282 million, compared with minus €161 million in the prior year. This change was mainly due to expenses incurred in currency hedging. The negative exceptional items of €43 million reported in the Reconciliation, which fully impacted EBITDA, mainly related to the “Let’s LANXESS again” program. The prior-year negative exceptional items of €79 million shown in the Reconciliation, which impacted EBITDA, mainly related to measures associated with the “Let’s LANXESS again” and “Advance” programs, to expenses for the design and implementation of IT projects and to expenses for portfolio adjustments.

# Statement of financial position and financial condition

## Statement of financial position

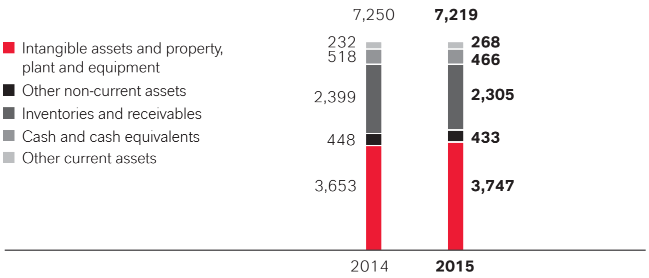
- Decrease in total assets, mainly due to reduced working capital
- Equity ratio improved to 32.2%
- Lower pension provisions due to higher discount rates
- Net financial liabilities visibly improved at €1,211 million

**Structure of the Statement of Financial Position**

| | Dec. 31, 2014 | | Dec. 31, 2015 | | Change |
|---|---|---|---|---|---|
| | € million | % | € million | % | % |
| **ASSETS** | | | | | |
| Non-current assets | 4,101 | 56.6 | 4,180 | 57.9 | 1.9 |
| Current assets | 3,149 | 43.4 | 3,039 | 42.1 | (3.5) |
| **Total assets** | **7,250** | **100.0** | **7,219** | **100.0** | **(0.4)** |
| **EQUITY AND LIABILITIES** | | | | | |
| Equity (including non-controlling interests) | 2,161 | 29.8 | 2,323 | 32.2 | 7.5 |
| Non-current liabilities | 3,447 | 47.6 | 2,936 | 40.7 | (14.8) |
| Current liabilities | 1,642 | 22.6 | 1,960 | 27.1 | 19.4 |
| **Total equity and liabilities** | **7,250** | **100.0** | **7,219** | **100.0** | **(0.4)** |

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

€ million




## Structure of the statement of financial position

Total assets of the LANXESS Group amounted to €7,219 million as of December 31, 2015, a decrease of €31 million, or 0.4%, on the prior-year figure. This was primarily due to the reduction in inventories and trade receivables. The development of property, plant and equipment had an opposing effect. The ratio of non-current assets to total assets increased from 56.6% to 57.9%. On the equity and liabilities side, equity increased mainly due to net comprehensive income. At the end of fiscal 2015, the equity ratio was 32.2%, after 29.8% in the previous year.

Non-current assets rose by €79 million to €4,180 million, with intangible assets and property, plant and equipment increasing by €94 million to €3,747 million. Cash outflows for purchases of property, plant and equipment and intangible assets in the reporting period were €434 million, below the prior-year level of €614 million. Depreciation and amortization totaled €474 million, which was €48 million above the prior-year level of €426 million. They were partially set off by reversals of impairment charges recognized in previous years on the assets of cash-generating units, amounting to €56 million. The carrying amount of investments accounted for using the equity method was €0 million, the same as in the prior year. Deferred taxes decreased by €19 million to €361 million. The ratio of non-current assets to total assets was 57.9%, up from 56.6% on December 31, 2014.

Current assets decreased by €110 million or 3.5% compared with December 31, 2014, to €3,039 million. Inventories were down by €35 million, or 2.5%, to €1,349 million, principally due to the lower prices for certain key raw materials. The development of exchange rates and a slight increase in volumes had an opposing effect. Days of inventory outstanding (DIO) increased from 79.1 to 84.3. By contrast, trade receivables were €59 million, or 5.8%, lower at €956 million, despite opposing currency effects. Days of sales outstanding (DSO) were virtually unchanged at 47.6. Cash and cash equivalents decreased €52 million, to €366 million. Near-cash assets amounted to €100 million, as in the prior year. The ratio of current assets to total assets was 42.1%, against 43.4% as of December 31, 2014.

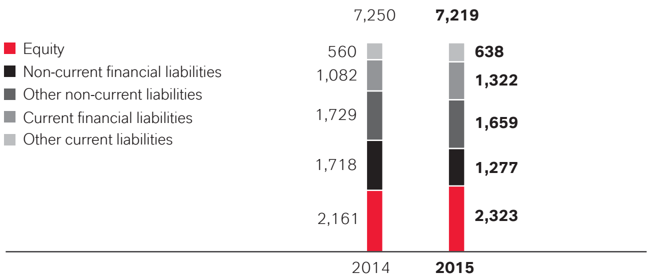
The LANXESS Group has internally generated intangible assets that are not reflected in the statement of financial position in light of accounting rules. These include the brand equity of LANXESS and the value of other brands of the Group.

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, even in a more challenging business environment. Our competence in technology and innovation, also a valuable asset, is rooted in our specific knowledge 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**

€ million




Equity amounted to €2,323 million, up by €162 million or 7.5% compared with December 31, 2014, primarily due to the net comprehensive income posted in the reporting period. The ratio of equity to the Group's total assets was 32.2% as of December 31, 2015, after 29.8% as of December 31, 2014.

Non-current liabilities as of December 31, 2015, fell by €511 million to €2,936 million. Provisions for pensions and other post-employment benefits declined by €75 million compared with the end of 2014, to €1,215 million. This was primarily due to increased discount rates, particularly in Germany. Other non-current financial liabilities amounted to €1,258 million, down by €440 million against December 31, 2014. This was because a bond that is due to mature in 2016 and a loan were reclassified to current financial liabilities. The ratio of non-current liabilities to total assets was 40.7%, up from 47.6% as of December 31, 2014.

Current liabilities came to €1,960 million, up by €318 million or 19.4% from December 31, 2014. At €779 million, trade payables were €20 million below the prior-year figure, due mainly to lower raw material prices. Shifts in exchange rates had an opposing effect. Current derivative liabilities were on a level with the prior year at €100 million. The reclassification of the bond and loan from non-current to current financial liabilities was the main reason for the €261 million increase in current financial liabilities to €443 million. Other current liabilities decreased by €24 million to €142 million, while other current provisions increased by €61 million to €411 million. This was attributable to additions for restructuring measures and for variable compensation. The ratio of current liabilities to total assets was 27.1% as of December 31, 2015, against 22.6% at the end of 2014.

At €1,211 million, net financial liabilities were substantially below the figure of €1,336 million at December 31, 2014.

The Group's key ratios developed as follows:

**Ratios**

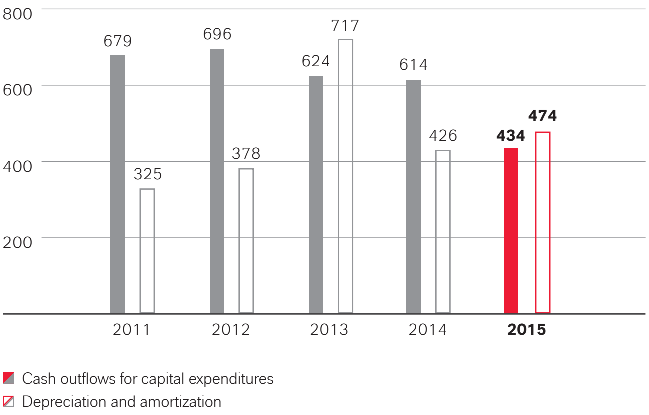
| % | | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|
| **Equity ratio** | Equity[1] / Total assets | 30.2 | 31.0 | 27.9 | 29.8 | 32.2 |
| **Non-current asset ratio** | Non-current assets / Total assets | 50.7 | 49.8 | 52.7 | 56.6 | 57.9 |
| **Asset coverage I** | Equity[1] / Non-current assets | 59.4 | 62.2 | 52.9 | 52.7 | 55.6 |
| **Asset coverage II** | Equity[1] and non-current liabilities / Non-current assets | 137.3 | 157.2 | 137.2 | 136.7 | 125.8 |
| **Funding structure** | Current liabilities / Total liabilities | 43.5 | 31.4 | 38.3 | 32.3 | 40.0 |

1) Including non-controlling interests

## Capital expenditures

In 2015, capital expenditures for property, plant and equipment and intangible assets came to €457 million, compared with €692 million the year before, and led to cash outflows of €434 million (2014: €614 million). Depreciation and amortization in the same period totaled €474 million (2014: €426 million). They were counteracted by reversals of impairment charges amounting to €56 million. The figure for depreciation and amortization included €11 million in write-downs reported as exceptional items (2014: write-downs of €20 million). After adjustment for these exceptional items, capital expenditures were approximately level with depreciation and amortization (2014: 70% above depreciation and amortization).

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



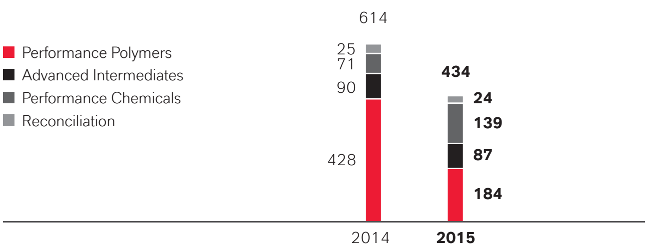

In the reporting year, capital expenditures focused on the following areas:

- Expansion and maintenance of existing facilities, construction of new facilities
- Measures to increase plant availability
- Projects to improve plant safety, enhance quality and comply with environmental protection requirements

Around two-thirds of the capital expenditures in 2015 went to maintain existing facilities, while the rest went toward expansion or efficiency improvement measures.

In regional terms, 36% of our capital expenditures in the reporting period were made in Germany, 20% in the EMEA region (excluding Germany), 17% in North America, 5% in Latin America and 22% in Asia-Pacific. Capital expenditures in Germany mostly comprised our investments to increase capacities and modernize facilities in all segments, especially investments in the Saltigo and Liquid Purification Technologies business units. The continued large share of capital expenditures made in the Asia-Pacific region is due primarily to the construction of a new production plant for EPDM rubber for our High Performance Elastomers business unit in Changzhou, China, completed in the reporting year, and to the construction of a new plant for iron oxide red pigments for the Inorganic Pigments business unit in Ningbo, China.

**Cash Outflows for Capital Expenditures by Segment**
€ million




2014 figures restated

In the Performance Polymers segment, capital expenditures totaled €190 million (2014: €472 million), €184 million (2014: €428 million) of which were cash outflows. Depreciation and amortization less reversals of impairment charges stood at €227 million (2014: €231 million). The major capital expenditures in this segment were made in the Tire & Specialty Rubbers business unit. Capital expenditures in the Advanced Intermediates segment amounted to €99 million (2014: €100 million). Cash outflows stood at €87 million (2014: €90 million), which exceeded depreciation and amortization less reversals of impairment charges of €80 million (2014: €93 million). These included a number of smaller capital expenditure projects, as well as initial cash outflows in connection with the construction of two multi-purpose production lines for the Saltigo business unit at the Leverkusen site in Germany, which will begin in 2016. Production is due to start at the end of 2017. In the Performance Chemicals segment, capital expenditures came to €144 million (2014: €94 million), €139 million (2014: €71 million) of which were cash outflows. Depreciation and amortization stood at €88 million (2014: €82 million). A major investment project 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**

| Segment | Site | Description |
|---|---|---|
| **Performance Polymers** | | |
| Tire & Specialty Rubbers | Singapore | Construction of a production plant for neodymium-based performance butadiene rubber (Nd-PBR), start-up in the first half of 2015 |
| High Performance Elastomers | Changzhou, China | Construction of a production plant for ethylene propylene diene (EPDM) rubber, start-up in Q1 2015 |
| 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 |
| **Advanced Intermediates** | | |
| Saltigo | Leverkusen, Germany | Construction of two multi-purpose production lines starting in 2016; start-up planned for the end of 2017 |
| **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 |

### *Expansion of the Group portfolio*

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

## Financial condition

- Free cash flow above prior-year level
- Cash inflow from reduction in working capital
- Cash used for investing activities mainly reflects capital expenditures for maintaining existing facilities and expanding capacities
- 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 | 2014 | 2015 | Change |
|---|---|---|---|
| Income before income taxes | 80 | 288 | 208 |
| Depreciation and amortization/ reversals of impairment charges | 426 | 418 | (8) |
| Other items | 144 | (107) | (251) |
| **Net cash provided by operating activities before change in net working capital** | **650** | **599** | **(51)** |
| Change in net working capital | 147 | 93 | (54) |
| **Net cash provided by operating activities** | **797** | **692** | **(105)** |
| **Net cash used in investing activities** | **(587)** | **(400)** | **187** |
| **Free cash flow** | **210** | **292** | **82** |
| **Net cash used in financing activities** | **(222)** | **(333)** | **(111)** |
| Change in cash and cash equivalents from business activities | (12) | (41) | (29) |
| Cash and cash equivalents as of December 31 | 418 | 366 | (52) |

Cash provided by operating activities, before changes in net working capital, decreased by €51 million to €599 million in fiscal 2015. The starting point was the €208 million increase in income before income taxes to €288 million. Depreciation and amortization of €474 million, less reversals of impairment charges of €56 million, were €48 million higher than the figure of €426 million for the prior year. The other items in the reporting year included tax payments, effects from currency hedging transactions and cash outflows for variable compensation. Moreover, cash outflows associated with the realignment program were much higher than in the prior year.

The decrease in net working capital against December 31, 2014, resulted in a cash inflow of €93 million compared with €147 million in the prior year. The inflow in the reporting period resulted in particular from the decline in inventories and trade receivables, with the reduction in trade payables having an opposing effect. Therefore, the net cash provided by operating activities totaled €692 million, against €797 million in 2014.

LANXESS's investing activities in fiscal 2015 resulted in a cash outflow of €400 million, down from €587 million in the previous year. Disbursements for intangible assets and property, plant and equipment came to €434 million, which was below the prior-year level of €614 million. The sale of intangible assets and property, plant and equipment resulted in a cash inflow of €45 million (2014: €8 million).

Free cash flow – the difference between the cash inflows from operating activities and the cash used in investing activities – increased by €82 million to €292 million.

Net cash used in financing activities came to €333 million, against €222 million the year before. A significant effect in 2015 was the net repayment of borrowings amounting to €220 million. In the prior year, a major effect came from the cash inflow of €433 million resulting from the capital increase, although it was more than offset by the cash outflow of €478 million attributable to the net repayment of borrowings. Interest payments and other financial disbursements of €76 million were well below the previous year's amount of €131 million. As in 2014, an outflow of €46 million was accounted for by the dividend paid to the stockholders of LANXESS AG for fiscal 2014.

The net change in cash and cash equivalents from business activities in fiscal 2015 was minus €41 million, against minus €12 million the previous year. After taking into account currency-related and other negative changes in cash and cash equivalents of €11 million, cash and cash equivalents at the closing date amounted to €366 million, against €418 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, which were unchanged against the prior year, the Group retained a solid liquidity position of €466 million as of December 31, 2015, compared with €518 million at the end of 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, along with free cash flow, is the focus of financial management. 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 [36], "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 2015, the rating agencies Standard & Poor's and Moody's confirmed their ratings for LANXESS of BBB– and Baa3, respectively. On March 11, 2015, Fitch confirmed – and then subsequently discontinued – its unsolicited rating of BBB–. Following the announcement of the partnership with Saudi Aramco in September 2015, Standard & Poor's raised its outlook from "stable" to "positive," while Moody's kept its outlook at "stable." Both rating agencies gave a positive opinion of the planned transaction and emphasized the improved debt situation along with additional financial flexibility resulting from the expected proceeds.

**Development of LANXESS Ratings and Rating Outlook Since 2011**

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| Standard & Poor's | BBB/stable<br>Aug. 23, 2011 | BBB/stable<br>Aug. 31, 2012 | BBB/negative<br>June 27, 2013 | BBB–/stable<br>May 19, 2014 | BBB–/positive<br>Sept. 24, 2015 |
| Moody's Investors Service | Baa2/stable<br>Nov. 23, 2011 | Baa2/stable<br>Sept. 26, 2012 | Baa2/negative<br>Aug. 14, 2013 | Baa3/stable<br>June 20, 2014 | Baa3/stable<br>July 2, 2015 |

## *Financing analysis*

In fiscal 2015, LANXESS retained a balanced financing structure and a very solid liquidity position.

The CNH 500 million renminbi bond that matured in February 2015 was redeemed from available cash funds. Ahead of schedule, we repaid two tranches totaling €114 million on a development bank loan in order to further reduce gross indebtedness and the interest burden. We repaid debts and funded current investments, business operations and the "Let's LANXESS again" restructuring program from operating cash flow and existing liquidity.

In March 2009, LANXESS launched a debt issuance program with a current volume of €2.5 billion. 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, 2015, just under €1.5 billion of the €2.5 billion financing facility had been utilized to issue bonds and private placements. The volume of the debt issuance program can be adjusted flexibly in line with future requirements so as to ensure financial headroom. As of March 20, 2015, LANXESS Finance B.V. was replaced as the issuer of the bonds and private placements under the debt issuance program by LANXESS AG, which is the original guarantor of the bonds. 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 and our strategic alignment.

Current financial liabilities increased from €182 million in 2014 to €443 million at December 31, 2015, largely due to the reclassification from non-current financial liabilities of the bond that will mature in 2016 and of a loan.

We made only limited use of finance leases, which are reported as financial liabilities in the statement of financial position. As of December 31, 2015, the financial liabilities from finance leases were on a level with the prior year at €71 million. 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 €341 million (2014: €390 million).

As of December 31, 2015, 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 €1,854 million in 2014 to €1,677 million at December 31, 2015. Net financial liabilities – the total financial liabilities net of cash, cash equivalents and near-cash assets – declined by €125 million to €1,211 million.

Of the total financial liabilities, 90% bear a fixed interest rate over the term of the financing, which is above the prior-year level of 86%. This resulted especially from the reduction in gross indebtedness achieved by repaying variable-rate loans, which made good economic sense. Interest rate changes do not have a material effect on LANXESS's financial condition considering the current financing structure. The proportion of loans and bonds denominated in euros averaged 90% in the reporting year, which was above the prior-year level of 79%. The weighted average interest rate for our financial liabilities was 3.8% at year end 2015, which was level with the prior year.

The following overview shows LANXESS's financing structure as of December 31, 2015, in detail, including its principal liquidity reserves.

**Financing Structure**

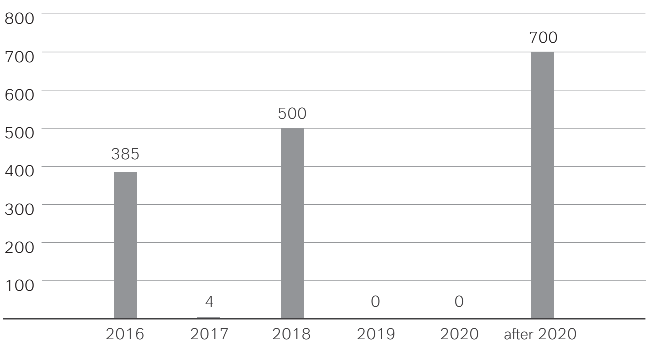
| **Instrument** | **Amount € million** | **Term** | **Interest rate %** | **Financial covenant[1]** |
|---|---|---|---|---|
| Eurobond 2009/2016 (€200 million) | 200 | September 2016 | 5.500 | no |
| Eurobond 2011/2018 (€500 million) | 499 | May 2018 | 4.125 | no |
| Eurobond 2012/2022 (€500 million) | 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 |
| Development bank loan | 138 | January 2016[2] | | no |
| Other loans | 76 | n/a | | no |
| Finance lease | 71 | n/a | | no |
| **Total financial liabilities** | **1,677** | | | |
| Cash and cash equivalents | 366 | ≤ 3 months | | |
| Near-cash assets | 100 | ≤ 3 months | | |
| **Total liquidity** | **466** | | | |
| **Net financial liabilities** | **1,211** | | | |

1) Ratio of net financial liabilities to EBITDA pre exceptionals
2) Original term until April 2019; owing to strong liquidity position, repaid in full on January 4, 2016, to reduce indebtedness

In 2015, in the context of our realignment and with a view to liabilities that are due to mature in the years ahead, we made targeted debt repayments as a means of actively managing our financing structure – which has been continuously improved in past fiscal years – and safeguarding our long-term liquidity. No refinancing risks existed at the time these financial statements were prepared. In particular, the redemption of the €200 million bond that is due to mature in September 2016 is assured on the basis of existing liquidity and credit lines. The other loans related mainly to the use of credit facilities by subsidiaries in Brazil, China, India and Argentina, most of which mature in 2016 and are extended on a regular, e.g. annual, basis.

**Maturity Profile of LANXESS Financial Liabilities as of Dec. 31, 2015**

€ million




## *Liquidity analysis*

In addition to cash and cash equivalents of €366 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 90% of our cash, cash equivalents and highly liquid money market funds is held in Group companies in countries with no restrictions on foreign exchange and capital transfers. The remaining some 10% 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 2015. This is an aspect that was assessed positively by the rating agencies in their credit ratings in 2015.

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, 2015, unchanged against the end of the previous year.

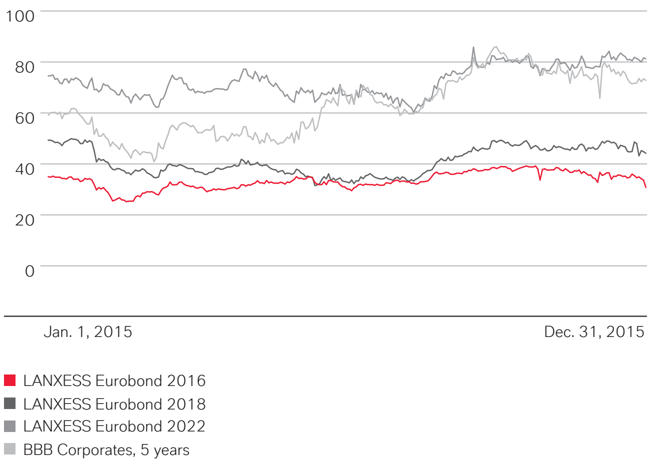
The total of liquid assets and undrawn credit lines gives us a liquidity scope of around €2.0 billion, as in the prior year. This liquidity reserve secures our entrepreneurial flexibility and serves as back-up financing for our global realignment program; it is an expression of our conservative financial policy. Our solvency is safeguarded for the short and long term.

## *Bond performance – evolution of credit spread in 2015*

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 with 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 with the interest rate swap curve.

**LANXESS Eurobond Spreads vs. BBB Corporates Index**

Basis points




The credit risk premiums on BBB corporate bonds declined further in the first quarter of 2015 from a comparatively low level. They then increased in the second half of 2015. By contrast, the credit risk premiums on LANXESS bonds remained stable in 2015 despite their slightly lower rating of BBB–. They were most recently at a comparable level to those of other companies with BBB ratings.

The development of our credit spreads underscores the fact that we retain very competitive access to capital market financing.

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

In 2015, the LANXESS Group's business continued to be characterized by the persistently difficult competitive environment for synthetic rubbers. Against this background, we continued to successfully drive forward our global realignment program. Volumes across the Group remained at around the prior-year level. In view of the generally lower raw material prices, selling prices had to be adjusted in all segments. The efficiency measures that have been implemented and the favorable exchange rate effects more than offset the impacts of the challenging business environment. We view the development of earnings as positive overall.

At €7,902 million, LANXESS Group sales in 2015 declined by 1.3% from €8,006 million in the prior year. Our Performance Polymers segment posted a decrease in sales, due especially to price pressure resulting from 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 and from other customer markets. Business in our Performance Chemicals segment was characterized by lower volumes and selling prices at about the same level as the prior year.

EBITDA pre exceptionals in 2015 increased by 9.5% to €885 million from €808 million in the prior year. This was principally attributable to favorable currency effects, cost savings and efficiency improvements.

Net income and earnings per share improved significantly in comparison to the prior year, rising from €47 million to €165 million and €0.53 to €1.80, respectively.

We upheld our conservative accounting and financing policy in 2015 as well. 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 29.8% to 32.2%, which was mainly attributable to net income. Total assets were at the level of the prior year.

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, 90% bear a fixed interest rate over the term of the financing, which is above the prior-year level of 86%. Our financial liabilities are free of financial covenants.

Our net financial liabilities declined by €125 million to €1,211 million. In fiscal 2015, the rating agencies Standard & Poor's and Moody's confirmed our ratings of BBB– and Baa3, respectively. Following the announcement of the partnership with Saudi Aramco, Standard & Poor's raised its outlook from "stable" to "positive," while Moody's kept its outlook at "stable."

We continue to regard our business situation as positive. We are responding to the changes and challenges confronting the European chemical industry especially with our program for the global realignment of the LANXESS Group. Through its new strategic alignment, LANXESS aims to become a less cyclical specialty chemicals group with a strong cash flow and a more balanced portfolio.

**Key Business Data – Multi-Period Overview**

| € million | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| **Earnings performance** | | | | | |
| Sales | 8,775 | 9,094 | 8,300 | 8,006 | 7,902 |
| EBITDA pre exceptionals | 1,146 | 1,223 | 735 | 808 | 885 |
| EBITDA margin pre exceptionals | 13.1% | 13.4% | 8.9% | 10.1% | 11.2% |
| EBITDA | 1,101 | 1,186 | 624 | 644 | 833 |
| Operating result (EBIT) pre exceptionals | 826 | 847 | 288 | 402 | 422 |
| Operating result (EBIT) | 776 | 808 | (93) | 218 | 415 |
| EBIT margin | 8.8% | 8.9% | (1.1)% | 2.7% | 5.3% |
| Net income (loss) | 506 | 508 | (159) | 47 | 165 |
| Earnings per share (€) | 6.08 | 6.11 | (1.91) | 0.53 | 1.80 |
| | | | | | |
| **Financial position** | | | | | |
| Cash flow from operating activities | 672 | 838 | 641 | 797 | 692 |
| Depreciation and amortization/reversals of impairment charges | 325 | 378 | 717 | 426 | 418 |
| Cash outflows for capital expenditures | 679 | 696 | 624 | 614 | 434 |
| Net financial liabilities | 1,515 | 1,483 | 1,731 | 1,336 | 1,211 |
| | | | | | |
| **Assets and liabilities** | | | | | |
| Total assets | 6,878 | 7,519 | 6,811 | 7,250 | 7,219 |
| Non-current assets | 3,489 | 3,747 | 3,592 | 4,101 | 4,180 |
| Current assets | 3,389 | 3,772 | 3,219 | 3,149 | 3,039 |
| Net working capital | 1,766 | 1,849 | 1,679 | 1,600 | 1,526 |
| Equity (including non-controlling interests) | 2,074 | 2,330 | 1,900 | 2,161 | 2,323 |
| Pension provisions | 679 | 893 | 943 | 1,290 | 1,215 |
| | | | | | |
| **Indicators** | | | | | |
| ROCE | 17.2% | 15.6% | 5.8% | 7.9% | 8.4% |
| Equity ratio | 30.2% | 31.0% | 27.9% | 29.8% | 32.2% |
| Non-current asset ratio | 50.7 | 49.8 | 52.7 | 56.6 | 57.9 |
| Asset coverage I | 59.4 | 62.2 | 52.9 | 52.7 | 55.6 |
| Net working capital/sales | 20.1% | 20.3% | 20.2% | 20.0% | 19.3% |
| Employees (as of December 31) | 16,390 | 17,177 | 17,343 | 16,584 | 16,225 |

## 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 | 2014 | 2015 | Change % |
|---|---|---|---|
| **Sales** | **5** | **4** | **(20.0)** |
| Cost of sales | (5) | (4) | 20.0 |
| **Gross profit** | **0** | **0** | **–** |
| General administration expenses | (43) | (44) | (2.3) |
| Other operating income | 34 | 32 | (5.9) |
| Other operating expenses | (14) | (4) | 71.4 |
| **Operating result** | **(23)** | **(16)** | **30.4** |
| Income from investments in affiliated companies | 53 | 252 | > 100 |
| Income from loans held as financial assets | 1 | 7 | > 100 |
| Net interest expense | (57) | (44) | 22.8 |
| Other financial income and expenses – net | (34) | (7) | 78.8 |
| **Financial result** | **(37)** | **208** | **> 100** |
| **Income (loss) before income taxes** | **(60)** | **192** | **> 100** |
| Income taxes | (25) | (101) | < (100) |
| **Net income (loss)** | **(85)** | **91** | **> 100** |
| Carryforward to new account | 3 | 7 | > 100 |
| Withdrawal from other retained earnings | 135 | 0 | (100.0) |
| **Distributable profit** | **53** | **98** | **84.9** |

The earnings of LANXESS AG are largely determined by profit or loss transfers from LANXESS Deutschland GmbH. Following the merging of LANXESS International Holding GmbH, Cologne, Germany, with LANXESS Deutschland GmbH, Cologne, Germany, the latter holds the shares of all other subsidiaries and affiliates both in Germany and elsewhere.

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

General administration expenses increased against the prior year, up €1 million, or 2.3%, to €44 million. They principally comprised personnel and other business expenses not directly related to the services provided to Group companies. The decrease in other operating income was primarily due to the reversal of fewer provisions. Other operating expenses decreased by €10 million, or 71.4%, to €4 million, mainly because of the lower costs for the "Let's LANXESS again" program. The operating result improved by €7 million to minus €16 million.

The financial result, which comprises the balance of income and losses from investments in affiliated companies, the net interest position, income from other securities and loans included in financial non-current assets, and other financial income and expense, increased by €245 million to €208 million. This change was primarily due to the profit transfer of €252 million from LANXESS Deutschland GmbH, which was €185 million higher than in the prior year. A major effect came from, for example, the distribution of historical profits. The financial result was also positively influenced by the €13 million improvement in the net interest position to minus €44 million, which was mainly brought about by bundling external finance at LANXESS AG.

Income before income taxes came to €192 million, after minus €60 million in the prior year. Income taxes resulted in expenses of €101 million. These were comprised of tax expenses of €63 million for fiscal 2015 and €38 million for previous years. Net income for 2015 was €91 million after a net loss of €85 million in the previous year.

Taking into account the profit carryforward of €7 million, the distributable profit as of December 31, 2015, increased to €98 million from €53 million at the end of 2014.

## Asset and capital structure of LANXESS AG

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

| | Dec. 31, 2014 | | Dec. 31, 2015 | | Change |
|---|---|---|---|---|---|
| | € million | % | € million | % | % |
| **ASSETS** | | | | | |
| Financial assets | 758 | 26.3 | 956 | 27.9 | 26.1 |
| **Non-current assets** | **758** | **26.3** | **956** | **27.9** | **26.1** |
| Receivables from affiliated companies | 1,754 | 60.8 | 2,035 | 59.3 | 16.0 |
| Other assets | 20 | 0.7 | 21 | 0.6 | 5.0 |
| Liquid assets and securities | 348 | 12.1 | 411 | 11.9 | 18.1 |
| **Current assets** | **2,122** | **73.6** | **2,467** | **71.8** | **16.3** |
| **Prepaid expenses** | **4** | **0.1** | **9** | **0.3** | **> 100** |
| **Total assets** | **2,884** | **100.0** | **3,432** | **100.0** | **19.0** |
| **EQUITY AND LIABILITIES** | | | | | |
| **Equity** | **1,473** | **51.1** | **1,518** | **44.2** | **3.1** |
| **Provisions** | **103** | **3.6** | **145** | **4.2** | **40.8** |
| Bonds | 0 | 0.0 | 1,400 | 40.8 | – |
| Liabilities to banks | 1 | 0.0 | 148 | 4.3 | > 100 |
| Payables to affiliated companies | 1,297 | 45.0 | 219 | 6.4 | (83.1) |
| Other liabilities | 10 | 0.3 | 2 | 0.1 | (80.0) |
| **Liabilities** | **1,308** | **45.3** | **1,769** | **51.6** | **35.2** |
| **Total assets** | **2,884** | **100.0** | **3,432** | **100.0** | **19.0** |

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

LANXESS AG had total assets of €3,432 million as of December 31, 2015, which was €548 million, or 19.0%, above the prior-year figure. Non-current assets were €956 million and primarily included the carrying amount of the investment in LANXESS Deutschland GmbH, which stands at €739 million, and loans of €198 million to subsidiaries. The share of non-current assets in total assets increased from 26.3% to 27.9%. Current assets increased by €345 million, or 16.3%, to €2,467 million and accounted for 71.8% of total assets, compared with 73.6% in 2014. Receivables from subsidiaries accounted for 59.3% of total assets and related principally to short-term loans, financial transactions and claims to profit or loss transfers. The share of bank balances and securities in total assets decreased from 12.1% to 11.9%.

Equity increased by €45 million to €1,518 million, largely due to net income of €91 million, which was partly offset by the dividend payment for 2014. The equity ratio was 44.2%, after 51.1% at the end of 2014.

Liabilities increased by €461 million to €1,769 million, mainly because of the takeover of bonds amounting to €1,400 million and the reduction in payables to affiliated companies, which was €1,078 million below the prior-year figure at €219 million. These two opposing changes resulted from LANXESS AG assuming responsibility for the external financing of LANXESS companies from LANXESS Finance B.V., Sittard-Geleen, Netherlands. The provisions increased by €42 million to €145 million and related mainly to commitments to employees and to statutory and contractual obligations.

# Employees

As of December 31, 2015, the LANXESS Group had a total of 16,225 employees, against 16,584 at the closing date of the prior year. Our global headcount continued to reflect 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 the end of 2015 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, 2015, was 3,143, down from 3,267 in the previous year. In Germany, the headcount declined from 7,747 to 7,523. The number of employees in the North America region amounted to 1,312, after 1,371 as of December 31, 2014, while Latin America saw its workforce shrink from 1,467 at the end of last year to 1,412. At the reporting date, we employed 2,835 people in the Asia-Pacific region, which is 103 more than a year ago. This increase is related to the start-up and construction of production facilities.

A total of 13,345, or 82.2%, of our employees were men and 2,880, or 17.8%, were women. The number of employees who were non-German nationals was 9,165. In addition, 969 employees worldwide worked on temporary contracts for the Group. LANXESS AG had 127 employees as of the reporting date, versus 139 the year before.

As of the end of 2015, the Group had a total of 500 trainees in 19 different career paths and six combined vocational training and study programs. LANXESS thus continues to train more young people than it needs to meet its own requirements. In 2015, despite our realignment program, we hired 80% of those who completed their vocational training with us in Germany.

Part-time employees accounted for 6.8% of the workforce at our German core companies as of the reporting date. Individuals with severe disabilities made up 5.5% of the workforce at our German companies. In addition, we routinely award contracts to work centers for the disabled.

Indicators for the assessment of occupational safety at LANXESS are the recordable incident rate (RIR) and injuries for every million hours worked (MAQ). In 2015, the MAQ was 2.2 and thus slightly below the prior-year level. The RIR, which was recently introduced at LANXESS to enhance international comparability, was 0.8 in both 2015 and 2014.

Personnel expenses for the LANXESS Group in fiscal 2015 totaled €1,432 million (2014: €1,457 million). Wages and salaries, at €1,124 million (2014: €1,106 million), accounted for the greater part of this figure. Social security contributions were €198 million (2014: €202 million), while pension plan expenses totaled €97 million (2014: €136 million) and social assistance benefits €13 million (2014: €13 million).

Personnel expenses for LANXESS AG in fiscal 2015 came to €36 million, after €39 million in the previous year. Wages and salaries accounted for the largest proportion of personnel expenses but decreased from €36 million to €26 million. On the other hand, social security contributions increased from €3 million to €10 million. Pension plan expenses accounted for €9 million (2014: €2 million) of this amount.

## HR strategy

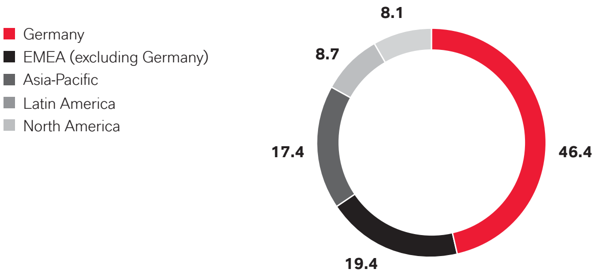
Our long-term entrepreneurial success is fundamentally based on our employees' sense of responsibility, professionalism and focus on finding solutions. We as a company will only be able to continue successfully exploiting the opportunities presented by evolving markets if we constantly invest in employee training and development – in particular in their ability to act on the basis of values, to take a fresh approach and swiftly implement ideas, and to work as part of a team in developing solutions.

In 2015, our HR strategy continued to support the realignment of the Group. In order to shape and steer the cultural shift we are seeking, the Board of Management and senior executives used an interactive approach to develop a new value model which they discussed with employees in numerous workshops held at almost all our sites around the world. Other focal points of HR strategy were implementing and supporting global restructuring activities and designing the organization of ARLANXEO, our new partnership with Saudi Aramco.

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 worldwide. We aim to strengthen our diversity, particularly in terms of age, national origin and gender.

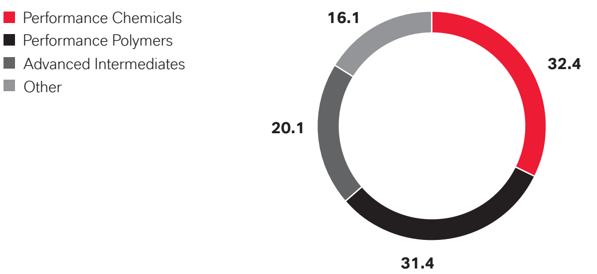
**Employees by Region**

%



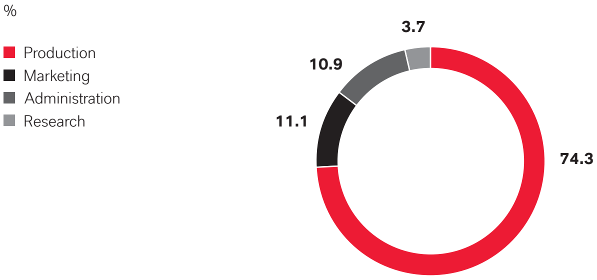

**Employees by Segment**

%




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

%



# 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 as a function 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 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 31% annual base salary and 69% variable compensation components, assuming 100% target attainment, is strongly aligned with the company's performance and long-term value creation. The present service contracts for members of the Board of Management set out the annual base salary and caps on the amounts for the variable compensation components. They do not provide for a separate cap on total compensation, even taking into account a possible discretionary bonus.

**Compensation Mix for Members of the Board of Management**

| % | |
|---|---|
| Annual base salary | 31 |
| Annual Performance Payment | 35 |
| Long-Term 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 2015 for Mr. Zachert is 125% and for the other members of the Board of Management 100% of their respective annual base salaries. The maximum payment is defined on an annual basis by the Supervisory Board. For fiscal 2015 and 2016, it has been capped 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 Stock Performance Plan (LTSP) 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 LTSP responds to the call by legislators for a stronger focus on long-term company performance. The LTSP is divided into four four-year tranches. The possible payment per tranche is 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. These shares are subject to an average vesting period of five years (LTSP 2010 – 2013) and four years (LTSP 2014 – 2017). The LTSP 2014 – 2017 program uses the MSCI World Chemicals Index as a new reference index. There were no further material changes compared to the LTSP 2010–2013.

For more information, particularly regarding the valuation parameters applied, please see Note [15] to the consolidated financial statements.

The personnel expenses in fiscal 2015 for share-based compensation for active members of the Board of Management were €450 thousand for Mr. Zachert (2014: €100 thousand) and €245 thousand for Dr. van Roessel (2014: €428 thousand). As in the prior year, there were no expenses for Dr. Fink or Mr. Pontzen in the current fiscal year. The personnel expenses for former members of the Board of Management were €0 thousand for Dr. Heitmann (2014: €564 thousand), €0 thousand for Dr. Breuers (2014: €1,056 thousand) and €755 thousand for Dr. Düttmann (2014: €20 thousand).

The Long-Term Performance Bonus (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 2016 and 2017 may differ from the amounts calculated in advance.

**Compensation of the Board of Management**

| | | Fixed compensation | | Variable compensation | | | | Payments from LTSP rights | | |
|---|---|---|---|---|---|---|---|---|---|---|
| € '000 | Year | Annual base salery | Compensation in kind | Performance bonus [1] | LTPB (multi-year) | Payment for previous years [2] | Total cash compensation | Number of rights | Fair values | **Total** |
| **Serving members of the Board of Management as of December 31, 2015** | | | | | | | | | | |
| Matthias Zachert | **2015** | **1,200** | **66** | **2,250** | **810** [5] | **–** | **4,326** | **810,000** | **721** | **5,047** |
| | 2014 | 900 | 54 | 1,125 | 406 [3] | – | 2,485 | 810,000 | 689 | 3,174 |
| Dr. Hubert Fink (as of October 1, 2015) | **2015** | **113** | **14** | **169** | **76** [5] | **–** | **372** | **–** | **–** | **372** |
| | 2014 | – | – | – | – | – | – | – | – | – |
| Michael Pontzen (as of April 1, 2015) | **2015** | **338** | **33** | **506** | **228** [5] | **–** | **1,105** | **–** | **–** | **1,105** |
| | 2014 | – | – | – | – | – | – | – | – | – |
| Dr. Rainier van Roessel | **2015** | **650** | **49** | **975** | **439** [5] | **(31)** | **2,082** | **390,000** | **347** | **2,429** |
| | 2014 | 650 | 49 | 673 | 263 [4] | – | 1,635 | 419,250 | 356 | 1,991 |
| **Former members of the Board of Management as of December 31, 2015** | | | | | | | | | | |
| Dr. Bernhard Düttmann (until March 31, 2015) | **2015** | **163** | **15** | **187** | **73** [5] | **(31)** | **407** | **–** | **–** | **407** |
| | 2014 | 650 | 60 | 673 | 263 [4] | – | 1,646 | 419,250 | 356 | 2,002 |
| Dr. Axel C. Heitmann (until February 21, 2014) | **2015** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| | 2014 | 157 | (1) | – | – | – | 156 | – | – | 156 |
| Dr. Werner Breuers (until August 5, 2014) | **2015** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| | 2014 | 387 | 34 | 238 | – | – | 659 | – | – | 659 |
| **Total** | **2015** | **2,464** | **177** | **4,087** | **1,626** | **(62)** | **8,292** | **1,200,000** | **1,068** | **9,360** |
| | 2014 | 2,744 | 196 | 2,709 | 932 | – | 6,581 | 1,648,500 | 1,401 | 7,982 |

1) Payment in 2015 and 2016, respectively
2) Payment in 2015
3) Payment in 2014
4) Payment of 50% each in 2015 and 2016
5) Payment of 50% each in 2016 and 2017

The aggregate compensation of the entire Board of Management totaled €9,360 thousand (2014: €9,982 thousand), comprising €2,641 thousand (2014: €4,940 thousand) in non-performance-related components, €5,651 thousand (2014: €3,641 thousand) in performance-related components and €1,068 thousand (2014: €1,401 thousand) in components with a long-term incentive effect. In 2014, Mr. Zachert received a one-time payment of €2,000 thousand in partial recompense for the variable compensation for several years originally agreed under his previous employment contract but not paid out because of his move to LANXESS AG. His total compensation therefore amounted to €5,174 thousand in 2014. The table shows the total compensation of the other members of the Board of Management.

### *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 2015 consolidated financial statements for this purpose was €1,640 thousand (2014: €2,496 thousand). The present value of the obligations for the members of the Board of Management serving as of December 31, 2015, was €11,903 thousand (2014: €9,994 thousand). Under IFRS accounting principles, the service cost for pension entitlements earned in 2015 and the present value of the obligations, including acquired rights, as of December 31, 2015, amounted to, respectively, €597 thousand and €2,716 thousand (2014: €1,574 thousand and €1,993 thousand) for Mr. Zachert, €43 thousand and €2,322 thousand for Dr. Fink, €432 thousand and €1,018 thousand for Mr. Pontzen, and €151 thousand and €5,847 thousand (2014: €148 thousand and €5,906 thousand) for Dr. van Roessel. The service cost for Dr. Düttmann for his service on the Board of Management in 2015 came to €417 thousand.

The net expense for pension entitlements recognized under HGB accounting rules in the 2015 annual financial statements for this purpose was €2,628 thousand (2014: €109 thousand). This amount includes expenses in connection with pension entitlements for Dr. Düttmann of €295 thousand. The present value of the obligations for the members of the Board of Management serving as of December 31, 2015, was €10,307 thousand (2014: €7,787 thousand). Under HGB accounting rules, the present value of the obligations, including vested rights, for the members of the Board of Management serving as of December 31, 2015, amounted to, respectively, €2,237 thousand for Mr. Zachert (2014: €1,287 thousand), €1,927 thousand for Dr. Fink, €802 thousand for Mr. Pontzen and €5,341 thousand for Dr. van Roessel (2014: €4,856 thousand).

As of December 31, 2015, obligations to former members of the Board of Management totaled €30,318 thousand (2014: €27,921 thousand) under IFRS accounting rules and €26,682 thousand (2014: €21,215 thousand) under HGB accounting rules. In 2015, this total contained obligations to Dr. Düttmann 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 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. On the basis of agreements existing with Dr. Fink and Mr. Pontzen, the calculation of severance payments to be made in the event of early termination of their service contracts does not include the LTPB and LTSP variable compensation components.

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

Dr. Düttmann resigned from the Board of Management by mutual agreement effective March 31, 2015, and left the company. Up to this time, the contractually agreed benefits were granted and paid, including the variable compensation for fiscal 2015 that had already been earned. At that time, existing LTSP rights were evaluated at €1.00 per right and compensation paid pro rata, depending on the length of the vesting period that had already elapsed. This resulted in an entitlement of €857 thousand. In addition, Dr. Düttmann was granted a severance payment of €3,380 thousand comprising two times the target income, which was the annual base salary plus the APP and LTPB assuming 100% target attainment.

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

In 2015, compensation of former members of the Board of Management totaled €3,673 thousand (2014: €1,983 thousand).

*Other benefits*

In 2015, 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 2015.

*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 2014 and 2015, 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, 2015)**

| | Matthias Zachert<br>Chairman of the Board of Management<br>Appointed April 1, 2014 | | | | Dr. Hubert Fink<br>Member of the Board of Management<br>Appointed October 1, 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| **€ '000** | **Target value 2014** | **Target value 2015** | **2015 (min.)** | **2015 (max.)** | **Target value 2014** | **Target value 2015** | **2015 (min.)** | **2015 (max.)** |
| Annual base salary | 900 | 1,200 | 1,200 | 1,200 | – | 113 | 113 | 113 |
| Compensation in kind | 54 | 66 | 66 | 66 | – | 14 | 14 | 14 |
| **Total** | **954** | **1,266** | **1,266** | **1,266** | **–** | **127** | **127** | **127** |
| **Annual Performance Payment (APP)** | **1,125** | **1,500** | **0** | **2,250** | **–** | **113** | **0** | **169** |
| **Multi-year variable compensation** | **1,365** | **1,261** | **0** | **2,430** | **–** | **152** | **0** | **228** |
| LTPB (tranche 2013–2014) | 203 | – | – | – | – | – | – | – |
| LTPB (tranche 2014–2015) | 473 | – | – | – | – | 25 | 0 | 38 |
| LTPB (tranche 2015–2016) | – | 540 | 0 | 810 | – | 127 | 0 | 190 |
| LTSP 2014–2017 (tranche 2014) | 689 | – | – | – | – | – | – | – |
| LTSP 2014–2017 (tranche 2015) | – | 721 | 0 | 1,620 | – | – | – | – |
| **Total** | **3,444** | **4,027** | **1,266** | **5,946** | **–** | **392** | **127** | **524** |
| Service cost | 1,574 | 597 | 597 | 597 | – | 43 | 43 | 43 |
| **Total compensation** [1] | **5,018** | **4,624** | **1,863** | **6,543** | **–** | **435** | **170** | **567** |

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.

**Compensation Granted (Serving Members of the Board of Management as of December 31, 2015)**

| | Michael Pontzen<br>Chief Financial Officer<br>Appointed April 1, 2015 | | | | Dr. Rainier van Roessel<br>Member of the Board of Management<br>Appointed January 1, 2007 | | | |
|---|---|---|---|---|---|---|---|---|
| **€ '000** | **Target value 2014** | **Target value 2015** | **2015 (min.)** | **2015 (max.)** | **Target value 2014** | **Target value 2015** | **2015 (min.)** | **2015 (max.)** |
| Annual base salary | – | 338 | 338 | 338 | 650 | 650 | 650 | 650 |
| Compensation in kind | – | 33 | 33 | 33 | 49 | 49 | 49 | 49 |
| **Total** | **–** | **371** | **371** | **371** | **699** | **699** | **699** | **699** |
| **Annual Performance Payment (APP)** | **–** | **338** | **0** | **506** | **748** | **650** | **0** | **975** |
| **Multi-year variable compensation** | **–** | **253** | **0** | **380** | **649** | **640** | **0** | **1,219** |
| LTPB (tranche 2013–2014) | – | – | – | – | – | – | – | – |
| LTPB (tranche 2014–2015) | – | 76 | 0 | 114 | 293 | – | – | – |
| LTPB (tranche 2015–2016) | – | 177 | 0 | 266 | – | 293 | 0 | 439 |
| LTSP 2014–2017 (tranche 2014) | – | – | – | – | 356 | – | – | – |
| LTSP 2014–2017 (tranche 2015) | – | – | – | – | – | 347 | 0 | 780 |
| **Total** | **–** | **962** | **371** | **1,257** | **2,096** | **1,989** | **699** | **2,893** |
| Service cost | – | 432 | 432 | 432 | 148 | 151 | 151 | 151 |
| **Total compensation** | **–** | **1,394** | **803** | **1,689** | **2,244** | **2,140** | **850** | **3,044** |

**Allocations (Serving Members of the Board of Management as of December 31, 2015)**

| € '000 | Matthias Zachert<br>Chairman of the Board of Management<br>Appointed April 1, 2014<br>2014 | 2015 | Dr. Hubert Fink<br>Member of the Board of Management<br>Appointed October 1, 2015<br>2014 | 2015 |
|---|---|---|---|---|
| Annual base salary | 900 | 1,200 | – | 113 |
| Compensation in kind | 54 | 66 | – | 14 |
| **Total** | **954** | **1,266** | **–** | **127** |
| **Annual Performance Payment (APP)** | **1,125** | **2,250** | **–** | **169** |
| **Multi-year variable compensation** | **406** | **405** | **–** | **38** |
| LTPB (tranche 2013–2014) | 203 | – | – | – |
| LTPB (tranche 2014–2015) | 203 | 405 | – | 38 |
| LTPB (tranche 2015–2016) | – | – | – | – |
| LTSP 2010–2013 (tranche 2010) | – | – | – | – |
| LTSP 2010–2013 (tranche 2011) | – | – | – | – |
| **Total** | **2,485** | **3,921** | **–** | **334** |
| Service cost | 1,574 | 597 | – | 43 |
| **Total compensation** [1] | **4,059** | **4,518** | **–** | **377** |

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.

**Allocations (Serving Members of the Board of Management as of December 31, 2015)**

| € '000 | Michael Pontzen<br>Chief Financial Officer<br>Appointed April 1, 2015<br>2014 | 2015 | Dr. Rainier van Roessel<br>Member of the Board of Management<br>Appointed January 1, 2007<br>2014 | 2015 |
|---|---|---|---|---|
| Annual base salary | – | 338 | 650 | 650 |
| Compensation in kind | – | 33 | 49 | 49 |
| **Total** | **–** | **371** | **699** | **699** |
| **Annual Performance Payment (APP)** | **–** | **506** | **673** | **953** |
| **Multi-year variable compensation** | **–** | **114** | **825** | **343** |
| LTPB (tranche 2013–2014) | – | – | 212 | (4) |
| LTPB (tranche 2014–2015) | – | 114 | – | 347 |
| LTPB (tranche 2015–2016) | – | – | – | – |
| LTSP 2010–2013 (tranche 2010) | – | – | 613 | – |
| LTSP 2010–2013 (tranche 2011) | – | – | – | – |
| **Total** | **–** | **991** | **2,197** | **1,995** |
| Service cost | – | 432 | 148 | 151 |
| **Total compensation** | **–** | **1,423** | **2,345** | **2,146** |

### Compensation Granted (Former Members of the Board of Management as of December 31, 2015)

| | Dr. Bernhard Düttmann<br>Chief Financial Officer<br>Resigned March 31, 2015 | | | | 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 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **€ '000** | **Target value 2014** | **Target value 2015** | **2015 (min.)** | **2015 (max.)** | **Target value 2014** | **Target value 2015** | **2015 (min.)** | **2015 (max.)** | **Target value 2014** | **Target value 2015** | **2015 (min.)** | **2015 (max.)** |
| Annual base salary | 650 | 163 | 163 | 163 | 157 | – | – | – | 387 | – | – | – |
| Compensation in kind | 60 | 15 | 15 | 15 | (1) [1] | – | – | – | 34 | – | – | – |
| **Total** | **710** | **178** | **178** | **178** | **156** | **–** | **–** | **–** | **421** | **–** | **–** | **–** |
| **Annual Performance Payment (APP)** | **748** | **187** | **0** | **280** | **–** | **–** | **–** | **–** | **445** | **–** | **–** | **–** |
| **Multi-year variable compensation** | **649** | **37** | **0** | **55** | **–** | **–** | **–** | **–** | **87** | **–** | **–** | **–** |
| LTPB (tranche 2013–2014) | – | – | – | – | – | – | – | – | – | – | – | – |
| LTPB (tranche 2014–2015) | 293 | – | – | – | – | – | – | – | 87 | – | – | – |
| LTPB (tranche 2015–2016) | – | 37 | 0 | 55 | – | – | – | – | – | – | – | – |
| LTSP 2014–2017 (tranche 2014) | 356 | – | – | – | – | – | – | – | – | – | – | – |
| LTSP 2014–2017 (tranche 2015) | – | – | – | – | – | – | – | – | – | – | – | – |
| **Total** | **2,107** | **402** | **178** | **513** | **156** | **–** | **–** | **–** | **953** | **–** | **–** | **–** |
| Service cost | 254 | 417 | 417 | 417 | 366 | – | – | – | 154 | – | – | – |
| **Total compensation** | **2,361** | **819** | **595** | **930** | **522** | **–** | **–** | **–** | **1,107** | **–** | **–** | **–** |

1) Including correction for prior year

### Allocations (Former Members of the Board of Management as of December 31, 2015)

| | Dr. Bernhard Düttmann<br>Chief Financial Officer<br>Resigned March 31, 2015 | | 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 | |
|---|---|---|---|---|---|---|
| **€ '000** | **2014** | **2015** | **2014** | **2015** | **2014** | **2015** |
| Annual base salary | 650 | 163 | 157 | – | 387 | – |
| Compensation in kind | 60 | 15 | (1) [1] | – | 34 | – |
| **Total** | **710** | **178** | **156** | **–** | **421** | **–** |
| **Annual Performance Payment (APP)** | **673** | **165** | **–** | **–** | **238** | **–** |
| **Multi-year variable compensation** | **212** | **1,054** | **1,064** | **–** | **693** | **729** |
| LTPB (tranche 2013–2014) | 212 | (4) | – | – | 80 | – |
| LTPB (tranche 2014–2015) | – | 164 | – | – | – | – |
| LTPB (tranche 2015–2016) | – | 37 | – | – | – | – |
| LTSP 2010–2013 (tranche 2010) | – | – | 1,064 | – | 613 | – |
| LTSP 2010–2013 (tranche 2011) | – | 305 | – | – | – | 272 |
| LTSP 2010–2013 (tranche 2012) | – | 255 | – | – | – | 269 |
| LTSP 2010–2013 (tranche 2013) | – | 175 | – | – | – | 188 |
| LTSP 2014–2017 (tranche 2015) | – | 122 | – | – | – | – |
| **Total** | **1,595** | **1,397** | **1,220** | **–** | **1,352** | **729** |
| Service cost | 254 | 417 | 366 | – | 154 | – |
| **Total compensation** | **1,849** | **1,814** | **1,586** | **–** | **1,506** | **729** |

1) Including correction for prior year

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

The terms of office of eleven Supervisory Board members came to an end with the conclusion of the Annual Stockholders' Meeting on May 13, 2015. The variable compensation was not paid out because LANXESS stock had underperformed the benchmark index. The expected compensation payable for the current terms of office of Supervisory Board members was valued at €1,200 thousand (2014: €0 thousand) as of December 31, 2015, and recognized as a provision.

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 2015.

**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 | **2015** | **240,000** | **–** | **21,000** | **5,000** | **266,000** |
| | 2014 | 240,000 | – | 22,500 | 5,000 | 267,500 |
| Ulrich Freese, Vice Chairman (resigned May 13, 2015) | **2015** | **43,726** | **14,575** | **7,500** | **1,822** | **67,623** |
| | 2014 | 120,000 | 40,000 | 21,000 | 5,000 | 186,000 |
| Gisela Seidel, Vice Chairwoman (effective May 13, 2015) | **2015** | **105,753** | **40,000** | **21,000** | **5,000** | **171,753** |
| | 2014 | 80,000 | 40,000 | 22,500 | 5,000 | 147,500 |
| Axel Berndt (resigned May 13, 2015) | **2015** | **29,151** | **14,575** | **7,500** | **1,822** | **53,048** |
| | 2014 | 80,000 | 40,000 | 18,000 | 5,000 | 143,000 |
| Werner Czaplik (appointed May 13, 2015) | **2015** | **51,068** | **25,534** | **10,500** | **3,192** | **90,294** |
| | 2014 | – | – | – | – | – |
| Dr. Rudolf Fauss (resigned June 30, 2014) | **2015** | **–** | **–** | **–** | **–** | **–** |
| | 2014 | 40,000 | 20,000 | 10,500 | 2,500 | 73,000 |
| Dr. Hans-Dieter Gerriets (appointed July 1, 2014) | **2015** | **80,000** | **40,000** | **18,000** | **5,000** | **143,000** |
| | 2014 | 40,000 | 20,000 | 7,500 | 2,500 | 70,000 |
| Dr. Friedrich Janssen | **2015** | **80,000** | **94,575** | **21,000** | **5,000** | **200,575** |
| | 2014 | 80,000 | 120,000 | 27,000 | 5,000 | 232,000 |
| Robert J. Koehler (resigned May 13, 2015) | **2015** | **29,151** | **14,575** | **3,000** | **1,822** | **48,548** |
| | 2014 | 80,000 | 40,000 | 21,000 | 5,000 | 146,000 |
| Rainer Laufs (resigned May 13, 2015) | **2015** | **29,151** | **14,575** | **7,500** | **1,822** | **53,048** |
| | 2014 | 80,000 | 40,000 | 18,000 | 5,000 | 143,000 |
| Thomas Meiers | **2015** | **80,000** | **40,000** | **18,000** | **5,000** | **143,000** |
| | 2014 | 80,000 | 40,000 | 18,000 | 5,000 | 143,000 |
| Claudia Nemat | **2015** | **80,000** | **25,534** | **13,500** | **5,000** | **124,034** |
| | 2014 | 80,000 | – | 9,000 | 5,000 | 94,000 |
| Lawrence A. Rosen (appointed May 13, 2015) | **2015** | **51,068** | **25,534** | **6,000** | **3,192** | **85,794** |
| | 2014 | – | – | – | – | – |
| Hans-Jürgen Schicker (resigned June 30, 2015) | **2015** | **39,671** | **19,836** | **9,000** | **2,479** | **70,986** |
| | 2014 | 80,000 | 40,000 | 22,500 | 5,000 | 147,500 |
| Ralf Sikorski (appointed May 13, 2015) | **2015** | **51,068** | **25,534** | **13,500** | **3,192** | **93,294** |
| | 2014 | – | – | – | – | – |
| Manuela Strauch (appointed July 1, 2015) | **2015** | **40,329** | **20,164** | **13,500** | **2,521** | **76,514** |
| | 2014 | – | – | – | – | – |
| Theo H. Walthie | **2015** | **80,000** | **40,000** | **21,000** | **5,000** | **146,000** |
| | 2014 | 80,000 | 40,000 | 18,000 | 5,000 | 143,000 |
| Dr. Matthias L. Wolfgruber (appointed May 13, 2015) | **2015** | **51,068** | **25,534** | **9,000** | **3,192** | **88,794** |
| | 2014 | – | – | – | – | – |
| **Total** | **2015** | **1,161,204** | **480,545** | **220,500** | **60,056** | **1,922,305** |
| | 2014 | 1,160,000 | 480,000 | 235,500 | 60,000 | 1,935,500 |

1) Figures exclude value-added tax

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

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

1. The capital stock of LANXESS AG amounted to €91,522,936 as of December 31, 2015, 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 warrant or conversion right or stipulate the performance of exercise or conversion obligations the number of shares for which such parties would be entitled to subscribe upon exercise of their warrants or conversion rights or performance of their exercise or conversion obligations. 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 13, 2015, authorized the Board of Management until May 22, 2018, 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

€1,000,000,000, with or without limited maturity, and to grant option rights to, or impose exercise 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 €18,304,587 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 €18,304,587 (Conditional Capital).

The conditional capital increase shall only be implemented to the extent that the holders or creditors of, or persons obligated to exercise, warrants 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 22, 2018, on the basis of the authorization granted to the Board of Management by the Annual Stockholders' Meeting on May 13, 2015, exercise their warrants 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 warrant 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 warrants 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 warrants 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 warrants 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

The Board of Management can only use the authorization to issue convertible bonds and/or warrant bonds, profit-participation rights and/or income bonds (or combinations of these instruments) in the maximum amount of 20% of the capital stock that exists at the time the resolution is passed. When deciding on the exclusion of the subscription rights of stockholders, the Board of Management will also take into consideration the issue of shares on the basis of other authorizations granted by the Annual Stockholders' Meeting of May 13, 2015, under exclusion of the subscription rights of stockholders (see proposed resolution on agenda item 7; see also Authorized Capital II in accordance with Section 4, Paragraph 3 of the articles of incorporation), with the proviso that it will only use the authorizations granted by the Annual Stockholders' Meeting of May 13, 2015, for capital measures under exclusion of the stockholders' subscription rights in the maximum amount of 20% of the capital stock that exists at the time the resolution is passed. The Board of Management will be bound by this condition until a future Annual Stockholders' Meeting again resolves to authorize the Board of Management to implement capital measures under exclusion of stockholders' subscription rights.

### *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 warrants or conversion 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 13, 2015, authorized the Board of Management until May 22, 2018, 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 €18,304,587 (Authorized Capital II). Stockholders are generally entitled to subscription rights when Authorized Capital is utilized. With the approval of the Supervisory Board, subscription rights can be excluded for residual amounts and in order to grant holders of warrants or convertible bonds issued by the company and its affiliates subscription rights to the number of new shares for which such parties would be entitled to subscribe upon exercise of their warrants or conversion 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.

The Board of Management can only utilize the authorization to issue shares from Authorized Capital II in the maximum amount of 20% of the capital stock at the time the resolution is passed. When deciding on the exclusion of the subscription rights of stockholders, the Board of Management will also take into consideration an issue of bonds with warrants or conversion rights and/or obligations, which is issued on the basis of other authorizations granted by the Annual Stockholders' Meeting of May 13, 2015, under exclusion of the subscription rights of stockholders (see proposed resolution on agenda item 8; see also conditional capital in accordance with Section 4, Paragraph 4 of the articles of association), with the proviso that it will only use the authorizations granted by the Annual Stockholders' Meeting of May 13, 2015, for capital measures under exclusion of the stockholders' subscription rights in the maximum amount of 20% of the capital stock that exists at the time the resolution is passed. The shares issued from Authorized Capital II under exclusion of subscription rights by way of capital increases against contributions in kind shall not exceed 10% of the capital stock that exists at the time the resolution is passed. The Board of Management will be bound by this condition until a future Annual Stockholders' Meeting again resolves to authorize the Board of Management to implement capital measures under exclusion of stockholders' subscription rights.

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 fiscal 2009, the €500 million Eurobond issued by LANXESS Finance B.V. in fiscal 2011 and the €500 million Eurobond issued by LANXESS Finance B.V. in fiscal 2012, all of which were taken over by LANXESS AG in 2015. 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 fiscal 2012 likewise contain corresponding change-of-control clauses. These placements have now also been taken over 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 with a current volume of €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.

In connection with the conclusion of an agreement with Aramco Overseas Company B.V. to establish a strategic partnership for synthetic rubber, in which each party will hold a 50% interest, conclusion of a shareholders' agreement was agreed upon in respect of completion of the transaction, which, in the event of a change of control at one of the shareholders, grants the other shareholder the right to acquire the shares of the other shareholder at a reduced price.

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/Investor Relations/Corporate Governance.

# Events after the end of the reporting period

No events of particular significance took place after December 31, 2015, 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 future perspectives, opportunities and risks

In the economic outlook that follows, we describe 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 are described in a combined report.

## Economic outlook

### *General business conditions*

In the following economic outlook, apart from presenting our forecast of global development, we restrict our statements to our expectations for economic performance in the Americas (NAFTA and Latin America), EMEA (including Germany) and Asia-Pacific. Where appropriate, we also look more closely at parts of these regions or individual countries.

With regard to economic performance in 2016, we expect various challenges. As well as the effects of the interest rate turnaround initiated in the United States, slowing growth in China and ongoing recession in the emerging economies of Brazil and Russia represent components of risk. A further escalation of the crises in Africa and the Middle East and of the conflict in Ukraine may also impede global economic growth. A recurrence of the euro crisis would also have a dampening effect. Although the low oil price is stimulating growth, there are also negative aspects acting as a brake on growth.

We expect global economic growth of 3.0% in 2016, driven once again by robust expansion of 4.5% in Asia-Pacific, even if growth momentum in China continues to weaken. In the Americas, we anticipate growth of 2.5% based mainly on higher consumer spending and lower energy prices in NAFTA. Economic performance in Latin America is likely to remain weak. At 2.0%, growth in EMEA (including Germany) should be slightly higher than in the reporting year.

**Expected Growth in 2016**

| Change vs. prior year in real terms (%)[1] | Gross domestic product | Chemical production |
|---|---|---|
| Americas | 2.5 | 3.0 |
| EMEA (incl. Germany) | 2.0 | 2.0 |
| Asia-Pacific | 4.5 | 5.0 |
| **World** | **3.0** | **3.5** |

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

### *Future performance of the chemical industry*

We continue to take a positive view of global development in the chemical industry, with production growing by 3.5%. The Asia-Pacific region is again expected to be the focus of this growth and we anticipate expansion of 5.0%, to which China should make a significant contribution. The chemical industry in the Americas should post robust growth of 3.0%. In the EMEA region (including Germany), we anticipate production gains of 2.0%.

### *Future evolution of selling markets*

The outlook for the global **tire industry** in 2016 will be shaped by the general economic situation. Overall, we are assuming that production will increase by 3.0%. We believe that the Asia-Pacific region will be the main focus of growth with expansion of 4.0%, even if the pace of growth in China is likely to slow significantly due especially to a decline in exports to the United States. For the Americas we anticipate solid growth of 2.0%, although imports to NAFTA are likely to decrease slightly. In the EMEA region (including Germany), too, we are assuming a slight increase in production of 1.0%, with much of this growth expected in Central and Eastern Europe.

We anticipate that global **automotive production** will grow by 3.0%. Our expectations for Asia-Pacific are positive with growth of 3.0%. Here, China is expected to remain a focal point. The Americas should also develop well with expansion of 2.5%. In the EMEA region (including Germany), we are assuming an increase in production of 2.5% coupled with a slight recovery of production in Russia.

We anticipate growth of 2.0% in the global **agrochemicals market** resulting from the expected revenue situation for agricultural products. We are assuming gains of 2.5% other than for fertilizers. Asia-Pacific and the Americas should see growth of 3.5% and 1.5%, respectively, while EMEA (including Germany) is likely to expand by 2.0%.

With anticipated growth of 4.5%, the **construction industry** should continue its good development. For the Asia-Pacific region we are forecasting expansion of 5.0%. In the Americas, we expect even stronger growth of 5.5%. EMEA (including Germany) should see gains of 3.0%.

**Expected Evolution of Major User Industries in 2016**

| Change vs. prior year in real terms (%)[1] | Tires | Automotive | Agrochemicals | Construction |
|---|---|---|---|---|
| Americas | 2.0 | 2.5 | 3.0 | 5.5 |
| EMEA (incl. Germany) | 1.0 | 2.5 | 1.5 | 3.0 |
| Asia-Pacific | 4.0 | 3.0 | 2.5 | 5.0 |
| **World** | **3.0** | **3.0** | **2.0** | **4.5** |

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

## Future perspectives

### *Expected earning position of the LANXESS Group*

We anticipate that our earnings in fiscal 2016 will again be influenced by the persistently challenging competitive environment, especially for our synthetic rubber businesses. We do not expect any significant momentum for our earnings from the slight growth forecast for the global economy.

We assume the following development for our 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 business to decline slightly overall in 2016. This development is likely to be more pronounced in the second half of the year. Although demand from the main customer industries – tires and automotive – is expected to improve slightly compared with the prior year, our business units that produce synthetic rubbers, particularly EPDM and butyl rubber, will be exposed to ongoing price pressure against a backdrop of additional capacities. Following the start-up of our plants for Nd-PBR rubber in Singapore and EPDM rubber in Changzhou, China, we expect to continue incurring idle costs arising from the additional capacities provided by these two new plants. Both plants will move progressively toward full utilization in line with the evolution of demand. In the current year, we are predicting continued positive development in the various markets of our business with plastics for lightweight construction applications in the automotive industry. The main currency for our rubber businesses is the U.S. dollar. If this remains at the same strong level as in the prior year, we do not anticipate any significant positive effects for our businesses compared with 2015.

For the **Advanced Intermediates** segment, we expect business to be stable overall in 2016. The Advanced Industrial Intermediates business unit should achieve a stable performance due to the broad diversification of its customer markets. We are assuming slower growth in the agricultural business of our Saltigo business unit in 2016.

For our **Performance Chemicals** segment, we also expect stable business development overall in the current year. The additives business should likewise achieve a relatively stable performance overall. According to our expectations, our business with inorganic pigments for the construction industry is likely to develop well. In the leather business, we see the persistently low price level for chrome ore products as a continuing challenge. We expect solid development by our Liquid Purification Technologies business unit with its technologies for water treatment. Our expectations are similar for the biocides activities of our Material Protection Products business unit.

In our non-operational segment, we anticipate significantly lower expenses for currency hedging than in the prior year.

In the coming year, we will continue to drive forward our three-phase "Let's LANXESS again" program for the realignment of the LANXESS Group. The rapid implementation of this realignment meant that we were already able to realize the predicted annual cost savings of around €150 million from the first phase of the program – aimed at improving the efficiency of the business units and administrative structures – in the reporting year and thus a year earlier than anticipated. We expect the second phase of the program, which is intended to strengthen operational competitiveness, to deliver cost savings of €20 million in the current year. Overall, we assume that Phase II will generate annual savings of around €150 million by the end of 2019.

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 largely offset each other within the individual segments, we predict EBITDA pre exceptionals for the full year 2016 to be at around the prior-year level. This takes account of the anticipated cost savings from our realignment.

We expect little change to the low procurement cost level in 2016 compared with the reporting year – especially for the petrochemical raw materials used in the synthetic rubber products of our Performance Polymers segment. We foresee a continuation of the volatility in raw material prices that has been ongoing for several years and is in some cases substantial.

The U.S. dollar will remain the key currency for our businesses.

## *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 about €2.0 billion in cash and undrawn credit lines, unchanged at year end 2015 and as described under "Financial condition," we have a very good liquidity and financing position. We also expect our liquidity position to be strengthened further by the planned partnership with Saudi Aramco. Thus, the entrepreneurial flexibility required to implement our strategy is assured for the long term.

### Capital expenditures

In the future, as in the past fiscal year, our capital expenditures will be increasingly directed toward 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. In the current year, we therefore expect cash outflows for capital expenditures of around €450 million, most of which are earmarked for the maintenance of facilities, for efficiency improvements and for the expansion of plants, as mentioned above. A substantial amount of this is intended for capital expenditures by our Saltigo business unit at the Leverkusen site in Germany. In this way, we are still 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. In 2016, we anticipate that LANXESS will be able to cover capital expenditures and maturing financing instruments from liquidity. The same applies to the expected dividend payment and the intended share buyback that has been announced. Additional financial headroom will be provided by the expected proceeds of around €1.2 billion from the sale of 50% of our synthetic rubbers business.

Other than the redemption of a €200 million bond in September 2016, there will be no further significant financing instruments maturing in fiscal 2016. LANXESS will continue to actively manage its financing portfolio as demonstrated by the early repayment of a development bank loan of €138 million in January 2016. Moreover, we will continue our ongoing efforts aimed at securing long-term funding as part of a conservative financing policy.

### *Expected earnings position of LANXESS AG*

In the current fiscal year, we expect the financial statements of LANXESS AG to show substantially higher net income than in 2015. The implementation of the transaction for the synthetic rubbers business planned for April 1, 2016, and the anticipated changes to commercial law concerning the valuation of post-employment benefit obligations will have a material influence on the company's earnings position. This is impacted 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*

We anticipate that our business development in the current year will again be influenced by the persistently challenging competitive environment, especially for our synthetic rubber businesses. We do not expect any significant momentum for our business development from the slight growth forecast for the global economy.

We predict EBITDA pre exceptionals for the full year 2016 to be at around the prior-year level.

In fiscal 2015, we systematically drove forward and already implemented large parts of our three-phase global realignment program for the Group. In this way, we took a significant step toward strengthening the competitiveness of our business and administrative structure, our operational competitiveness and the competitiveness of our business portfolio on a lasting basis, and achieved the first substantial cost savings. In the current year, we will continue to work on implementing our realignment and particularly on strengthening our operational competitiveness.

After transferring our synthetic rubber businesses from the Performance Polymers segment to a partnership with Saudi Aramco effective April 1, 2016, as part of our realignment, we will in the future focus on strengthening our Advanced Intermediates and Performance Chemicals segments as well as the High Performance Materials business unit.

## 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 ongoing 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 possible future developments or events that may result in either positive or negative deviations from business objectives.

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

Like all methods intended for dealing with business risk, this system does not offer absolute protection. However, it is intended 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, and reporting systems that ensure the timely provision of the information required for decision-making for the Board of Management or other management levels.

### Roles of key organizational units

Our 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 the Group's long-term strategy.

Transactions particularly for the transfer of financial but also operating risk (hedging transactions or insurance) are managed centrally by the Treasury & Investor Relations Group Function. This is explained 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.

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 minimum 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 2015, 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 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 opportunities and risks are described by scenario-based fluctuations in planning parameters (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 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 (CMS) that has been structured in accordance with the principles of an internationally recognized framework for enterprise risk management (COSO). This CMS is supported by the compliance organization, which is made up of the Group Compliance Officer and a network of local Compliance Officers in the countries in which we have subsidiaries. The objective of the CMS is to ensure the observance of our compliance principles. The Compliance function, which includes the compliance organization, 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 we regularly use 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.

Our 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 reliable 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 on delivery that the data reported by the subsidiaries are consistent. The accounting departments of the subsidiaries are responsible for ensuring the correctness of the reported data content, which is also tested by the Corporate Accounting Department within the Accounting Group Function. 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 & Investor Relations, Tax & Trade Compliance and Controlling group functions, assists the financial reporting process. A continual exchange of information with the operating business units and other group functions makes it possible for the Accounting Group Function to identify and deal with issues arising outside of accounting processes. These include litigation risks, projections for impairment testing and special contractual agreements with suppliers or customers. In addition, third-party service providers are consulted on special issues, particularly relating to the valuation of pensions and other post-employment benefits.

### *Monitoring of risk management system and internal control system (ICS)*

LANXESS's Corporate Audit Department within the Legal & Compliance Group Function oversees whether the internal control and monitoring system works 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. The Supervisory Board 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 function's activities and findings, the work of the Corporate Audit Department, and the status of the risk management and internal control system. In addition, the early warning system is evaluated by the external auditor as part of the audit of the consolidated and annual financial statements.

## *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 in respect of the main **categories** 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. If we were to be forced to utilize an alternative source of supply, this could result in, for example, higher procurement prices or additional transportation costs.

### 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, the effects of which are still becoming visible in 2015/2016 in individual countries such as France. Continuous and increased use is being 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 and trainee programs and scholarships for gifted students. The regional focal points, besides Germany, are North America, Brazil, India, China and South Africa.

The growing lack particularly of **skilled employees** in our global markets is becoming tangible in individual cases. However, this effect has been mitigated for the time being by the "Let's LANXESS again" program launched in April 2014, which in the first instance substantially reduced our specific need for skilled employees in the reporting period. Nonetheless, in light of the first growth trends, we anticipate an increased need for recruitment in specific functions so the issue of employer branding will again become more important. A forward-looking and sustainable HR policy will therefore remain one focus, which is evidenced by our regular HR development conferences, for example. 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 all 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 are being established not only in Germany but increasingly also in other major regions, where they always take account of local requirements.

In the reporting year, the Board of Management established a demographic initiative that takes up issues such as function-critical activities which were identified in the wake of the "Let's LANXESS again" program, the transfer of specific expertise and the securing of succession chains. The initiative builds on the results of Xcare, the first demographic project dating from 2011.

We are tackling issues pertaining to employee performance – also against the backdrop of the restructuring activities of recent years – through a performance culture program, which was established by the Board of Management and will assist in the realignment of the Group. It is intended, among other things, to use binding corporate values and management guidelines in creating a framework which allows managers to provide even greater support to their employees in making full use of their potential.

We are seeking to mitigate the potential loss of individual knowledge holders in connection with the agreed partnership for the synthetic rubbers business by providing the employees concerned with targeted information and highlighting potential career opportunities.

There are a number of other HR risks which, because of their long-term nature, will have virtually no impact on the relevant earnings indicators for fiscal 2016.

## 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 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.

Our 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 our forward-looking approach, product monitoring enables us to identify and evaluate potential hazards associated with our product portfolio and initiate suitable measures if applicable.

Our **information technology** (IT) supports our 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 threat 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 evaluate security measures for their suitability in defending against current attack scenarios. Where necessary, these measures are upgraded. Additional security systems are being established worldwide and existing ones adapted to current needs 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 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.

Our 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 recognizable 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. Here, the focus will be on China, North America and Southeast Asia.

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 our 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.

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

Our company is inherently exposed to general **economic developments** and political change in the countries and regions in which we operate. 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 our 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 exit 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 cost levels, and product substitution or market consolidation trends in some sectors. We counter such trends by systematically managing costs and continually 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 businesses continue to face intense competition, partly from new manufacturers entering the market. In some business units, this may result in further overcapacities and stronger competition on prices. We are pursuing a product-specific strategy in these areas based on factors such as product and process differentiation and global positioning. Through the partnership with Saudi Aramco we intend to achieve a strategic strengthening of our synthetic rubbers business in this competitive environment in the medium term.

## Finance

The Treasury & Investor Relations 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 | Counter-party 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 2016. 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 2016, 2017 and 2018 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 functional 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 €466 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 risk relating to receivables from customers is covered by opening letters of credit in favor of the LANXESS Group for some customers and by agreeing prepayment with contractual partners. 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 continued 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 & Investor Relations, Accounting and Human Resources group functions.

**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.

Additional information on our financial risks can be found in Note [36], “Financial instruments,” to the consolidated financial statements.

### 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 an approach to avoiding legal risks, LANXESS has established an extensive **compliance** management system incorporating a range of preventive 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 in different areas. 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 ground pollution occurred during these periods that has not been identified 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 [15], "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*

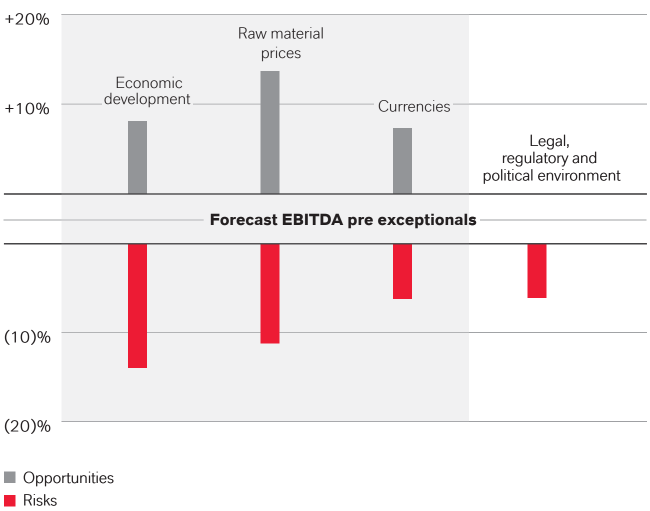
The opportunities and risks of future development that we have identified are categorized and grouped, as already described. Their significance lies in their potential impact on planned EBITDA pre exceptionals. Individual categories in which the opportunity or risk may produce a deviation of more than 5% from our projected EBITDA pre exceptionals in the planning year are considered to be of medium to high significance. This also applies to groups in which this threshold is exceeded only on a cumulative basis across all the categories assigned to each group.

Within the context of opportunity and risk management for the planning year, the economic developments, raw material prices and currency categories as well as the legal, regulatory and political environment group were considered to be of medium to high significance. Based on the scenarios applied or the assumed probability of occurrence, these categories and this group could produce a positive or negative deviation of up to 14% from our projected EBITDA pre exceptionals, which is our key controlling parameter. The legal, regulatory and political environment group was particularly influenced by opportunities and risks in the energy and environmental policy category. Opportunities and risks in other categories – such as legal risks – are of very little significance.

In 2014, the currency category was not significant in itself but only as part of the finance group. Furthermore, the energy price category was significant.

**Opportunity and Risk Profile** [1]

%




1) Event- and distribution-based opportunities and risks in line with assumed scenarios; on account of the interactions between the various categories, the effects of the opportunities and risks may not be added.

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*

The chemical industry worldwide is in a phase of radical change, which naturally entails economic opportunities and risks. However, the three-phase “Let’s LANXESS again” program for the global realignment of the LANXESS Group initiated in 2014 gives us the headroom that will enable us to remain effective and competitive even in the evolving operating environment (see the “Strategy” section in this combined management report). In addition, the realignment will allow us to leverage strategic and operational opportunities and to make maximum use of growth potential.

Despite mixed economic developments across regions and sectors, our risk exposure during the reporting year was in general not materially different from our risk exposure during the previous year due to our broadly diversified product and customer portfolios. We continue to point to the intense competitive pressure still facing our synthetic rubber businesses. As part of the realignment, we will strengthen our future competitiveness through the partnership with Saudi Aramco agreed in the reporting year.

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 in our procurement and customer markets.

In light of our present financing structures, our sound liquidity position and the headroom created by our realignment and in particular by the partnership agreed with Saudi Aramco, we are confident of mastering risks that arise in the future.

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

# Consolidated Financial Statements

# Statement of Financial Position
## LANXESS Group

| € million | Note | Dec. 31, 2014 | Dec. 31, 2015 |
|---|---|---|---|
| **ASSETS** | | | |
| Intangible assets | (1) | 320 | 300 |
| Property, plant and equipment | (2) | 3,333 | 3,447 |
| Investments accounted for using the equity method | (3) | 0 | 0 |
| Investments in other affiliated companies | (4) | 13 | 12 |
| Non-current derivative assets | (5) | 5 | 1 |
| Other non-current financial assets | (6) | 11 | 21 |
| Non-current income tax receivables | (7) | 6 | 11 |
| Deferred taxes | (29) | 380 | 361 |
| Other non-current assets | (8) | 33 | 27 |
| **Non-current assets** | | **4,101** | **4,180** |
| Inventories | (9) | 1,384 | 1,349 |
| Trade receivables | (10) | 1,015 | 956 |
| Cash and cash equivalents | | 418 | 366 |
| Near-cash assets | (11) | 100 | 100 |
| Current derivative assets | (5) | 14 | 14 |
| Other current financial assets | (6) | 5 | 4 |
| Current income tax receivables | (7) | 28 | 44 |
| Other current assets | (12) | 185 | 206 |
| **Current assets** | | **3,149** | **3,039** |
| **Total assets** | | **7,250** | **7,219** |
| **EQUITY AND LIABILITIES** | | | |
| Capital stock and capital reserves | | 1,317 | 1,317 |
| Other reserves | | 1,253 | 1,313 |
| Net income | | 47 | 165 |
| Other equity components | | (458) | (485) |
| Equity attributable to non-controlling interests | | 2 | 13 |
| **Equity** | (13) | **2,161** | **2,323** |
| Provisions for pensions and other post-employment benefits | (14) | 1,290 | 1,215 |
| Other non-current provisions | (15) | 275 | 271 |
| Non-current derivative liabilities | (5) | 20 | 19 |
| Other non-current financial liabilities | (16) | 1,698 | 1,258 |
| Non-current income tax liabilities | (17) | 25 | 19 |
| Other non-current liabilities | (18) | 118 | 108 |
| Deferred taxes | (29) | 21 | 46 |
| **Non-current liabilities** | | **3,447** | **2,936** |
| Other current provisions | (15) | 350 | 411 |
| Trade payables | (19) | 799 | 779 |
| Current derivative liabilities | (5) | 101 | 100 |
| Other current financial liabilities | (16) | 182 | 443 |
| Current income tax liabilities | (17) | 44 | 85 |
| Other current liabilities | (18) | 166 | 142 |
| **Current liabilities** | | **1,642** | **1,960** |
| **Total equity and liabilities** | | **7,250** | **7,219** |

# Income Statement
## LANXESS Group

| € million | Note | 2014 | 2015 |
|---|---|---|---|
| **Sales** | (21) | **8,006** | **7,902** |
| Cost of sales | (22) | (6,418) | (6,154) |
| **Gross profit** | | **1,588** | **1,748** |
| Selling expenses | (23) | (742) | (759) |
| Research and development expenses | (24) | (160) | (130) |
| General administration expenses | (25) | (278) | (284) |
| Other operating income | (26) | 118 | 207 |
| Other operating expenses | (27) | (308) | (367) |
| **Operating result (EBIT)** | | **218** | **415** |
| Income from investments accounted for using the equity method | | 2 | 0 |
| Interest income | | 3 | 4 |
| Interest expense | | (72) | (70) |
| Other financial income and expense | | (71) | (61) |
| **Financial result** | (28) | **(138)** | **(127)** |
| **Income before income taxes** | | **80** | **288** |
| Income taxes | (29) | (36) | (121) |
| **Income after income taxes** | | **44** | **167** |
| of which attributable to non-controlling interests | | (3) | 2 |
| of which attributable to LANXESS AG stockholders [net income] | | 47 | 165 |
| **Earnings per share (undiluted/diluted) (€)** | (30) | **0.53** | **1.80** |

# Statement of Comprehensive Income
## LANXESS Group

| € million | 2014 | 2015 |
|---|---|---|
| **Income after income taxes** | **44** | **167** |
| **Items that will not be reclassified subsequently to profit or loss** | | |
| Remeasurements of the net defined benefit liability for post-employment benefit plans | (308) | 83 |
| Other comprehensive income (net of income tax) attributable to investments accounted for using the equity method | (19) | 0 |
| Income taxes | 95 | (24) |
| | **(232)** | **59** |
| **Items that may be reclassified subsequently to profit or loss if specific conditions are met** | | |
| Exchange differences on translation of operations outside the eurozone | 122 | (15) |
| Financial instruments | (75) | (17) |
| Income taxes | 20 | 5 |
| | **67** | **(27)** |
| **Other comprehensive income, net of income tax** | **(165)** | **32** |
| **Total comprehensive income** | **(121)** | **199** |
| of which attributable to non-controlling interests | (3) | 2 |
| of which attributable to LANXESS AG stockholders | (118) | 197 |

# Statement of Changes in Equity
LANXESS Group

| € million | Capital stock | Capital reserves | Other reserves | Net income (loss) | Other equity components | | Equity attributable to LANXESS AG stockholders | Equity attributable to non-controlling interests | Equity |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | Currency translation adjustment | Financial instruments | | | |
| **Dec. 31, 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 (loss) 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** |
| Allocations to retained earnings | | | 47 | (47) | | | 0 | | 0 |
| Capital increase | | | | | | | 0 | 9 | 9 |
| Dividend payments | | | (46) | | | | (46) | 0 | (46) |
| Total comprehensive income | | | 59 | 165 | (15) | (12) | 197 | 2 | 199 |
| *Income after income taxes* | | | | *165* | | | *165* | *2* | *167* |
| *Other comprehensive income, net of income tax* | | | *59* | | *(15)* | *(12)* | *32* | *0* | *32* |
| *Remeasurements of the net defined benefit liability for post-employment benefit plans* | | | *83* | | | | *83* | | *83* |
| *Exchange differences on translation of operations outside the eurozone* | | | | | *(15)* | | *(15)* | *0* | *(15)* |
| *Financial instruments* | | | | | | *(17)* | *(17)* | | *(17)* |
| *Other comprehensive income (net of income tax) attributable to investments accounted for using the equity method* | | | *0* | | | | *0* | | *0* |
| *Income taxes on other comprehensive income* | | | *(24)* | | | *5* | *(19)* | | *(19)* |
| **Dec. 31, 2015** | **91** | **1,226** | **1,313** | **165** | **(422)** | **(63)** | **2,310** | **13** | **2,323** |

# Statement of Cash Flows
## LANXESS Group

| € million | Note | 2014 | 2015 |
|---|---|---|---|
| **Income before income taxes** | | **80** | **288** |
| Amortization, depreciation, write-downs and reversals of impairment charges of intangible assets, property, plant and equipment | | 426 | 418 |
| Gains on disposals of intangible assets and property, plant and equipment | | (1) | (42) |
| Income from investments accounted for using the equity method | | (2) | – |
| Financial losses | | 75 | 66 |
| Income taxes paid | | (31) | (98) |
| Changes in inventories | | (39) | 55 |
| Changes in trade receivables | | 97 | 64 |
| Changes in trade payables | | 89 | (26) |
| Changes in other assets and liabilities | | 103 | (33) |
| **Net cash provided by operating activities** | (37) | **797** | **692** |
| | | | |
| Cash outflows for purchases of intangible assets and property, plant and equipment | | (614) | (434) |
| Cash inflows from (cash outflows for) financial assets | | 8 | (11) |
| Cash inflows from the divestment of subsidiaries and other businesses, less divested cash and cash equivalents | | 3 | – |
| Cash inflows from sales of intangible assets and property, plant and equipment | | 8 | 45 |
| Interest and dividends received | | 8 | 0 |
| **Net cash used in investing activities** | (37) | **(587)** | **(400)** |
| | | | |
| Cash inflow from capital increase | | 433 | 9 |
| Proceeds from borrowings | | 324 | 78 |
| Repayments of borrowings | | (802) | (298) |
| Interest paid and other financial disbursements | | (131) | (76) |
| Dividend payments | | (46) | (46) |
| **Net cash used in financing activities** | (37) | **(222)** | **(333)** |
| | | | |
| **Change in cash and cash equivalents from business activities** | | **(12)** | **(41)** |
| Cash and cash equivalents as of January 1 | | 427 | 418 |
| Exchange differences and other changes in cash and cash equivalents | | 3 | (11) |
| **Cash and cash equivalents as of December 31** | (37) | **418** | **366** |

# 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 2015 were prepared by the Board of Management of LANXESS AG and authorized for submission to the Supervisory Board on February 26, 2016. 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, 2015, 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).

The mandatory first-time application of the following financial reporting standards and interpretations in 2015 currently has no impact, or no material impact, on the LANXESS Group:

- IFRIC 21 Levies: This interpretation addresses accounting for government levies that are not income taxes within the meaning of IAS 12 and sets out, in particular, when an obligation to pay such levies is to be accounted for as a liability.
- Annual Improvements to International Financial Reporting Standards, 2011–2013 cycle: This comprises minor amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards," IFRS 3 "Business Combinations," IFRS 13 "Fair Value Measurement" and IAS 40 "Investment Property."

# Financial reporting standards and interpretations issued but not yet mandatory

In 2015, the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee issued financial reporting standards and interpretations, whose application was not yet mandatory for that year and which the LANXESS Group thus did not yet apply. 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 created the option, if particular criteria are met, of presenting changes in the credit risk of financial liabilities that are measured at fair value in comprehensive income rather than in profit or loss. It was possible to apply this principle at an earlier date, i.e. without implementing the other provisions of IFRS 9. 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 that 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. As a result of the amendment to IFRS 15 published in September 2015, the date of initial application has been postponed from January 1, 2017, to annual periods beginning on or after January 1, 2018. The amendment has not yet been endorsed by the E.U. The LANXESS Group will only be able to evaluate the impact that the application of this standard will have on its earnings, asset and financial position once the present examination of the substance and contractual basis has been completed.

## Leasing

On January 13, 2016, the IASB published the new standard IFRS 16, which supersedes IAS 17. Under IFRS 16, lessees will recognize all leases as a right-of-use asset and a lease liability in the statement of financial position on the basis of the present value of the lease payments. Depreciation and amortization on the capitalized right-of-use asset and interest expense for compounding the lease liabilities are recorded in the income statement. For lessees, therefore the distinction between operating and finance leases is abolished. The new standard also contains options for the treatment of short-term leases and leases of low value. If these options are applied, the costs of these leases are recognized as current expenses. There are no significant changes for lessors. The new standard is to be applied for annual periods beginning on or after January 1, 2019. Earlier application is permitted if IFRS 15 is applied. It has not yet been endorsed by the E.U. The LANXESS Group will evaluate the impact that 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. |
|---|---|---|---|---|
| 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 |
| IFRS 14 | Regulatory Deferral Accounts | Jan. 30, 2014 | – | no |
| IFRS 11 | Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11 | May 6, 2014 | 2016 | yes |
| IAS 16, IAS 38 | Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38 | May 12, 2014 | 2016 | yes |
| IAS 16, IAS 41 | Agriculture: Bearer Plants – Amendments to IAS 16 and IAS 41 | June 30, 2014 | 2016 | yes |
| IAS 27 | Equity Method in Separate Financial Statements – Amendments to IAS 27 | Aug 12, 2014 | 2016 | yes |
| IFRS 10, IAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 | Sept. 11, 2014 | – | no |
| Various IAS and IFRS | Annual Improvements to the International Financial Reporting Standards, 2012–2014 Cycle | Sept. 25, 2014 | 2016 | yes |
| IFRS 10, IFRS 12, 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 | yes |
| IAS 12 | Income Taxes – Amendments to IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses | Jan. 19, 2016 | 2017 | no |
| IAS 7 | Statement of Cash Flows – Disclosure Initiative | Jan. 29, 2016 | 2017 | 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 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 entity.

### 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. Exchange differences resulting from currency translation are reflected in profit or loss in the net exchange result within other financial income and expense.

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**

| | | Closing rate, Dec. 31 | | Average rate | |
|---|---|---|---|---|---|
| **€ 1** | | **2014** | **2015** | **2014** | **2015** |
| Argentina | ARS | 10.28 | 14.10 | 10.76 | 10.28 |
| Brazil | BRL | 3.22 | 4.25 | 3.12 | 3.69 |
| China | CNY | 7.54 | 7.06 | 8.19 | 6.97 |
| United Kingdom | GBP | 0.78 | 0.73 | 0.81 | 0.73 |
| India | INR | 76.54 | 72.02 | 81.05 | 71.19 |
| Japan | JPY | 145.23 | 131.07 | 140.39 | 134.31 |
| Canada | CAD | 1.41 | 1.51 | 1.47 | 1.42 |
| Singapore | SGD | 1.61 | 1.54 | 1.68 | 1.53 |
| South Africa | ZAR | 14.04 | 16.95 | 14.41 | 14.17 |
| United States | USD | 1.21 | 1.09 | 1.33 | 1.11 |

# 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 2015 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 in the reporting period is 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 completed.

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 with 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 accordingly 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 costs, as well as an appropriate share of the necessary material and manufacturing overheads. It also includes the shares of depreciation, of expenses for company pension plans and discretionary employee benefits that are attributable to production.

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. Where write-downs are necessary as a result of impairment testing, they are recognized 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. 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 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.

Provisions are established for restructuring if there is a legal or constructive obligation to do so on the basis of a detailed restructuring plan adopted at the management level authorized to decide on this, and the employees affected or their representatives have been informed. Such provisions contain the expenses that are directly allocable to the restructuring measures, are necessary to implement these measures and not related to the future operating business.

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 uncertainty with regard to the ability to realize future economic benefits, 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 receivables and liabilities relate to both the respective fiscal year and previous years. They are assessed on the basis of the applicable legislation, taking into account present legal practice judgments and prevailing opinion. Uncertain income tax items are recognized at their expected value provided that payment or reimbursement is considered probable.

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 with its recoverable amount. In the LANXESS Group these analyses are performed at least once a year.

For impairment testing of assets, the LANXESS Group defines its business units as cash-generating units. The LANXESS Group was reorganized effective January 1, 2015. The Butyl Rubber and Performance Butadiene Rubbers business units were combined to form the Tire & Specialty Rubbers business unit and the High Performance Elastomers and Keltan Elastomers business units were combined as High Performance Elastomers. As in previous years, impairment tests on their assets were performed at the level of the Butyl Rubber, Performance Butadiene Rubbers, High Performance Elastomers and Keltan Elastomers cash-generating units. Further, effective January 1, 2015, the antioxidants and accelerators product lines of the former Rubber Chemicals business unit were integrated into the portfolio of the Advanced Industrial Intermediates business unit. The impairment test in this business unit is performed at the level of the two cash-generating units Advanced Industrial Intermediates and Antioxidants & Accelerators. In 2014, the impairment test was based on the Advanced Industrial Intermediates business unit and the antioxidants and accelerators product lines were included in the impairment test for the Rubber Chemicals business unit. The specialty chemicals product line of the Rubber Chemicals business unit, the Functional Chemicals business unit and the Rhein Chemie business unit were combined in a new Rhein Chemie Additives business unit as of January 1, 2015 and will form a cash-generating unit in the future. In 2014, the impairment test on their assets was performed at the level of the business units in existence in that year. If there is reason to suspect impairment of non-current assets below the level of the cash-generating units, impairment testing is also performed at this level and impairment charges or reversals of impairment charges are recognized in profit or loss where necessary.

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 with its recoverable amount. For the impairment test on goodwill in the Tire & Specialty Rubbers business unit in 2015, the Butyl Rubber and Performance Butadiene Rubbers cash-generating units were tested as a group of cash-generating units. In 2014, goodwill was tested at the level of the Performance Butadiene Rubbers cash-generating unit. Moreover, the Advanced Industrial Intermediates and Antioxidants & Accelerators cash-generating units form a group for the purpose of the impairment test on goodwill in the Advanced Industrial Intermediates Business Unit. In the prior year, the goodwill of the Rhein Chemie Additives business unit, which since January 1, 2015, has comprised the former specialty chemicals product line of the Rubber Chemicals business unit as well as the Functional Chemicals and Rhein Chemie business units, was tested at the level of the Functional Chemicals and Rhein Chemie business units.

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 [36]).

Determination of the recoverable amount based on the fair value less costs of disposal generally 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 costs, exchange rates and capital expenditures. The interactions 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. The perpetual annuity calculation is generally based on the last year in the planning period and does not reflect growth rates. Where necessary, adjustments are made to reflect the so-called steady state of the perpetual annuity. 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 cash-generating unit. Any remaining impairment amount is allocated among the other non-current assets of the cash-generating 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.

If the impairment test indicates a need to reverse impairment charges recognized on the assets of cash-generating units in previous years because the reasons for the impairment no longer exist or have changed, the impairment charge is reversed only up to the amount that would have existed after depreciation or amortization if the impairment had not been recognized. Impairment charges on goodwill are not reversed. Reversals of impairment charge are fully recognized in the income statement under other operating income and reflected in the segment reporting in the income of the respective segments.

The results of the global impairment tests in fiscal 2014 and 2015 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 2015 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 6.6% (2014: 7.4%). Calculation of the perpetual annuity is generally based on the final year in the planning period. Adjustments are made if the final year in the planning period does not represent the so-called steady state. Growth rates are not reflected in the perpetual annuity calculation. The calculation is generally 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 of impairment charges in fiscal 2014 and 2015. In 2015, reversals of impairment charges recognized for assets in previous years comprised €37 million for the High Performance Elastomers cash-generating unit (the former High Performance Elastomers business unit prior to merging with the Keltan Elastomers business unit) and €19 million for the Antioxidants & Accelerators cash-generating unit (formerly part of the Rubber Chemicals cash-generating unit). No need to reverse impairment charges was identified in 2014.

On September 22, 2015, LANXESS and Saudi Aramco agreed to enter into a strategic partnership for synthetic rubber, in which each will hold a 50% interest. This strategic partnership will be named ARLANXEO and headquartered in the Netherlands. ARLANXEO's activities will comprise the development, production, marketing and sale of synthetic rubber. The Butyl Rubber, Performance Butadiene Rubbers, High Performance Elastomers and Keltan Elastomers cash-generating units are components of this strategic partnership, which is valued at €2.75 billion. To determine the recoverable amount of the cash-generating units that belong to the strategic partnership, the proceeds from the sale were allocated among the four cash-generating units on the basis of the respective fair value less costs of disposal.

The **High Performance Elastomers** cash-generating unit (the former High Performance Elastomers business unit prior to merging with the Keltan Elastomers business unit) is part of the agreed strategic alliance with Saudi Aramco and comprises the production and distribution of synthetic rubber with special technical properties for the manufacturing industry, especially the automotive and construction sectors, and mechanical engineering. Allocation of the proceeds from the sale to the High Performance Elastomers cash-generating unit resulted in a recoverable amount of €464 million based on the expected future business development. This corresponds to the fair value less costs of disposal and is allocated to Level 3 of the fair value hierarchy in accordance with IFRS 13. The impairment test as of the closing date therefore resulted in a reversal of less than €1 million of the impairment charge on intangible assets and of €37 million of the impairment charge on property, plant and equipment. The reversal of these impairment charges is limited to the carrying amount that would have existed if the impairment had not been recognized and is reflected in other operating income in the income statement and in the Performance Polymers segment in the segment reporting.

The **Antioxidants & Accelerators** cash-generating unit was formed as a result of the reorganization of the LANXESS Group effective January 1, 2015, through the integration of the antioxidants and accelerators product lines of the former Rubber Chemicals business unit into the Advanced Industrial Intermediates business unit. As a result of the reorganization, the cost structures were optimized, leading to a reversal of the impairment charge on assets recognized in 2013. A recoverable amount of €154 million was calculated. This corresponds to the fair value less costs of disposal and is allocated to Level 3 of the valuation hierarchy in accordance with IFRS 13. The business activities of the Antioxidants & Accelerators 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 the closing date led to a reversal of €19 million of the impairment charges recognized in previous years on the assets of the former Rubber Chemicals cash-generating unit. €2 million of this amount pertained to intangible assets and €17 million to property, plant and equipment. The reversal of these impairment charges is limited to the carrying amount that would have existed if the impairment had not been recognized and is reflected in other operating income in the income statement and in the Advanced Intermediates segment in the segment reporting.

There has been no material change in the estimates used for the impairment charges recognized in previous years for the Keltan Elastomers cash-generating unit.

The annual **impairment test for the principal goodwill items** is performed on the basis of fair value less costs of disposal. The calculation is generally 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. Significant goodwill of €62 million relates to the Tire & Specialty Rubbers business unit, which was formed on January 1, 2015, by combining the former Butyl Rubber and Performance Butadiene Rubbers business units. In 2014, this goodwill amounted to €80 million and was carried by the Performance Butadiene Rubbers business unit. Goodwill of €28 million was allocated to the Material Protection Products business unit in 2015 (2014: €27 million). Goodwill of €21 million pertained to the Rhein Chemie Additives business unit, which was formed in 2015 by combining the specialty chemicals product line of the former Rubber Chemicals business unit, the Functional Chemicals business unit and the Rhein Chemie business unit. In 2014, the combined goodwill of the Rhein Chemie and Functional Chemicals business units totaled €19 million. The High Performance Materials business unit carries goodwill of €18 million (2014: €18 million). Information on calculating the net cash flows can be found in this chapter and the previous chapter. All changes in goodwill compared with the previous year are attributable to currency effects. The Tire & Specialty Rubbers business unit (2014: Butyl Rubber and Performance Butadiene Rubbers business units) is dependent in large part on market developments in the tire and automotive industries, the Material Protection Products business unit on the performance of various industries and the Rhein Chemie Additives business unit primarily on development in various processing industries. The High Performance Materials business unit is mainly dependent on market development in the automotive industry. The estimates of future market developments on which detailed planning is based are dependent on the respective customer industries and draw on management's past experience, taking account of internal and external economic and industry-specific sources of information. The five-year planning period for the group of cash-generating units that comprises the Tire & Specialty Rubber business unit assumes average annual business growth of 2% (2014: 5% for Butyl Rubber and Performance Butadiene Rubbers together). Average annual business growth of 4% (2014: 5%) is assumed for the Material Protection Products cash-generating unit, 4% for the Rhein Chemie Additives cash-generating unit (2014: 4% for the specialty chemicals product line of the former Rubber Chemicals business unit, the Functional Chemicals business unit and the Rhein Chemie business unit together) and 1% (2014: 4%) for the High Performance Materials cash-generating unit. No growth rates were reflected in the perpetual annuity calculation. In the Tire & Specialty Rubbers business unit, in view of the overcapacities for synthetic rubbers in the detailed planning period, it is assumed that higher EBITDA will be achieved for the perpetual annuity in the long term than in the last planning year on account of the anticipated increase in demand, especially for higher-quality rubber products. This is factored in accordingly.

The impairment test performed on goodwill items in 2014 and 2015 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.

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, 2015 as required by the IFRS. These involved calculating the impact of isolated 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 [14].

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 [14]).

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.

The establishment of provisions for environmental protection and remediation measures also involves uncertainty and requires calculations and estimates of future costs. Information about this can be found in the section headed “Other non-current and current provisions” (see Note [15]).

There is also 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

GRI
G4–17
G4–23

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, 2015 | 23 | 11 | 5 | 5 | 18 | 62 |
| Additions | | | | | | 0 |
| Retirements | | | | | | 0 |
| Mergers | (2) | (2) | (1) | | (1) | (6) |
| Changes | | 1 | | | | 1 |
| **Dec. 31, 2015** | **21** | **10** | **4** | **5** | **17** | **57** |
| **Consolidated associates and jointly controlled entities** | | | | | | |
| Jan. 1, 2015 | | 2 | | | | 2 |
| Additions | | | | | | 0 |
| Retirements | | | | | | 0 |
| Mergers | | | | | | 0 |
| Changes | | | | | | 0 |
| **Dec. 31, 2015** | **0** | **2** | **0** | **0** | **0** | **2** |
| **Non-consolidated companies** | | | | | | |
| Jan. 1, 2015 | 2 | 2 | 1 | 3 | 1 | 9 |
| Additions | 1 | | | | | 1 |
| Retirements | | | | | | 0 |
| Mergers | | | | | | 0 |
| Changes | | (1) | | | | (1) |
| **Dec. 31, 2015** | **3** | **1** | **1** | **3** | **1** | **9** |
| **Total** | | | | | | |
| Jan. 1, 2015 | 25 | 15 | 6 | 8 | 19 | 73 |
| Additions | 1 | | | | | 1 |
| Retirements | | | | | | 0 |
| Mergers | (2) | (2) | (1) | | (1) | (6) |
| Changes | | | | | | 0 |
| **Dec. 31, 2015** | **24** | **13** | **5** | **8** | **18** | **68** |

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.

GRI
G4–17
G4–23

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 [34].

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 10% (2014: 14%) of the LANXESS Group's cash, cash equivalents and near-cash assets.

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.

In the reporting period LANXESS Chemicals, S.L., Barcelona, Spain, was merged with LANXESS Holding Hispania, S.L., Barcelona, Spain, which was renamed LANXESS Chemicals S.L., Barcelona, Spain. In addition, Rhein Chemie Japan Ltd., Tokyo, Japan, was merged with LANXESS K.K., Tokyo, Japan. Aliseca GmbH, Leverkusen, Germany, and LANXESS International Holding GmbH, Cologne, Germany, were merged with LANXESS Deutschland GmbH, Cologne, Germany. Further, Rhein Chemie Corporation, Chardon, United States, was merged with LANXESS Corporation, Pittsburgh, United States, and LANXESS Finance B.V., Sittard-Geleen, Netherlands, was merged with LANXESS Accounting GmbH, Leverkusen, Germany.

Vierte LXS GmbH, Leverkusen, Germany, was consolidated for the first time. 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 | – |
| 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 |
| Rhein Chemie Rheinau GmbH, Mannheim | 100 |
| Saltigo GmbH, Leverkusen | 100 |
| Vierte LXS 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 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 Chemicals, 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 |

GRI
G4–17
G4–23

| 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 |
| 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., Lidcombe, 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 (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 |
| **EMEA (excluding Germany)** | |
| LANXESS Mining (Proprietary) Ltd., Modderfontein, South Africa | 100 |
| LANXESS Performance Elastomers B.V., Sittard-Geleen, Netherlands | 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 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 |
| Reversals of impairment charges | – | – | – | 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** |

**Changes in Intangible Assets in 2015**

| € million | Acquired goodwill | Other intangible assets | Advance payments | **Total** |
|---|---|---|---|---|
| Cost of acquisition or generation, Dec. 31, 2014 | 164 | 361 | 28 | 553 |
| Changes in scope of consolidation/acquisitions | – | – | – | 0 |
| Capital expenditures | – | 6 | 14 | 20 |
| Disposals | – | (2) | – | (2) |
| Reclassifications | – | 6 | (6) | 0 |
| Exchange differences | (16) | (3) | 0 | (19) |
| **Cost of acquisition or generation, Dec. 31, 2015** | **148** | **368** | **36** | **552** |
| Accumulated amortization and write-downs, Dec. 31, 2014 | (13) | (220) | 0 | (233) |
| Changes in scope of consolidation | – | – | – | 0 |
| Amortization and write-downs in 2015 | – | (31) | 0 | (31) |
| of which write-downs | – | 0 | – | 0 |
| Reversals of impairment charges | – | 2 | – | 2 |
| Disposals | – | 2 | – | 2 |
| Reclassifications | – | 0 | 0 | 0 |
| Exchange differences | 1 | 7 | – | 8 |
| **Accumulated amortization and write-downs, Dec. 31, 2015** | **(12)** | **(240)** | **0** | **(252)** |
| **Carrying amounts, Dec. 31, 2015** | **136** | **128** | **36** | **300** |

Reversals of impairments of other intangible assets in fiscal 2015 relate to impairment charges recognized on assets of the cash-generating units in previous years. 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 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) |
| Reversals of impairment charges | – | – | – | – | 0 |
| 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** |

**Changes in Property, Plant and Equipment in 2015**

| € 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, 2014 | 1,587 | 6,852 | 316 | 861 | 9,616 |
| Changes in scope of consolidation / acquisitions | – | – | – | – | 0 |
| Capital expenditures | 40 | 155 | 23 | 219 | 437 |
| Disposals | (27) | (123) | (17) | (2) | (169) |
| Reclassifications | 220 | 567 | 15 | (802) | 0 |
| Exchange differences | 1 | 27 | (1) | 35 | 62 |
| **Cost of acquisition or construction, Dec. 31, 2015** | **1,821** | **7,478** | **336** | **311** | **9,946** |
| Accumulated depreciation and write-downs, Dec. 31, 2014 | (965) | (5,041) | (231) | (46) | (6,283) |
| Changes in scope of consolidation | – | – | – | – | 0 |
| Depreciation and write-downs in 2015 | (55) | (346) | (38) | (4) | (443) |
| of which write-downs | (1) | (18) | (2) | (4) | (25) |
| Reversals of impairment charges | 21 | 30 | 1 | 2 | 54 |
| Disposals | 27 | 122 | 17 | 2 | 168 |
| Reclassifications | (11) | (33) | 1 | 43 | 0 |
| Exchange differences | 4 | 0 | 0 | 1 | 5 |
| **Accumulated depreciation and write-downs, Dec. 31, 2015** | **(979)** | **(5,268)** | **(250)** | **(2)** | **(6,499)** |
| **Carrying amounts, Dec. 31, 2015** | **842** | **2,210** | **86** | **309** | **3,447** |

Write-downs were recognized on buildings and infrastructure, technical equipment and machinery and assets under construction due to reorganization or other value-decreasing events.

The reversals of impairment charges in fiscal 2015 are those related to the impairment charges recognized in previous years on assets of the cash-generating units, as explained in the section on "Estimation uncertainties and exercise of discretion."

The reclassifications from assets under construction to the corresponding asset classes mainly relate to the completion of major investment projects in China and Singapore.

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, 2014 | | Dec. 31, 2015 | |
|---|---|---|---|---|
| | Gross carrying amount | Net carrying amount | Gross carrying amount | Net carrying amount |
| Buildings | 3 | 2 | 3 | 2 |
| Technical equipment and machinery | 87 | 59 | 91 | 60 |
| Fittings and equipment | 18 | 11 | 18 | 9 |
| | **108** | **72** | **112** | **71** |

Directly attributable borrowing costs of €6 million (2014: €17 million) were capitalized. An average cost of debt for the LANXESS Group of 3.1% in 2015 (2014: 3.6%) was used for capitalization.

## 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.

The following tables show the main items of the income statements, statements of comprehensive income and statements of financial position of that company:

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

| € million | 2014 | 2015 |
|---|---|---|
| Sales | 1,311 | 1,251 |
| Operating result (EBIT) | 43 | 75 |
| Income after income taxes | 5 | 27 |
| Other comprehensive income, net of income tax | (261) | 53 |
| Total comprehensive income | (256) | 80 |

**Data from the Statement of Financial Position**

| € million | Dec. 31, 2014 | Dec. 31, 2015 |
|---|---|---|
| Non-current assets | 653 | 662 |
| Current assets | 524 | 526 |
| **Total assets** | **1,177** | **1,188** |
| Non-current liabilities | 1,110 | 1,026 |
| Current liabilities | 269 | 272 |
| **Total liabilities** | **1,379** | **1,298** |
| **Equity** | **(202)** | **(110)** |
| Adjustment of LANXESS's interest and equity valuation | 116 | 56 |
| Pro rata loss not recognized in consolidated financial statements | 86 | 54 |
| **Investments accounted for using the equity method** | **0** | **0** |

The carrying amount of the investment in Currenta GmbH & Co. OHG was unchanged from the previous year at €0 million. As of the reporting date, a share of the losses amounting to €54 million (2014: €86 million) was not recognized in the consolidated financial statements. This loss declined by €32 million in the reporting period due to income of €11 million and a gain of €21 million, which is reflected in other comprehensive income. In the previous year, the losses recognized in other comprehensive income resulted in a pro rata loss of €86 million, which did not have to be recognized in the consolidated financial statements.

## 4 | Investments in other affiliated companies

This item contains interests in other affiliated companies totaling €12 million (2014: €13 million).

As of December 31, 2015, 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 2015 at a total fair value of €15 million (2014: €19 million). Instruments with a negative fair value totaling €119 million (2014: €121 million) are recognized as liabilities.

**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)** |

**Derivative Financial Instruments**

| € million | Dec. 31, 2015 | | |
|---|---|---|---|
| | Notional amount | Positive fair values | Negative fair values |
| Current forward exchange contracts | 2,334 | 14 | (100) |
| Non-current forward exchange contracts | 463 | 1 | (19) |
| | **2,797** | **15** | **(119)** |

### *Cash flow hedges*

As of December 31, 2015, the unrealized losses recognized in other comprehensive income in 2015 or earlier periods from currency hedging contracts that qualify for hedge accounting amounted to €62 million (2014: €50 million). In 2015, €102 million was reclassified from equity to profit or loss due to the realization of the hedged transactions and recognized as a loss (2014: €1 million). Currency hedging contracts concluded to hedge future sales in foreign currencies had a total notional amount of €1,268 million (2014: €1,017 million). As of December 31, 2015, these contracts had positive fair values of €4 million (2014: €3 million) and negative fair values of €91 million (2014: €73 million). Contracts with a total notional amount of €881 million (2014: €756 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 2015, €54 million will be reclassified from equity to profit or loss in 2016 and €8 million in 2017 (2014: €42 million in 2015 and €8 million in 2016).

Information on the maturity structure of derivative assets and liabilities is given in Note [36].

## 6 | Other non-current and current financial assets

**Other Financial Assets**

| € million | Dec. 31, 2014 | | |
|---|---|---|---|
| | Non-current | Current | **Total** |
| Available-for-sale financial assets | 1 | 0 | 1 |
| Other financial receivables | 10 | 5 | 15 |
| | **11** | **5** | **16** |

**Other Financial Assets**

| € million | Dec. 31, 2015 | | |
|---|---|---|---|
| | Non-current | Current | **Total** |
| Available-for-sale financial assets | 1 | 0 | 1 |
| Other financial receivables | 20 | 4 | 24 |
| | **21** | **4** | **25** |

The increase in other financial receivables is mainly attributable to loans granted to a site service provider in the Netherlands.

Write-downs of other financial assets amounted to €0 million (2014: €7 million) and related to other financial receivables which have been written down entirely.

## 7 | Non-current and current income tax receivables

The non-current income tax receivables amounting to €11 million (2014: €6 million) mainly comprise receivables relating to disputed tax issues where reimbursement is considered probable.

The increase in current income tax receivables to €44 million (2014: €28 million) is mainly due to changes in tax law and tax relief in the United States and Brazil.

## 8 | Other non-current assets

Other non-current assets are carried at amortized cost less any write-downs. No write-downs were made in 2014 or 2015.

The other non-current assets amounting to €27 million (2014: €33 million) mainly include periodic accruals and other reimbursement claims.

## 9 | Inventories

The inventories of the LANXESS Group comprised:

**Inventories**

| € million | Dec. 31, 2014 | Dec. 31, 2015 |
|---|---|---|
| Raw materials and supplies | 260 | 257 |
| Work in process, finished goods and merchandise | 1,124 | 1,092 |
| | **1,384** | **1,349** |

Inventories of €216 million (2014: €227 million) are reflected at net realizable value.

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

**Write-Downs of Inventories**

| € million | 2014 | 2015 |
|---|---|---|
| Balance at beginning of year | (92) | (127) |
| Additions charged as expenses | (65) | (70) |
| Reversals/utilization | 33 | 92 |
| Changes in scope of consolidation | 1 | 0 |
| Exchange differences | (4) | (2) |
| **Balance at end of year** | **(127)** | **(107)** |

## 10 | Trade receivables

All trade receivables – totaling €956 million (2014: €1,015 million) – are due within one year. Of the trade receivables, €8 million (2014: €3 million) pertained to investments accounted for using the equity method and €948 million (2014: €1,012 million) pertained to other customers.

Trade receivables as of December 31, 2015 are stated after write-downs of €16 million (2014: €17 million) on gross receivables of €17 million (2014: €17 million).

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

**Write-Downs of Trade Receivables**

| € million | 2014 | 2015 |
|---|---|---|
| Balance at beginning of year | (18) | (17) |
| Additions charged as expenses | (4) | (4) |
| Reversals/utilization | 6 | 4 |
| Exchange differences | (1) | 1 |
| **Balance at end of year** | **(17)** | **(16)** |

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

**Maturity Structure of Past-Due Trade Receivables**

| € million | Dec. 31, 2014 | Dec. 31, 2015 |
|---|---|---|
| Carrying amount | 1,015 | 956 |
| of which neither impaired nor past due | 896 | 858 |
| of which unimpaired but past due by | | |
| up to 30 days | 94 | 76 |
| between 31 and 60 days | 15 | 11 |
| between 61 and 90 days | 3 | 2 |
| more than 90 days | 7 | 8 |

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.

## 11 | Near-cash assets

The near-cash assets of €100 million (2014: €100 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.

## 12 | Other current assets

Other receivables and other assets totaling €206 million (2014: €185 million) are stated at amortized cost less any write-downs. No write-downs were recognized in 2015. They principally comprise miscellaneous claims for tax refunds amounting to €137 million (2014: €144 million), mainly pertaining to sales taxes, and other reimbursement claims from goods and service transactions totaling €50 million (2014: €27 million). The year-on-year increase is mainly attributable to a receivable relating to site services in Germany.

## 13 | Equity

### *Capital stock*

The capital stock of LANXESS AG amounted to €91,522,936 as of December 31, 2015 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.

### *Authorized capital*

As of December 31, 2015, 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 warrants or conversion 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 13, 2015, authorized the Board of Management until May 22, 2018, 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 €18,304,587 (Authorized Capital II). Stockholders are generally entitled to subscription rights when Authorized Capital is utilized. With the approval of the Supervisory Board, subscription rights can be excluded for residual amounts and in order to grant holders of warrants or convertible bonds issued by the company and its affiliates subscription rights to the number of new shares for which such parties would be entitled to subscribe upon exercise of their warrants or conversion 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.

The Board of Management can only utilize the authorization to issue shares from Authorized Capital II in the maximum amount of 20% of the capital stock at the time the resolution is passed. When deciding on the exclusion of the subscription rights of stockholders, the Board of Management will also take into consideration an issue of bonds with warrants or conversion rights and/or obligations, which is issued on the basis of other authorizations granted by the Annual Stockholders' Meeting of May 13, 2015, under exclusion of the subscription rights of stockholders (see proposed resolution on agenda item 8; see also conditional capital in accordance with Section 4, Paragraph 4 of the articles of association), with the proviso that it will only use the authorizations granted by the Annual Stockholders' Meeting of May 13, 2015, for capital measures under exclusion of the stockholders' subscription rights in the maximum amount of 20% of the capital stock that exists at the time the resolution is passed. The shares issued from Authorized Capital II under exclusion of subscription rights by way of capital increases against contributions in kind shall not exceed 10% of the capital stock that exists at the time the resolution is passed. The Board of Management will be bound by this condition until a future Annual Stockholders' Meeting again resolves to authorize the Board of Management to implement capital measures under exclusion of stockholders' subscription rights.

### *Conditional capital*

As of December 31, 2015, the company's conditional capital comprised the following:

#### Conditional capital

The Annual Stockholders' Meeting of LANXESS AG on May 13, 2015, authorized the Board of Management until May 22, 2018, 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 €1,000,000,000, 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 €18,304,587 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 €18,304,587 (Conditional Capital).

The conditional capital increase shall only be implemented to the extent that the holders or creditors of, or persons obligated to exercise, warrants 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 22, 2018, on the basis of the authorization granted to the Board of Management by the Annual Stockholders' Meeting on May 13, 2015, exercise their warrants 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 warrant 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 warrants 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 warrants 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 warrants 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

The Board of Management can only use the authorization to issue convertible bonds and/or warrant bonds, profit-participation rights and/or income bonds (or combinations of these instruments) in the maximum amount of 20% of the capital stock that exists at the time the resolution is passed. When deciding on the exclusion of the subscription rights of stockholders, the Board of Management will also take into consideration the issue of shares on the basis of other authorizations granted by the Annual Stockholders' Meeting of May 13, 2015 under exclusion of the subscription rights of stockholders (see proposed resolution on agenda item 7; see also Authorized Capital II in accordance with Section 4, Paragraph 3 of the articles of incorporation), with the proviso that it will only use the authorizations granted by the Annual Stockholders' Meeting of May 13, 2015, for capital measures under exclusion of the stockholders' subscription rights in the maximum amount of 20% of the capital stock that exists at the time the resolution is passed. The Board of Management will be bound by this condition until a future Annual Stockholders' Meeting again resolves to authorize the Board of Management to implement capital measures under exclusion of stockholders' subscription rights.

### *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 warrant or conversion right or stipulate the performance of exercise or conversion obligations the number of shares for which such parties would be entitled to subscribe upon exercise of their warrants or conversion rights or performance of their exercise or conversion obligations. The stockholders shall not have subscription rights in such cases, except where the shares are retired.

*Capital reserves*
The capital reserves of LANXESS AG are unchanged from the previous year at €1,225,652,280.

*Other reserves*
The €60 million increase in other reserves to €1,313 million was principally attributable to the increase in retained earnings from €1,094 million to €1,154 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 an additional condition 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 2015. 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.

## 14 | 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 2015 totaled €48 million (2014: €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 €26 million (2014: €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 generally 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 under- 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 slightly lower than in the previous year at approximately 16% (2014: 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.

**Financing** of the defined benefit pension obligations is achieved both internally through provisions and externally through legally independent pension funds. The pension obligations in Germany are partly covered on a voluntary basis via LANXESS Pension Trust e.V., Leverkusen, Germany. The allocation of funds to the LANXESS Pension Trust e.V. is dependent on future decisions by the company. In Canada and Brazil, it is mandatory to primarily finance pension obligations 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 pension 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 2015, total expenses of €76 million (2014: €120 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**

| | Pension plans | | Other post-employment benefit plans | |
|---|---|---|---|---|
| **€ million** | **2014** | **2015** | **2014** | **2015** |
| **Operating result** | | | | |
| Current service cost | 37 | 39 | 38 | 1 |
| Past service cost | 10 | 0 | 0 | 0 |
| Gains/losses from settlements | 0 | 0 | – | – |
| Administration expenses/taxes | 1 | 1 | 0 | 0 |
| Actuarial gains/losses from changes in financial assumptions | – | – | 2 | 0 |
| **Financial result** | | | | |
| Net interest | 27 | 31 | 5 | 4 |
| **Amounts recognized in profit or loss** | **75** | **71** | **45** | **5** |

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 2015.

**Amounts Recognized in Other Comprehensive Income**

| | Pension plans | | Other post-employment benefit plans | |
|---|---|---|---|---|
| **€ million** | **2014** | **2015** | **2014** | **2015** |
| Return on plan assets excluding amounts included in interest | 21 | (56) | 0 | 0 |
| Actuarial gains/losses from changes in demographic assumptions | (17) | 0 | 0 | 0 |
| Actuarial gains/losses from changes in financial assumptions | (282) | 81 | (7) | 9 |
| Actuarial gains/losses from experience adjustments | (12) | 17 | 2 | 5 |
| Changes in effects of the asset ceiling | 2 | 20 | – | – |
| Changes in effects of minimum funding requirements | (15) | 7 | – | – |
| **Amounts recognized in other comprehensive income** | **(303)** | **69** | **(5)** | **14** |

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**

| | Pension plans | | Other post-employment benefit plans | |
|---|---|---|---|---|
| **€ million** | **2014** | **2015** | **2014** | **2015** |
| **Net defined benefit liability, January 1** | **797** | **1,130** | **124** | **160** |
| Amounts recognized in profit or loss | 75 | 71 | 45 | 5 |
| Amounts recognized in other comprehensive income | 303 | (69) | 5 | (14) |
| Employer contributions | (21) | (14) | (1) | (1) |
| Benefits paid | (22) | (24) | (17) | (23) |
| Business combinations and disposals | (5) | 0 | 0 | 0 |
| Exchange differences | 3 | (3) | 4 | (3) |
| **Net defined benefit liability, December 31** | **1,130** | **1,091** | **160** | **124** |
| **Amounts recognized in the statement of financial position** | | | | |
| Receivables from pension obligations | 0 | 0 | – | – |
| Provisions for pensions and other post-employment benefits | 1,130 | 1,091 | 160 | 124 |
| **Net defined benefit liability, December 31** | **1,130** | **1,091** | **160** | **124** |

The expected cash outflows for employer contributions and benefit payments in 2016 are €15 million and €48 million, respectively, based on year-end 2015 exchange rates. In the previous year, the expected cash outflows for employer contributions and benefit payments in 2015 were €14 million and €28 million, respectively, based on exchange rates at year end 2014.

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:

**Changes in Defined Benefit Obligation**

| | Pension plans | | Other post-employment benefit plans | |
|---|---|---|---|---|
| **€ million** | **2014** | **2015** | **2014** | **2015** |
| **Defined benefit obligation** | | | | |
| Defined benefit obligation, January 1 | 1,787 | 2,178 | 128 | 166 |
| Current service cost | 37 | 39 | 38 | 1 |
| Interest expense | 93 | 88 | 5 | 4 |
| Actuarial gains/losses from changes in demographic assumptions | 17 | 0 | 0 | 0 |
| Actuarial gains/losses from changes in financial assumptions | 282 | (81) | 9 | (9) |
| Actuarial gains/losses from experience adjustments | 12 | (17) | (2) | (5) |
| Past service cost | 10 | 0 | 0 | 0 |
| Gains/losses from settlements | 0 | (1) | – | – |
| Employee contributions | 2 | 2 | – | – |
| Benefits paid | (78) | (85) | (17) | (23) |
| Disbursements for settlements | 0 | – | – | 0 |
| Business combinations and disposals | (6) | 0 | 0 | 0 |
| Other additions | 0 | 1 | – | – |
| Administration expenses/taxes | 0 | (1) | 0 | 0 |
| Exchange differences | 22 | (106) | 5 | (3) |
| **Defined benefit obligation, December 31** | **2,178** | **2,017** | **166** | **131** |

Of the defined benefit obligation for pensions, Germany accounts for 61% (2014: 58%), Canada for 22% (2014: 22%) and Brazil for 11% (2014: 15%).

The other post-employment benefit obligations comprise €58 million (2014: €74 million) for the reimbursement of health care costs and €73 million (2014: €92 million) for miscellaneous other benefit commitments. The actuarial gains and losses from changes in demographic assumptions in 2014 mainly resulted from the application of new mortality tables 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.

In 2014, the past service cost for pension obligations and the current service cost for the other post-employment benefit obligations resulted mainly from the “Advance” and “Let’s LANXESS again” programs in Germany and related to early-retirement agreements, to improvements to existing benefit entitlements for employees taking early retirement, and to severance agreements.

Gains from settlements result from the closure of defined benefit pension plans in Spain as a result of their conversion into defined contribution plans.

The business combinations and disposals in the prior year related to the divestment of Perlon-Monofil GmbH, Dormagen, Germany.

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:

**Changes in External Plan Assets**

| | Pension plans | | Other post-employment benefit plans | |
|---|---|---|---|---|
| **€ million** | **2014** | **2015** | **2014** | **2015** |
| **Plan assets at fair value** | | | | |
| Plan assets, January 1 | 1,046 | 1,125 | 4 | 6 |
| Interest income | 73 | 64 | 0 | 0 |
| Return on plan assets excluding amounts included in interest | 21 | (56) | 0 | 0 |
| Gains/losses from settlements | – | (1) | – | – |
| Employer contributions | 21 | 14 | 1 | 1 |
| Employee contributions | 2 | 2 | – | – |
| Benefits paid | (56) | (61) | 0 | 0 |
| Disbursements for settlements | – | – | – | – |
| Business combinations and disposals | (1) | 0 | – | 0 |
| Other additions | – | 1 | – | – |
| Costs of managing plan assets/taxes | (1) | (2) | 0 | 0 |
| Exchange differences | 20 | (116) | 1 | 0 |
| **Plan assets, December 31** | **1,125** | **970** | **6** | **7** |

Of the plan assets, Canada accounts for 42% (2014: 40%), Brazil for 27% (2014: 34%) and Germany for 23% (2014: 19%).

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 €14 million in 2015 (2014: €21 million). External funding where LANXESS can assert reimbursement claims mainly pertains to LANXESS Pension Trust e.V. No additional funding was provided to LANXESS Pension Trust e.V in 2015 or 2014.

The business combinations and disposals in the prior year related to 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**

| | Effects of the asset ceiling | | Minimum funding requirements | |
|---|---|---|---|---|
| **€ million** | **2014** | **2015** | **2014** | **2015** |
| January 1 | 54 | 59 | 2 | 18 |
| Interest expense | 7 | 6 | 0 | 1 |
| Additions (deductions) | (2) | (20) | 15 | (7) |
| Exchange differences | 0 | (12) | 1 | (1) |
| **December 31** | **59** | **33** | **18** | **11** |

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 comprises:

**Breakdown of Plan Assets as of December 31**

| € million | 2014 | 2015 |
|---|---|---|
| Cash and cash equivalents | 25 | 8 |
| of which quoted in an active market | 25 | 8 |
| Equity instruments | 215 | 156 |
| of which quoted in an active market | 110 | 105 |
| Government bonds | 393 | 370 |
| of which quoted in an active market | 393 | 370 |
| Corporate bonds | 268 | 230 |
| of which quoted in an active market | 204 | 186 |
| Investment funds | 132 | 122 |
| of which quoted in an active market | 102 | 101 |
| Real estate | 23 | 26 |
| of which quoted in an active market | 0 | 0 |
| Insurance contracts | 60 | 61 |
| of which quoted in an active market | 1 | 2 |
| Other | 15 | 4 |
| of which quoted in an active market | 3 | 3 |
| | **1,131** | **977** |

The plan assets do not include any real estate used by the company, nor do they in principle 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:

**Weighted Discount Rates as of December 31**

| | Pension plans | | Other post-employment benefit plans | |
|---|---|---|---|---|
| % | 2014 | 2015 | 2014 | 2015 |
| Discount rate | 4.38 | 4.40 | 2.87 | 3.09 |
| Germany | 2.75 | 3.00 | 0.59 | 0.41 |
| Canada | 3.75 | 3.75 | 3.75 | 4.00 |
| Brazil | 12.50 | 14.25 | 12.50 | 14.25 |

The following weighted valuation assumptions were used for the other parameters:

**Weighted Valuation Assumptions as of December 31**

| | Pension plans | | Other post-employment benefit plans | |
|---|---|---|---|---|
| % | 2014 | 2015 | 2014 | 2015 |
| Expected salary increases | 3.3 | 3.2 | 3.1 | 4.5 |
| Expected benefit increases | 2.3 | 2.2 | – | – |
| Expected increases in medical costs | – | – | 7.0 | 6.6 |
| Expected long-term increases in medical costs | – | – | 5.1 | 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 16 years (2014: 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**

| | Pension plans | | Other post-employment benefit plans | |
|---|---|---|---|---|
| **%** | **2014** | **2015** | **2014** | **2015** |
| Discount rate | | | | |
| +0.5%-pt. | (7.8) | (6.4) | (2.9) | (2.9) |
| –0.5%-pt. | 8.9 | 7.3 | 3.2 | 3.1 |
| Expected salary increases | | | | |
| +0.25%-pt. | 0.5 | 0.4 | 0.2 | 0.2 |
| –0.25%-pt. | (0.5) | (0.4) | (0.2) | (0.2) |
| Expected benefit increases | | | | |
| +0.25%-pt. | 3.9 | 3.7 | – | – |
| –0.25%-pt. | (3.7) | (3.5) | – | – |
| Mortality | | | | |
| –10% | 2.7 | 2.0 | 1.1 | 0.6 |
| Expected increases in medical costs | | | | |
| +1%-pt. | – | – | 3.6 | 2.9 |
| –1%-pt. | – | – | (3.3) | (2.7) |

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 (2014: 17 years). This figure was based on weighted average durations of 20 years (2014: 21 years) for Germany, 13 years (2014: 13 years) for Canada and 9 years (2014: 10 years) for Brazil. The weighted average duration of the defined benefit obligations for other post-employment benefits was 7 years (2014: 7 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**

| | Pension plans | | Other post-employment benefit plans | |
|---|---|---|---|---|
| **€ million** | **2014** | **2015** | **2014** | **2015** |
| **Funded status** | | | | |
| Defined benefit obligation for funded plans | 1,790 | 1,643 | 14 | 12 |
| External plan assets | (1,125) | (970) | (6) | (7) |
| **Underfunding of funded plans** | **665** | **673** | **8** | **5** |
| Defined benefit obligation for unfunded plans | 388 | 374 | 152 | 119 |
| **Funded status, December 31** | **1,053** | **1,047** | **160** | **124** |

## 15 | Other non-current and current provisions

On the closing date, the LANXESS Group had other current provisions of €411 million (2014: €350 million) and other non-current provisions of €271 million (2014: €275 million). The maturity structure of other provisions is shown in the following table:

**Other Provisions**

| | Dec. 31, 2014 | | | | Dec. 31, 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| **€ million** | Up to 1 year | 1–5 years | Over 5 years | **Total** | Up to 1 year | 1–5 years | Over 5 years | **Total** |
| Personnel | 142 | 43 | 34 | 219 | 177 | 48 | 36 | 261 |
| Environmental protection | 15 | 27 | 74 | 116 | 18 | 29 | 66 | 113 |
| Trade-related commitments | 68 | 8 | – | 76 | 83 | 7 | – | 90 |
| Restructuring | 30 | 12 | 5 | 47 | 42 | 13 | 9 | 64 |
| Miscellaneous | 95 | 55 | 17 | 167 | 91 | 45 | 18 | 154 |
| | **350** | **145** | **130** | **625** | **411** | **142** | **129** | **682** |

The total of other provisions increased from €625 million to €682 million in 2015. The changes in other provisions were as follows:

**Changes in Other Provisions in 2015**

| **€ million** | **Jan. 1, 2015** | **Additions** | **Interest effect** | **Utilization** | **Reversals** | **Exchange differences** | **Dec. 31, 2015** |
|---|---|---|---|---|---|---|---|
| Personnel | 219 | 191 | 2 | (131) | (11) | (9) | 261 |
| Environmental protection | 116 | 10 | 4 | (8) | (2) | (7) | 113 |
| Trade-related commitments | 76 | 46 | 1 | (24) | (7) | (2) | 90 |
| Restructuring | 47 | 39 | 0 | (17) | (4) | (1) | 64 |
| Miscellaneous | 167 | 57 | 4 | (34) | (27) | (13) | 154 |
| | **625** | **343** | **11** | **(214)** | **(51)** | **(32)** | **682** |

### *Personnel-related provisions*

Personnel-related provisions include particularly provisions 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. The two present Long-Term Stock Performance Plans (LTSP) were introduced in 2010 and 2014. Under the LTSP 2010–2013 program introduced in 2010, 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$^{SM}$ Index. The LTSP 2014–2017 program 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.

If LANXESS stock outperforms the index, a payment of at least €0.75 per right is made. For each percentage point by which the stock outperforms the index, €0.125 is paid in addition. The maximum possible payment per right, however, is €2.00.

Obligations arising from the stock-based compensation are valued on the basis of the following principal parameters:

**Principal Parameters as of December 31**

| % | 2014 | 2015 |
|---|---|---|
| Expected share price volatility | 34.0 | 31.0 |
| Expected dividend payment | 2.0 | 2.0 |
| Expected volatility of Dow Jones STOXX 600 Chemicals$^{SM}$ | 19.0 | 18.0 |
| Correlation between LANXESS stock and Dow Jones STOXX 600 Chemicals$^{SM}$ | 73.0 | 64.0 |
| Expected volatility of MSCI World Chemicals Index | 16.0 | 13.0 |
| Correlation between LANXESS stock and MSCI World Chemicals Index | 66.0 | 56.0 |

The relevant risk-free interest rate in 2015 was 0.01% (2014: 0.01%).

The expected volatilities are based on the historical volatility of LANXESS stock and the Dow Jones STOXX 600 Chemicals$^{SM}$ Index or the MSCI World Chemicals Index in the past four years.

The following table provides information on the tranches outstanding as of December 31, 2015:

**Long-Term Stock Performance Plan**

| | LTSP 2010–2013 | | | | LTSP 2014–2017 | |
|---|---|---|---|---|---|---|
| | Tranche 2010 | Tranche 2011 | Tranche 2012 | Tranche 2013 | Tranche 2014 | **Tranche 2015** |
| Duration | 7 years | 7 years | 7 years | 7 years | 7 years | 7 years |
| Vesting period | 4 years | 4 years | 4 years | 4 years | 4 years | 4 years |
| Lock-up period for personal investment shares | Jan. 31, 2017 | Jan. 31, 2017 | Jan. 31, 2017 | Jan. 31, 2017 | Jan. 31, 2018 | Jan. 31, 2019 |
| Initial LANXESS share price | €27.28 | €55.60 | €44.54 | €63.25 | €47.41 | €35.04 |
| Initial Dow Jones STOXX 600 Chemicals[SM] price | 432.44 points | 564.17 points | 533.45 points | 665.98 points | – | – |
| Initial MSCI World Chemicals Index price | – | – | – | – | 238.07 points | 254.06 points |
| Fair value per right as of December 31, 2014 | €0.25 | €0.05 | €0.10 | €0.07 | €0.54 | – |
| Fair value per right as of December 31, 2015 | €0.27 | €0.03 | €0.12 | €0.10 | €0.80 | €1.29 |
| **Change in number of outstanding rights** | | | | | | |
| Outstanding rights as of January 1, 2015 | 10,979 | 7,555,332 | 8,416,968 | 9,525,633 | 11,648,795 | – |
| Rights granted | – | 12,290 | 12,693 | 13,010 | 13,206 | 11,709,840 |
| Rights exercised | – | – | – | – | – | – |
| Rights compensated | – | 997,070 | 982,973 | 1,003,444 | 1,153,044 | 309,645 |
| Rights forfeited | – | 211,736 | 352,689 | 509,294 | 583,124 | 507,660 |
| **Outstanding rights as of December 31, 2015** | **10,979** | **6,358,816** | **7,093,999** | **8,025,905** | **9,925,833** | **10,892,535** |

LANXESS shares were trading at €42.68 at year end 2015. The Dow Jones STOXX 600 Chemicals[SM] benchmark index stood at 825.49 points, while the MSCI World Chemicals Index was 250.34 points.

Due to the granting of rights and the settlement of rights in connection with the Group realignment program, net expense of €9 million was recorded in 2015 (2014: €16 million). The net expense in the prior year was 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 the realignment program. A provision of €8 million existed as of December 31, 2015 (2014: €3 million). In 2015 and 2014, the rights exercisable as of the closing date had no intrinsic value.

*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 €64 million on December 31, 2015 (2014: €47 million), comprising €29 million (2014: €25 million) for human resources measures, €17 million (2014: €6 million) for environmental protection measures and €18 million (2014: €16 million) for other expenses.

### *Sundry provisions*

The sundry provisions contain provisions for guarantees and product liability, and provisions for other liabilities.

## 16 | Other non-current and current financial liabilities

The following tables show the structure and maturities of other financial liabilities:

**Other Financial Liabilities as of December 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 | 0 | 0 | 2 | 6 |
| | **182** | **220** | **9** | **504** | **234** | **731** | **1,698** |

**Other Financial Liabilities as of December 31, 2015**

| € million | Current | Non-current | | | | | |
|---|---|---|---|---|---|---|---|
| | **2016** | **2017** | **2018** | **2019** | **2020** | **>2020** | **Total** |
| Bonds | 200 | – | 499 | – | – | 693 | 1,192 |
| Liabilities to banks | 208 | – | – | – | – | – | 0 |
| Liabilities under finance leases | 10 | 8 | 7 | 6 | 6 | 34 | 61 |
| Other primary financial liabilities | 25 | 3 | 0 | 0 | 0 | 2 | 5 |
| | **443** | **11** | **506** | **6** | **6** | **729** | **1,258** |

The following bonds were outstanding on December 31, 2015:

**Bonds**

| Issuance | Nominal amount € million | Carrying amount € million | Interest rate % | Maturity |
|---|---|---|---|---|
| September 2009 | 200 | 200 | 5.500 | September 2016 |
| May 2011 | 500 | 499 | 4.125 | May 2018 |
| April 2012 | 100 | 100 | 3.500 | April 2022 |
| April 2012 | 100 | 99 | 3.950 | April 2027 |
| November 2012 | 500 | 494 | 2.625 | November 2022 |

The weighted average interest rate for all of the LANXESS Group's financial liabilities denominated in euros and other currencies at year end was 3.8% (2014: 3.8%).

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 €95 million (2014: €94 million), including €24 million (2014: €22 million) in interest are to be made to the respective lessors in future years.

Other primary financial liabilities include accrued interest of €24 million (2014: €26 million) on financial liabilities. Of this amount, €22 million (2014: €24 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 [36].

## 17 | Non-current and current income tax liabilities

The non-current and current income tax liabilities comprised:

**Income Tax Liabilities**

| € million | Dec. 31, 2014 | | |
|---|---|---|---|
| | Non-current | Current | Total |
| Provisions | 25 | 42 | 67 |
| Payables | – | 2 | 2 |
| | **25** | **44** | **69** |

**Income Tax Liabilities**

| € million | Dec. 31, 2015 | | |
|---|---|---|---|
| | Non-current | Current | Total |
| Provisions | 19 | 72 | 91 |
| Payables | – | 13 | 13 |
| | **19** | **85** | **104** |

The increase in provisions for income tax liabilities was mainly due to provisions for taxes for fiscal 2015 that have not yet been assessed and for prior-year tax audits. The income tax liabilities increased to €13 million (2014: €2 million), mainly due to improved pre-tax earnings.

## 18 | Other non-current and current liabilities

At year end the other non-current liabilities comprised:

**Other Non-Current Liabilities**

| € million | Dec. 31, 2014 | Dec. 31, 2015 |
|---|---|---|
| Social security liabilities | 5 | 5 |
| Payroll liabilities | 14 | 3 |
| Miscellaneous liabilities | 99 | 100 |
| | **118** | **108** |

The miscellaneous non-current liabilities mainly included asset subsidies of €96 million (2014: €97 million) granted by third parties. They include, to a small extent, government grants that are contingent upon the maintenance of employment or the use of assets for the company's own production purposes over defined periods of time.

**Other Current Liabilities**

| € million | Dec. 31, 2014 | Dec. 31, 2015 |
|---|---|---|
| Other tax liabilities | 47 | 42 |
| Payroll liabilities | 53 | 25 |
| Social security liabilities | 21 | 21 |
| Miscellaneous liabilities | 45 | 54 |
| | **166** | **142** |

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, 2015, there were no such liabilities to Currenta GmbH & Co. OHG, Leverkusen, Germany. In the prior year, there were liabilities of less than €1 million to this company.

## 19 | Trade payables

Trade accounts are payable mainly to third parties. As in the previous year, the entire amount totaling €779 million (2014: €799 million) is due within one year.

Trade payables of €120 million (2014: €109 million) relate to Currenta GmbH & Co. OHG, Leverkusen, Germany, which is accounted for using the equity method, and its affiliated companies, while trade payables of €659 million (2014: €690 million) related to other suppliers.

## 20 | Further information on liabilities

Of the total liabilities, €733 million (2014: €738 million) have maturities of more than five years.

# Notes to the income statement

## 21 | Sales

Sales, which amounted to €7,902 million (2014: €8,006 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 [38]).

## 22 | Cost of sales

**Cost of Sales**

| € million | 2014 | 2015 |
|---|---|---|
| Expenses for raw materials and merchandise | 4,000 | 3,451 |
| Direct manufacturing and other production costs | 2,418 | 2,703 |
| | **6,418** | **6,154** |

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.

## 23 | Selling expenses

**Selling Expenses**

| € million | 2014 | 2015 |
|---|---|---|
| Marketing costs | 459 | 459 |
| Outward freight charges and other selling expenses | 283 | 300 |
| | **742** | **759** |

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.

## 24 | Research and development expenses

The research and development expenses of €130 million (2014: €160 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.

## 25 | General administration expenses

The general administration expenses, amounting to €284 million (2014: €278 million), comprise costs not directly related to operational business processes and the costs for the country organizations.

## 26 | Other operating income

**Other Operating Income**

| € million | 2014 | 2015 |
|---|---|---|
| Exceptional items | 0 | 99 |
| Income from non-core business | 84 | 78 |
| Income from the reversal of provisions | 8 | 3 |
| Income from reversals of write-downs of receivables and other assets | 1 | 3 |
| Gains from the disposal of non-current assets | 1 | 1 |
| Miscellaneous operating income | 24 | 23 |
| | **118** | **207** |

The exceptional items contain income of €56 million (2014: €0 million) from the reversal of impairment charges recognized on cash-generating units in previous years and relate to the Performance Polymers and Advanced Intermediates segments. They are principally allocable to the cost of sales. Further information is provided in the section headed "Estimation uncertainties and exercise of discretion." In addition, the exceptional items include gains from the disposal of assets totaling €43 million (2014: €0 million). These are allocated in line with their economic relevance to other operating income.

## 27 | Other operating expenses

**Other Operating Expenses**

| € million | 2014 | 2015 |
|---|---|---|
| Expenses for hedging with derivative financial instruments | 3 | 143 |
| Exceptional items | 184 | 106 |
| Expenses for non-core business | 74 | 70 |
| Write-downs of trade receivables and other current assets | 4 | 4 |
| Losses from the disposal of non-current assets | 0 | 0 |
| Miscellaneous operating expenses | 43 | 44 |
| | **308** | **367** |

The expenses for hedging with derivative financial instruments result from exchange rate movements, especially in respect of the U.S. dollar.

Of the exceptional items of €106 million (2014: €184 million), €65 million (2014: €70 million) was allocable to the cost of sales in line with its economic relevance, while €7 million (2014: €23 million) was allocable to selling expenses, €2 million (2014: €39 million) to research and development expenses, €10 million (2014: €32 million) to general administration expenses and €22 million (2014: €20 million) to miscellaneous operating expenses.

The exceptional items for fiscal 2015 mainly comprise the costs of the "Let's LANXESS again" program for the global realignment of the Group, which was initiated the previous year, and include, among other things, expenses in connection with the closure of the site in Marl, Germany. In 2014, the exceptional items mainly comprised the costs of the "Let's LANXESS again" and "Advance" programs. They also included write-downs of €19 million on a pilot facility in the Butyl Rubber business unit (Performance Polymers segment).

## 28 | Financial result

The financial result is comprised as follows:

**Financial Result**

| € million | 2014 | 2015 |
|---|---|---|
| **Income from investments accounted for using the equity method** | **2** | **0** |
| Interest income | 3 | 4 |
| Interest expense | (72) | (70) |
| **Net interest expense** | **(69)** | **(66)** |
| Interest expense from compounding interest-bearing provisions | (41) | (46) |
| Net exchange loss | (23) | (16) |
| Miscellaneous financial expense and income | (7) | 0 |
| Dividends and income from other affiliated companies | 0 | 1 |
| **Other financial income and expense** | **(71)** | **(61)** |
| **Financial result** | **(138)** | **(127)** |

Interest expense mainly includes payments of bond interest. The amount recognized has been adjusted for capitalized borrowing costs of €6 million (2014: €17 million). The interest portion of the lease payments under finance leases, amounting to €4 million (2014: €3 million), is included in interest expense.

## 29 | 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 | 2014 | 2015 |
|---|---|---|
| Current taxes | (59) | (109) |
| Deferred taxes resulting from | | |
| temporary differences | (1) | 21 |
| statutory changes in tax rates | 0 | 0 |
| loss carryforwards | 24 | (33) |
| **Income taxes** | **(36)** | **(121)** |

The actual tax expense for 2015 was €121 million (2014: €36 million). This was €29 million (2014: €11 million) more than the expected tax expense of €92 million (2014: €25 million).

In calculating the expected tax expense for the LANXESS Group, the aggregated income tax rate of 32.1% (2014: 31.8%) for the German tax entity was applied. This comprises a corporation tax rate of 15.0%, plus a solidarity surcharge (5.5% of corporation tax) and trade tax. The increase in the aggregated income tax rate was mainly due to a trade tax multiplier.

The reconciliation of the expected tax result to the reported tax result is as follows:

**Reconciliation to Reported Tax Result**

| € million | 2014 | 2015 |
|---|---|---|
| Income before income taxes | 80 | 288 |
| Aggregated income tax rate of LANXESS AG | 31.8% | 32.1% |
| Expected tax result | (25) | (92) |
| Tax difference due to differences between local tax rates and the hypothetical tax rate | (14) | 8 |
| Reduction in taxes due to | | |
| tax-free income and reduction of tax bases | 3 | 4 |
| utilization of unrecognized loss carryforwards | 3 | 1 |
| Increase in taxes due to non-tax-deductible expenses | (15) | (5) |
| Other tax effects | 12 | (37) |
| **Reported tax result** | **(36)** | **(121)** |
| Effective tax rate | 45.0% | 42.0% |

The other tax effects of minus €37 million mainly comprise income taxes for previous years and unrecognized deferred taxes on tax losses for 2015. In the previous year the other tax effects of €12 million mainly resulted from the write-up of deferred tax assets.

The deferred tax assets and liabilities are allocable to the various items of the statement of financial position as follows:

**Deferred Taxes**

| | Dec. 31, 2014 | | Dec. 31, 2015 | |
|---|---|---|---|---|
| € million | Deferred tax assets | Deferred tax liabilities | Deferred tax assets | Deferred tax liabilities |
| Intangible assets | 9 | 52 | 15 | 37 |
| Property, plant and equipment | 29 | 130 | 18 | 139 |
| Inventories | 31 | 1 | 35 | 5 |
| Receivables and other assets | 8 | 29 | 9 | 21 |
| Pension provisions | 243 | – | 220 | 0 |
| Other provisions | 93 | 11 | 105 | 11 |
| Liabilities | 58 | 0 | 58 | 0 |
| Loss carryforwards | 111 | – | 68 | – |
| | **582** | **223** | **528** | **213** |
| of which non-current | 392 | 182 | 321 | 176 |
| Set-off | (202) | (202) | (167) | (167) |
| | **380** | **21** | **361** | **46** |

The change in deferred taxes is calculated as follows:

**Changes in Deferred Taxes**

| € million | 2014 | 2015 |
|---|---|---|
| Deferred taxes as of January 1 | 225 | 359 |
| Tax income/expense recognized in the income statement | 23 | (12) |
| Changes in scope of consolidation | (1) | – |
| Deferred taxes recognized in other comprehensive income | 111 | (18) |
| Exchange differences | 1 | (14) |
| **Deferred taxes as of December 31** | **359** | **315** |

The deferred taxes recognized in other comprehensive income comprised minus €23 million (2014: €91 million) relating to remeasurements of the net defined benefit liability for post-employment benefit plans and €5 million (2014: €20 million) relating to financial instruments. In addition, other comprehensive income contains current taxes of minus €1 million (2014: €4 million).

Deferred tax assets of €324 million (2014: €337 million), which exceed the reversal of taxable temporary differences, relate to tax jurisdictions in which losses were recorded in 2015 or 2014. They include deferred tax assets of €224 million (2014: €231 million) for the German tax entity, which reported a loss in the previous year, primarily due to the exceptional items in connection with the "Advance" and "Let's LANXESS again" realignment programs. The deferred tax assets for the German tax entity mainly relate to differences in the valuations of pension provisions for tax purposes. LANXESS assumes that it 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 €68 million (2014: €111 million) were recognized on the €231 million (2014: €380 million) in tax loss carryforwards that represent income likely to be realized in the future. This amount included deferred taxes of €45 million (2014: 82 million) on loss carryforwards with an unlimited carryforward period.

Deferred taxes were not recognized for €226 million (2014: €158 million) of tax loss carryforwards. Of this amount, €105 million (2014: €100 million) can theoretically be used over more than five years. Further, deferred tax assets were not recognized in 2015 for tax-deductible temporary differences of €49 million (2014: €43 million). Accordingly, deferred taxes on loss carryforwards of €57 million (2014: €39 million) and deferred tax assets on tax-deductible temporary differences of €18 million (2014: €15 million) were not recognized.

## 30 | Earnings and dividend per share

The calculation of earnings per share for 2015 includes only earnings from continuing operations and is based on the weighted average number of shares outstanding during the reporting period. As of December 31, 2015, 91,522,936 shares were outstanding. 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 [13].

**Earnings per Share**

| | 2014 | 2015 | Change % |
|---|---|---|---|
| Net income (€ million) | 47 | 165 | > 100 |
| Number of shares outstanding | 88,472,172 | 91,522,936 | 3.4 |
| **Earnings per share in € (undiluted/diluted)** | **0.53** | **1.80** | > 100 |

LANXESS AG reported a distributable profit of €98 million for fiscal 2015 (2014: €53 million). The dividend payment made to stockholders of LANXESS AG during fiscal 2015 amounted to €0.50 per share (2014: €0.50 per share).

## 31 | Personnel expenses

The breakdown of personnel expenses is as follows:

**Personnel Expenses**

| € million | 2014 | 2015 |
|---|---|---|
| Wages and salaries | 1,106 | 1,124 |
| Social security contributions | 202 | 198 |
| Retirement benefit expenses | 136 | 97 |
| Social assistance benefits | 13 | 13 |
| | **1,457** | **1,432** |

Total personnel expenses decreased slightly in 2015, mainly as a result of lower expenses for pension provisions. The higher figure for the previous year mainly related to expenses in connection with the "Let's LANXESS again" program. 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 [28]).

# Other information

## 32 | Employees

The average number of employees in the LANXESS Group in 2015 was 16,310 (2014: 16,807). The decline compared with the previous year was mainly due to employees who left the company as a result of the "Let's LANXESS again" program. It was countered by effects relating to the start-up of new facilities in Asia.

**Employees by Function**

| | 2014 | 2015 |
|---|---|---|
| Production | 12,163 | 12,123 |
| Marketing | 1,987 | 1,814 |
| Administration | 1,878 | 1,770 |
| Research | 779 | 603 |
| | **16,807** | **16,310** |

## 33 | 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, 2015, amounted to €1 million (2014: €7 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 €341 million (2014: €390 million).

The respective payment obligations mature as follows:

**Maturity Structure of Lease and Rental Payments**

| € million | Dec. 31, 2014 | Dec. 31, 2015 |
|---|---|---|
| Up to 1 year | 56 | 56 |
| 1 to 2 years | 48 | 47 |
| 2 to 3 years | 41 | 41 |
| 3 to 4 years | 36 | 37 |
| 4 to 5 years | 35 | 33 |
| More than 5 years | 174 | 127 |
| | **390** | **341** |

Payments under operating leases in 2015 amounted to €65 million (2014: €67 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 €90 million (2014: €171 million). All of these payments are due in fiscal 2016. The decline was principally due to the completion of major capital expenditure projects in China and Singapore.

*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.

## 34 | 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 €436 million (2014: €423 million). As of December 31, 2015, payables of €120 million (2014: €109 million) and receivables of €38 million (2014: €3 million) existed as a result of these transactions. In the previous year, a provision of €5 million was also 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 €9 million (2014: €1 million) under operating leases and obligations of €4 million (2014: €4 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.

## 35 | Compensation of the Board of Management and the Supervisory Board

For fiscal 2015, total compensation of €9,360 thousand (2014: €9,982 thousand) was paid to the members of the Board of Management of LANXESS AG, comprising €6,728 thousand (2014: €7,649 thousand) in short-term compensation (fixed compensation, annual bonus, benefits in kind and other), minus €62 thousand (2014: €0 thousand) in adjustments for previous years, and other long-term compensation components totaling €1,626 thousand (2014: €932 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 1,200,000 compensation rights were granted in 2015 (2014: 1,648,500 rights). The fair value of these rights at the grant date was €1,068 thousand (2014: €1,401 thousand). Personnel expenses for the stock-based compensation programs amounted to €1,450 thousand in fiscal 2015 (2014: €2,168 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 2015.

In addition, service costs of €1,640 thousand (2014: €2,496 thousand) relating to defined benefit pension plans were incurred in 2015 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, 2015 was €11,903 thousand (2014: €9,994 thousand).

The total net expense for the compensation of the members of the Board of Management in 2015 was €14,762 thousand (2014: €14,935 thousand). This amount included expense of €3,380 thousand for the severance payment made to Dr. Düttmann. Together with settlement of his LTSP rights amounting to €857 thousand, benefits granted to a former member of the Board of Management who stepped down during the fiscal year totaled €4,237 thousand and were paid during the fiscal year. In the previous year, this item included 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 in 2014 to a former member of the Board of Management who stepped down during the fiscal year totaled €2,419 thousand and were paid during fiscal 2014.

The balances outstanding to members of the Board of Management as of December 31, 2015 totaled €6,477 thousand (2014: €2,336 thousand), comprising provisions of €3,900 thousand (2014: €1,346 thousand) for annual bonuses, €1,680 thousand (2014: €687 thousand) for the LTPB and €897 thousand (2014: €303 thousand) for the LTSP.

Pension benefits of €293 thousand (2014: €293 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, 2015 was €30,318 thousand (2014: €27,921 thousand). Payments totaling €3,673 thousand were made to former members of the Board of Management in fiscal 2015 (2014: €1,983 thousand).

The members of the Supervisory Board received total compensation of €3,122 thousand in 2015 (2014: €1,936 thousand). This compensation is generally paid at the start of the following year. The provisions established for stock-based compensation for Supervisory Board members as of December 31, 2015 amounted to €1,200 thousand (2014: €0 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 section headed "Compensation report" in the combined management report for fiscal 2015.

No loans were granted to members of the Board of Management or the Supervisory Board in fiscal 2015 or 2014.

## 36 | 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 risk 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 & Investor Relations 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 functional currency. Such risks and the currency risks arising from financial transactions, including the interest component, are generally fully hedged using forward exchange contracts. Due to hedging, in the short term the appreciation or depreciation of the euro against other major currencies can have no material impact on future cash flows. The results realized from the use of derivative financial instruments are reflected in the financial result.

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 €33 million (2014: €23 million) effect, mainly on other comprehensive income, which would have reduced the reported loss. 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 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 rise. A general change of one percentage point in interest rates as of December 31, 2015 would have altered Group net income by €0 million (2014: reduced 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).

Material credit risk relating to receivables from customers is covered by obtaining letters of credit in favor of the LANXESS Group for certain customers and by agreeing prepayment with contractual partners.

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.

Our main liquidity reserve is a €1.25 billion syndicated credit facility, which remained largely undrawn on the reporting date. In February 2015, its term 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 €466 million (2014: €518 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:

**December 31, 2014**

| € 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)** | **–** |
| of which interest | (1) | (4) | (2) | (2) | (1) | – |
| **Trade payables** | **(799)** | **–** | **–** | **–** | **–** | **–** |
| of which interest | – | – | – | – | – | – |
| **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 | – | – | – |
| **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 | – | 10 | – |
| **Derivative assets** | | | | | | |
| Hedging instruments that qualify for hedge accounting | | | | | | |
| Disbursements | (21) | (9) | – | – | – | – |
| Receipts | 23 | 9 | – | – | – | – |
| Other hedging instruments | | | | | | |
| Disbursements | (191) | – | – | – | – | – |
| Receipts | 203 | 4 | 0 | – | – | – |

**December 31, 2015**

| € million | 2016 | 2017 | 2018 | 2019 | 2020 | >2020 |
|---|---|---|---|---|---|---|
| **Bonds** | **(230)** | **(41)** | **(541)** | **(21)** | **(21)** | **(761)** |
| of which interest | (30) | (41) | (41) | (21) | (21) | (61) |
| **Liabilities to banks** | **(208)** | **–** | **–** | **–** | **–** | **–** |
| of which interest | 0 | – | – | – | – | – |
| **Trade payables** | **(779)** | **–** | **–** | **–** | **–** | **–** |
| of which interest | – | – | – | – | – | – |
| **Liabilities under finance leases** | **(14)** | **(12)** | **(10)** | **(9)** | **(8)** | **(42)** |
| of which interest | (4) | (4) | (3) | (3) | (2) | (8) |
| **Other primary financial liabilities** | **(25)** | **(3)** | **0** | **0** | **0** | **(2)** |
| of which interest | (24) | 0 | – | – | – | – |
| **Derivative liabilities** | | | | | | |
| Hedging instruments that qualify for hedge accounting | | | | | | |
| Disbursements | (667) | (203) | – | – | – | – |
| Receipts | 586 | 187 | – | – | – | – |
| Other hedging instruments | | | | | | |
| Disbursements | (918) | (53) | 0 | (13) | – | – |
| Receipts | 896 | 49 | 0 | 10 | – | – |
| **Derivative assets** | | | | | | |
| Hedging instruments that qualify for hedge accounting | | | | | | |
| Disbursements | (163) | (135) | (44) | – | – | – |
| Receipts | 166 | 133 | 43 | – | – | – |
| Other hedging instruments | | | | | | |
| Disbursements | (436) | (1) | – | – | – | – |
| Receipts | 446 | 1 | – | – | – | – |

The contractually agreed payments for other primary financial liabilities due within one year from the reporting date included accrued interest of €24 million (2014: €26 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 2015 or 2014.

## *Carrying amounts, measurement and fair value of financial instruments*

The tables on the following two pages show the carrying amounts of the individual classes of financial assets and liabilities and their fair values. The basis of measurement is also shown.

**Carrying Amounts, Measurement and Fair Values of Financial Instruments as of December 31, 2014**

| € million | IAS 39 measurement category | Carrying amount Dec. 31, 2014 |
|---|---|---|
| **Financial assets** | | |
| Trade receivables | LaR | 1,015 |
| 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) |

**Carrying Amounts, Measurement and Fair Values of Financial Instruments as of December 31, 2015**

| € million | IAS 39 measurement category | Carrying amount Dec. 31, 2015 |
|---|---|---|
| **Financial assets** | | |
| Trade receivables | LaR | 956 |
| Other financial receivables | LaR | 24 |
| Cash and cash equivalents | LaR | 366 |
| Available-for-sale financial assets | | |
| Near-cash assets | AfS | 100 |
| Other available-for-sale financial assets | AfS | 13 |
| Derivative assets | | |
| Hedging instruments that qualify for hedge accounting | – | 4 |
| Other hedging instruments | FAHfT | 11 |
| **Financial liabilities** | | |
| Bonds | FLAC | (1,392) |
| Liabilities to banks | FLAC | (208) |
| Trade payables | FLAC | (779) |
| Liabilities under finance leases | – | (71) |
| Other primary financial liabilities | FLAC | (30) |
| Derivative liabilities | | |
| Hedging instruments that qualify for hedge accounting | – | (91) |
| Other hedging instruments | FLHfT | (28) |

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, 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 | | | 14 |
| | | | | | |
| | | 3 | | | 3 |
| | | | 16 | | 16 |
| | | | | | |
| (1,456) | | | | | (1,630) |
| (316) | | | | | (316) |
| (799) | | | | | (799) |
| | | | | (72) | (78) |
| (36) | | | | | (36) |
| | | | | | |
| | | (73) | | | (73) |
| | | | (48) | | (48) |

| Measurement according to IAS 39 | | | | Measurement according to IAS 17 | Fair value Dec. 31, 2015 |
|---|---|---|---|---|---|
| Amortized cost | Acquisition cost | Fair value (other comprehensive income) | Fair value (profit or loss) | | |
| | | | | | |
| 956 | | | | | 956 |
| 24 | | | | | 24 |
| 366 | | | | | 366 |
| | | | | | |
| | | 100 | | | 100 |
| | 10 | 3 | | | 13 |
| | | | | | |
| | | 4 | | | 4 |
| | | | 11 | | 11 |
| | | | | | |
| (1,392) | | | | | (1,531) |
| (208) | | | | | (208) |
| (779) | | | | | (779) |
| | | | | (71) | (76) |
| (30) | | | | | (30) |
| | | | | | |
| | | (91) | | | (91) |
| | | | (28) | | (28) |

Fair value measurement of the bonds is allocated to Level 1 of the hierarchy outlined in the section "Fair value measurement." However, two bonds with a fair value of €240 million are allocated to Level 2 as there is no liquid market for them. As of December 31, 2014, three bonds with a fair value of €311 million were allocated to Level 2 of the hierarchy. 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, 2014** | **Dec. 31, 2015** |
|---|---|---|
| Loans and receivables | 1,448 | 1,346 |
| Available-for-sale financial assets | 114 | 113 |
| Financial assets held for trading | 16 | 11 |
| | **1,578** | **1,470** |
| Financial liabilities measured at amortized cost | (2,607) | (2,409) |
| Financial liabilities held for trading | (48) | (28) |
| | **(2,655)** | **(2,437)** |

## *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 fiscal 2014 or 2015.

**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 | – |

**Assets and Liabilities Measured at Fair Value**

| | **Dec. 31, 2015** | | |
|---|---|---|---|
| **€ million** | Level 1 | Level 2 | Level 3 |
| Non-current assets | | | |
| Investments in other affiliated companies | 2 | – | – |
| Non-current derivative assets | – | 1 | – |
| 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 | – | 19 | – |
| Current liabilities | | | |
| Current derivative liabilities | – | 100 | – |

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 reocgnized 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, 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) |

**Offsetting of Financial Assets and Financial Liabilities as of December 31, 2015**

| € 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 | 956 | (11) | 0 | 945 |
| Derivative assets | 15 | (11) | 0 | 4 |
| **Financial liabilities** | | | | |
| Trade payables | (779) | 11 | 0 | (768) |
| Derivative liabilities | (119) | 11 | 0 | (108) |

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 | 2014 | 2015 |
|---|---|---|
| Loans and receivables | 64 | 19 |
| Available-for-sale financial assets | 0 | 1 |
| Assets and liabilities held for trading | (120) | (111) |
| Financial liabilities measured at amortized cost | (39) | 17 |
| | **(95)** | **(74)** |

Net gains and losses principally comprise interest income and expense and realized and unrealized exchange gains and losses.

In addition, fees of €8 million were incurred in fiscal 2015 (2014: €14 million) in connection with financial instruments.

### Collateralization of financial liabilities

There were no financial liabilities collateralized by mortgages or other property claims in fiscal 2015 or 2014.

### 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 [13].

## 37 | 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, write-downs, reversals of impairment charges 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 €288 million (2014: €80 million) after depreciation, amortization and write-downs of €418 million (2014: €426 million), including reversals of impairment charges recognized in previous years on the assets of cash-generating units amounting to €56 million (2014: €0 million). Income taxes paid in 2015 amounted to €98 million (2014: €31 million). The change in net working capital resulted in a cash inflow of €93 million (2014: €147 million). Taking into account the reduction in other assets and liabilities of €33 million (2014: increase of €103 million), the cash inflow provided by operating activities amounted to €692 million in 2015 (2014: €797 million).

### Net cash used in investing activities

Purchases of intangible assets, property, plant and equipment led to a cash outflow of €434 million in 2015 (2014: €614 million). Cash inflows from investment subsidies reduced cash outflows for capital expenditures by €8 million (2014: €25 million). The cash inflow from and outflow for financial assets in 2015 comprised an outflow of €11 million for loans to a site service provider in the Netherlands. By contrast, the cash inflow of €8 million in 2014 mainly comprised proceeds from the sale of units in money market funds. Cash inflows from interest and dividends received amounted to €5 million (2014: €6 million). In addition, in fiscal 2015 there was a cash outflow of €5 million for the assumption of a loss at Currenta GmbH & Co. OHG, Leverkusen, Germany, which is recognized at equity, compared with a profit transfer of €2 million in 2014. The net cash outflow for investing activities was €400 million (2014: €587 million).

### Net cash used in financing activities

The capital increase at the subsidiary LANXESS-TSRC (Nantong) Chemical Industrial Co., Ltd., Nantong, China, in which LANXESS has a 50% interest, resulted in a cash inflow of €9 million (2014: €433 million from an increase in the capital stock of LANXESS AG). Outflows included €220 million (2014: €478 million) for the repayment of borrowings, particularly €70 million for the redemption of the CNY bond and €114 million for partial repayments of the U.S. dollar loan from the European Investment Bank. Interest payments and other financial disbursements accounted for cash outflows of €76 million (2014: €131 million). In 2015, as in 2014, outflows for dividend payments amounted to €46 million, comprising €46 million (2014: €46 million) paid to the stockholders of LANXESS AG. A net cash outflow of €333 million (2014: €222 million) was recorded for financing activities. Details of unused credit facilities are given in Note [36].

### Cash and cash equivalents

Cash and cash equivalents, which comprise cash, checks and bank balances, amounted to €366 million (2014: €418 million). In accordance with IAS 7, this item also includes securities with maturities of up to three months from the date of acquisition.

## 38 | Segment reporting

### Key Data by Segment

| € million | Performance Polymers | | Advanced Intermediates | | Performance Chemicals | | Reconciliation | | LANXESS | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 |
| External sales | 4,128 | 3,944 | 1,847 | 1,826 | 1,989 | 2,085 | 42 | 47 | 8,006 | 7,902 |
| Inter-segment sales | 0 | 2 | 46 | 51 | 9 | 11 | (55) | (64) | 0 | 0 |
| Segment/Group sales | 4,128 | 3,946 | 1,893 | 1,877 | 1,998 | 2,096 | (13) | (17) | 8,006 | 7,902 |
| Segment result/EBITDA pre exceptionals | 392 | 502 | 308 | 339 | 269 | 326 | (161) | (282) | 808 | 885 |
| Exceptional items affecting EBITDA | (41) | 5 | (13) | (1) | (31) | (13) | (79) | (43) | (164) | (52) |
| Segment assets | 3,647 | 3,604 | 1,121 | 1,120 | 1,357 | 1,427 | 158 | 146 | 6,283 | 6,297 |
| Segment acquisitions | – | – | – | – | – | – | – | – | – | – |
| Segment capital expenditures | 472 | 190 | 100 | 99 | 94 | 144 | 26 | 24 | 692 | 457 |
| Depreciation and amortization | 208 | 247 | 88 | 94 | 80 | 85 | 18 | 23 | 394 | 449 |
| Write-downs | 23 | 17 | 5 | 5 | 2 | 3 | 2 | – | 32 | 25 |
| Reversals of impairment charges | – | 37 | – | 19 | – | – | – | – | – | 56 |
| Segment liabilities | 1,018 | 956 | 731 | 555 | 745 | 770 | 504 | 645 | 2,998 | 2,926 |
| Employees (December 31) | 5,240 | 5,088 | 3,312 | 3,264 | 5,318 | 5,260 | 2,714 | 2,613 | 16,584 | 16,225 |
| Employees (average for the year) | 5,285 | 5,125 | 3,328 | 3,287 | 5,388 | 5,263 | 2,806 | 2,635 | 16,807 | 16,310 |

2014 figures restated

### Key Data by Region

| € million | EMEA (excluding Germany) | | Germany | | North America | | Latin America | | Asia-Pacific | | LANXESS | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 |
| External sales by market | 2,296 | 2,325 | 1,440 | 1,365 | 1,338 | 1,368 | 859 | 830 | 2,073 | 2,014 | 8,006 | 7,902 |
| Non-current region assets | 642 | 655 | 1,029 | 1,035 | 413 | 446 | 320 | 244 | 1,284 | 1,394 | 3,688 | 3,774 |
| Acquisitions | – | – | – | – | – | – | – | – | – | – | – | – |
| Capital expenditures | 117 | 91 | 158 | 163 | 46 | 79 | 34 | 24 | 337 | 100 | 692 | 457 |
| Employees (December 31) | 3,267 | 3,143 | 7,747 | 7,523 | 1,371 | 1,312 | 1,467 | 1,412 | 2,732 | 2,835 | 16,584 | 16,225 |

### *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. As part of the global realignment, Group structures were reorganized in 2015. Effective January 1, 2015, the antioxidants and accelerators product lines of the dissolved Rubber Chemicals business unit (Performance Chemicals segment) were integrated into the Advanced Industrial Intermediates business unit (Advanced Intermediates segment). In addition, employees were assigned to various business units in connection with the dissolution of Aliseca GmbH. The prior-year figures have been restated accordingly, resulting in reallocations from the Performance Chemicals segment to the Advanced Intermediates segment, and changes in the overall headcount.

On December 31, 2015, 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; tire 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 that are not directly allocated to the core segments including, in particular, those pertaining to the Corporate Center. The reconciliation also includes €0 million (2014: €0 million) relating to Currenta GmbH & Co. OHG, Leverkusen, Germany, which is accounted for using the equity method, and the income of €0 million (2014: €2 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 2015, 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 2015). 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, reversals of impairment charges recognized in previous years, 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 previous fiscal year mainly related to a pilot facility of the Butyl Rubber business unit (Performance Polymers segment).

In fiscal 2015, impairment charges recognized in previous years on assets in the cash-generating units were reversed. Further information is provided in the section headed "Estimation uncertainties and exercise of discretion."

The exceptional items that impacted EBITDA in 2015 mainly related to the "Let's LANXESS again" program initiated in the previous year and include the costs associated with the closure of the site in Marl, Germany. The corresponding exceptional items in the previous year mainly related to measures associated with the "Let's LANXESS again" and "Advance" programs.

**Reconciliation of Segment Sales**

| € million | 2014 | 2015 |
|---|---|---|
| **Total segment sales** | **8,019** | **7,919** |
| Other/Consolidation | (13) | (17) |
| **Group sales** | **8,006** | **7,902** |

The change in segment results in the reconciliation is mainly due to expenses from currency hedges.

**Reconciliation of Segment Results**

| € million | 2014 | 2015 |
|---|---|---|
| **Total segment results** | **969** | **1,167** |
| Depreciation and amortization | (426) | (474) |
| Reversals of impairment charges | – | 56 |
| Exceptional items affecting EBITDA | (164) | (52) |
| Other financial income and expense | (71) | (61) |
| Net interest expense | (69) | (66) |
| Income from investments accounted for using the equity method | 2 | 0 |
| Other/Consolidation | (161) | (282) |
| **Income before income taxes** | **80** | **288** |

The reconciliation of segment results to income before income taxes contains total exceptional items comprising net charges of €7 million (2014: charges of €184 million) (see Notes [26] and [27]). These include write-downs of €11 million (2014: €20 million), reversals of impairment charges totaling €56 million (2014: €0 million) and exceptional items of minus €52 million (2014: minus €164 million) that affect EBITDA.

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.

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, deferred taxes and near-cash financial assets.

**Reconciliation of Segment Assets**

| € million | Dec. 31, 2014 | Dec. 31, 2015 |
|---|---|---|
| **Total segment assets** | **6,125** | **6,151** |
| Cash and cash equivalents | 418 | 366 |
| Deferred tax assets | 380 | 361 |
| Near-cash assets | 100 | 100 |
| Income tax receivables | 34 | 55 |
| Derivative assets | 19 | 15 |
| Other financial assets | 16 | 25 |
| Other/Consolidation | 158 | 146 |
| **Group assets** | **7,250** | **7,219** |

Capital expenditures made by the segments mainly comprise additions to intangible assets, property, plant and equipment.

All depreciation, amortization and impairments in fiscal 2014 and 2015 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, 2014 | Dec. 31, 2015 |
|---|---|---|
| **Total segment liabilities** | **2,494** | **2,281** |
| Other financial liabilities | 1,880 | 1,701 |
| Derivative liabilities | 121 | 119 |
| Income tax liabilities | 69 | 104 |
| Deferred tax liabilities | 21 | 46 |
| Other/Consolidation | 504 | 645 |
| **Group liabilities** | **5,089** | **4,896** |

## 39 | Audit fees

In 2015, total audit fees of €3,346 thousand (2014: €2,731 thousand) for the auditor of the consolidated financial statements of the LANXESS Group were recognized as expenses. Of this amount, €1,267 thousand (2014: €1,322 thousand) related to the auditing of financial statements, €517 thousand (2014: €560 thousand) to other audit-related services and €1,562 thousand (2014: €849 thousand) to other services rendered to Group companies. In the previous year, the amount recognized for other services included the prorated fee for a purchase in the area of IT services made by the auditors of the financial statements during the year. In fiscal 2015, these services applied for the full reporting period and resulted in an increase in the amount recognized for other services. 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.

## 40 | Declaration of Compliance pursuant to Section 161 of the Stock Corporation Act

The Declaration of Compliance with the German Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act (AktG) has been issued by the Board of Management and Supervisory Board and made available to stockholders on the LANXESS website.

## 41 | Utilization of disclosure exemptions

In 2015, the following German subsidiaries made use of disclosure exemptions pursuant to Section 264, Paragraph 3 of the German Commercial Code (HGB):

- 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
- Rhein Chemie Rheinau GmbH, Mannheim
- Saltigo 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, 2015, 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 26, 2016

LANXESS Aktiengesellschaft

The Board of Management

| | |
|---|---|
| Matthias Zachert | Michael Pontzen |
| Dr. Rainier van Roessel | Dr. Hubert Fink |

# 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, 2015. 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, February 29, 2016

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Bernd Boritzki
German Public Auditor

Carsten Manthei
German Public Auditor

# About this Report

## Reporting methodology and data collection

GRI
G4–22
G4–23

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 2015. 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%. 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).

In 2010, we set ourselves the target of reducing both the specific energy consumption and specific $CO_2e$ emissions of each of our business segments by 10% through the end of fiscal 2015. In assessing target attainment, we additionally made a adjusted description of one scenario to take account of factors including portfolio changes since 2010 (see "Analysis of adjusted values" on page 70).

We use a standardized corporate information system for reporting HR data worldwide.

## GRI

The report is produced according to the GRI G4 guidelines and complies with the core option. However, in order to satisfy the information needs of rating agencies and other stakeholders, we go beyond these requirements in our reporting and compile a more extensive GRI index. GRI reporting is performed annually. The last report for fiscal 2014 was published in March 2015.

The contents of the report for fiscal 2015 are based on a materiality analysis that also included a stakeholder survey. This materiality analysis is based on the four principles formulated by GRI: sustainability context, materiality, completeness and stakeholder inclusiveness. The following table identifies the boundaries between the key issues and the GRI aspects they cover.

**Boundaries**

GRI
G4–19
G4–20
G4–21

| Areas of Activity/ Key Issues | Within the Organization (G4–20) | | | Outside the Organization (G4–21) | | | GRI Aspects |
|---|---|---|---|---|---|---|---|
| | PP | AI | PC | Suppliers | Customers | Company | |
| **Responsibility toward employees** | | | | | | | |
| Education & training | X | X | X | X | | X | Training and Education |
| Talent management | X | X | X | | | | Training and Education |
| Demographic change | X | X | X | | | X | Employment \| Training and Education |
| Fair remuneration | X | X | X | X | | | Equal Remuneration for Women and Men |
| Work-life balance | X | X | X | | | X | |
| Occupational safety | X | X | X | X | X | X | Occupational Health and Safety |
| Occupational health | X | X | X | | | | Occupational Health and Safety |
| **Product and process stewardship** | | | | | | | |
| Quality | X | X | X | X | X | | Product and Service Labeling |
| Product safety information | X | X | X | X | X | | Customer Health and Safety \| Product and Service Labeling |
| Responsible handling of chemicals | X | X | X | X | X | X | Customer Health and Safety \| Effluents and Waste \| Product and Service Labeling |
| Plant & process safety | X | X | X | X | X | X | |
| Responsible resource use | X | X | X | X | | | |
| Research & development | X | X | X | X | X | X | |
| **Environmental responsibility** | | | | | | | |
| Climate protection | X | X | X | X | X | X | |
| Emissions reduction | X | X | X | X | X | X | Emissions |
| Energy efficiency | X | X | X | | X | X | Energy |
| Resource efficiency | X | X | X | | X | X | |
| Environmental management | X | X | X | X | X | X | |
| Environmental standards | X | X | X | X | X | X | |
| Toxicity | X | X | X | X | X | X | |
| Water management | X | X | X | | X | X | Water |
| Transportation | X | X | X | X | X | X | Transport |

GRI
G4–19
G4–20
G4–21

**Boundaries**

| Areas of Activity/ Key Issues | Within the Organization (G4–20) | | | Outside the Organization (G4–21) | | | GRI Aspects |
|---|---|---|---|---|---|---|---|
| | PP | AI | PC | Suppliers | Customers | Company | |
| **Corporate governance** | | | | | | | |
| Compliance | X | X | X | X | X | X | Compliance in the categories Environmental, Society and Product Responsibility \| Grievance Mechanisms in Respect of Labor Practices, Human Rights, Impacts on Society and Environmental \| Customer Health and Safety \| Product and Service Labeling \| Marketing Communications \| Customer Privacy \| Anti-competitive Behavior |
| Anti-corruption | X | X | X | X | X | X | Anti-corruption |
| Risk management | X | X | X | X | X | X | |
| Transparency | X | X | X | X | X | X | |
| Globalization | X | X | X | X | X | | |
| **Responsibility in the supply chain** | | | | | | | |
| Business ethics | X | X | X | X | | X | |
| Sustainable procurement | X | X | X | X | | X | Procurement \| Supplier Environmental Assessment \| Supplier Assessment for Labor Practices \| Supplier Human Rights Assessment \| Supplier Assessment for Impacts on Society |
| **Social responsibility** | | | | | | | |
| Human rights | X | X | X | X | X | X | Investment \| Non-discrimination \| Freedom of Association and Collective Bargaining \| Child Labor \| Forced or Compulsory Labor \| Security Practices \| Indigenous Rights \| Assessment \| Human Rights Grievance Mechanisms |
| Stakeholder relations | X | X | X | X | X | X | |

In the GRI Content Index, we list which criteria from the current GRI Guideline are addressed in the LANXESS Annual Report 2015. In addition to the disclosures contained in this report, supplementary information can be found on the LANXESS Group website. 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 Practitioner's Limited Assurance Report

To LANXESS AG, Cologne

We have been engaged to perform a limited assurance engagement on environmental and safety performance data in the "Environmental and Safety Performance Data" table included in the "Health, safety, environment and climate protection along the value chain" section of the "Corporate Responsibility" chapter in the Annual Report 2015 of LANXESS AG, Cologne (hereafter the Company) for the period January 1, 2015 to December 31, 2015 (hereafter "Environmental and Safety Performance Data" table).

### Management's Responsibility

Company's Management is responsible for the preparation and presentation of the "Environmental and Safety Performance Data" table in accordance with the criteria as set out in the G4 Sustainability Reporting Guidelines of the Global Reporting Initiative (GRI) (hereafter the "GRI-Criteria") and for the selection of the information to be assessed.

This responsibility includes the selection and application of appropriate methods to prepare the "Environmental and Safety Performance Data" table as well as the use of assumptions and estimates for individual sustainability disclosures which are reasonable in the circumstances. Furthermore, the responsibility includes designing, implementing and maintaining systems and processes relevant for the preparation of the "Environmental and Safety Performance Data" table which is free of material misstatements due to intentional or unintentional errors.

### Audit Firm's Independence and Quality Control

We have complied with the German professional provisions regarding independence as well as other ethical requirements.

The audit firm applies the national legal requirements and professional standards – in particular the Professional Code for German Public Auditors and German Chartered Auditors ("Berufssatzung für Wirtschaftsprüfer und vereidigte Buchprüfer": "BS WP/vBP") as well as the joint opinion of the Wirtschaftsprüferkammer (Chamber of German Public Auditors; WPK) and the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany; IDW): Requirements to quality control for audit firms ("Gemeinsamen Stellungnahme der WPK und des IDW: Anforderungen an die Qualitätssicherung in der Wirtschaftsprüferpraxis": "VO 1/2006") – 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 an opinion on the sustainability information in the "Environmental and Safety Performance Data" table based on our work performed.

Within the scope of our engagement we did not perform an audit on external sources of information or expert opinions, referred to in the "Environmental and Safety Performance Data" table.

We conducted our work in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): "Assurance Engagements other than Audits or Reviews of Historical Financial Information" published by IAASB. This Standard requires that we plan and perform the assurance engagement to obtain limited assurance whether any matters have come to our attention that cause us to believe that the sustainability information in the "Environmental and Safety Performance Data" table has not been prepared, in all material respects, in accordance with the GRI-Criteria. In a limited assurance engagement the evidence-gathering procedures are more limited than for a reasonable assurance engagement and therefore significantly less assurance is obtained than in a reasonable assurance engagement. The procedures selected depend on the practitioner's judgement. This includes the assessment of the risks of material misstatements of the sustainability information in the "Environmental and Safety Performance Data" table with regard to the GRI-Criteria.

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;
- Documentation of the processes and inspection of the systems and processes regarding the collection calculation, analysis, verification and aggregation of the environmental and safety performance data as well as sample testing;
- Analytical evaluation of the environmental and safety performance data;
- Assessment of the presentation of selected sustainability information regarding the sustainability performance.

## Conclusion

Based on our limited assurance engagement, nothing has come to our attention that causes us to believe that the sustainability information in the "Environmental and Safety Performance Data" table of the Company for the period January 1 to December 31, 2015 has not been prepared, in all material respects, in accordance with the GRI-Criteria.

## Emphasis of Matter – Recommendations

Without qualifying our conclusion above, we make the following recommendations:

- Consistently, annually update process descriptions and apply defined controls
- Apply quality criteria for Scope 2 market-based greenhouse gas emissions more stringently to fully conform with GHG Protocol, and to support target setting process
- Implement a process for a systematic updating of the site-specific $CO_2$ emissions factors.

## Restriction on Use and Distribution

We issue this report on the basis of the engagement agreed with LANXESS AG. The audit has been performed for purposes of LANXESS AG and is solely intended to inform LANXESS AG about the results of the audit. The report is not intended for any third parties to base any (financial) decision thereon. We do not assume any responsibility towards third parties.

Cologne, February 26, 2016

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

| | |
|---|---|
| Bernd Boritzki<br>Wirtschaftsprüfer<br>(German Public Auditor) | Hendrik Fink<br>Wirtschaftsprüfer<br>(German Public Auditor) |

# GRI Content Index

Materiality Disclosures
LANXESS AG
Mar 2016
Service

| G4 Indicators and Description | | Location | Comments and Online Annexes | UNGC |
|---|---|---|---|---|
| **Strategy and Analysis** | | | | |
| G4-1 | Foreword by the Chairman of the Board of Management | pp. 4–5 | | |
| G4-2 | Key impacts, risks and opportunities | pp. 26–29, 40–41, 167–173 | http://lanxess.com/en/corporate/about-lanxess/megatrends/ | |
| **Organizational Profile** | | | | |
| G4-3 | Name of the organization | | LANXESS AG | |
| G4-4 | Primary brands, products or services | pp. 112–113 | http://lanxess.com/en/corporate/products-solutions/products-solutions/ | |
| G4-5 | Location of the organization's headquarters | | Cologne, Germany | |
| G4-6 | Countries where the organization operates | pp. 113–114 | http://lanxess.com/en/corporate/about-lanxess/sites-worldwide/ | |
| G4-7 | Nature of ownership and legal form | pp. 83, 112 | | |
| G4-8 | Markets | pp. 120–121, 131–132 | | |
| G4-9 | Scale of the organization | Table of key data, inside front cover; pp. 54, 67, 136 | | |
| G4-10 | Total workforce | pp. 48, 50 | | 6 |
| G4-11 | Employees covered by collective bargaining agreements | p. 53 | | 3 |
| G4-12 | Description of supply chain | pp. 118–119 | | |
| G4-13 | Significant changes in the organization's size, structure or ownership | pp. 112, 196 | | |
| G4-14 | Explanation of how the precautionary principle is addressed | pp. 121–123, 163–165 | | |
| G4-15 | Participation in and endorsement of externally developed charters, principles and initiatives | pp. 34–35, 37, 40–41 | | |
| G4-16 | Important memberships | pp. 37, 40–41, 118–119 | | |
| **Material Aspects and Boundaries** | | | | |
| G4-17 | All entities included in the organization's consolidated financial statements | pp. 196–198 | | |
| G4-18 | Process for defining the report content | pp. 38–40 | | |
| G4-19 | Material aspects identified | pp. 39, 243–244 | | |
| G4-20 | Material aspects within the organization | pp. 243–244 | | |
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| G4-22 | Effects of any re-statements of information | p. 242 | | |
| G4-23 | Changes in the scope, boundary or measurement methods | pp. 196–198, 242 | | |
| **Stakeholder Engagement** | | | | |
| G4-24 | Overview of stakeholder groups | p. 38 | | |
| G4-25 | Basis for identification of stakeholder groups | p. 38 | | |
| G4-26 | Engagement of stakeholder groups | pp. 38–41, 55–56 | | |
| G4-27 | Consideration of key concerns raised by stakeholder groups | pp. 38–41, 55–56 | | |

| G4 Indicators and Description | | Location | Comments and Online Annexes | UNGC |
|---|---|---|---|---|
| **Report Profile** | | | | |
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| G4-29 | Date of most recent previous report | p. 242 | 2015 | |
| G4-30 | Reporting cycle | p. 242 | | |
| G4-31 | Contact point | Masthead | | |
| G4-32 | GRI Content Index | pp. 247–253 | | |
| G4-33 | External assurance for the report | pp. 245–246 | | |
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| G4-34 | Governance structure of the organizationn | pp. 94–97 | | |
| **Ethics and Integrity** | | | | |
| G4-56 | Values, principles and code of conduct | pp. 32–37 | | 1–10 |
| **Economic** | | | | |
| | Management approach | pp. 22–29, 74–77 | | |
| **Economic Performance Indicators** | | | | |
| G4-EC1 | Direct economic value generated and distributed | pp. 74, 138, 145, 146, 177 | | |
| G4-EC3 | Coverage of the organization's defined-benefit plan obligations | pp. 207–214 | | |
| **Market Presence** | | | | |
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| G4-EC7 | Infrastructure investments and services provided primarily for public benefit | pp. 74–77 | | |
| **Procurement Practices** | | | | |
| G4-EC9 | Selection of locally based suppliers | pp. 118–119 | | |
| **Environmental** | | | | |
| | Management approach | pp.32–37, 57–65, 72–73, 118–119 | | |
| **Materials** | | | | |
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| G4-EN2 | Percentage of materials used that are recycled input materials | | Not relevant as LANXESS cannot use any significant quantities of recycled input materials in the manufacture of its products | 8 |
| **Energy** | | | | |
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| G4-EN5 | Energy intensity | pp. 61, 69–71 | | 8 |
| G4-EN6 | Reduction of energy consumption | pp. 60–61, 69 | | 8, 9 |
| G4-EN7 | Reduction in energy requirements of products and services | pp. 60–61, 121–122 | http://webmagazin.lanxess.de/nimms-leicht/nimms-leicht.html (German only) http://green-mobility.com/en/home/ | 8, 9 |
| **Water** | | | | |
| G4-EN8 | Total water withdrawal | pp. 63–64, 66–67 | | 7, 8 |

| G4 Indicators and Description | | Location | Comments and Online Annexes | UNGC |
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| **Emissions** | | | | |
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| G4-EN16 | Indirect greenhouse gas emissions – Scope 2 | pp. 61–62, 66–67 | | 7, 8 |
| G4-EN18 | Greenhouse gas emissions intensity | pp. 62, 69–71 | | 8 |
| G4-EN19 | Reduction of greenhouse gas emissions | pp. 60–63, 69–71 | | 8, 9 |
| G4-EN20 | Emissions of ozone-depleting substances | p. 67 | | 7, 8 |
| G4-EN21 | NOx , SOx and other significant air emissions | pp. 63, 67, 70–71 | | 7, 8 |
| **Effluents and Waste** | | | | |
| G4-EN22 | Total water discharge | pp. 64, 66, 68 | | 8 |
| G4-EN23 | Quantity of waste | pp. 64–66, 68 | | 8 |
| G4-EN24 | Total number and volume of signifcant spills | | On March 13, 2015, a plant fault resulted in the release of a small amount of acidic vapor at the site in Jinshan, China. This caused odor formation in close vicinity to the site.<br><br>On October 6, 2015, sulfur dioxide was released as the result of an unplanned build-up of pressure in a spent acid incinerator at the site in Leverkusen, Germany. The impact was restricted by the immediate shutdown of the facility.<br><br>Also in Leverkusen, failure of the thermal waste air purification facility on November 11, 2015, resulted in the release of very odorous substances, which were clearly discernible outside the site.<br><br>On November 21, 2015, some 130 m² of a reaction mixture spilled from a container at the Kallo site in Belgium. While most of the spill was contained, small amounts reached the wastewater treatment plant.<br><br>No personal injury occurred in any of the aforementioned cases. | 8 |
| **Products and Services** | | | | |
| G4-EN27 | Initiatives to mitigate environmental impacts | pp. 58–59 | http://lanxess.com/en/corporate/about-lanxess/megatrends/water/ | 7, 8, 9 |
| G4-EN28 | Reclaiming of packaging materials | p. 63 | | 8 |
| **Compliance** | | | | |
| G4-EN29 | Fines for non-compliance with environmental laws and regulations | | In fiscal 2015, no monetary fines or other penalties were imposed on LANXESS for non-compliance with environmental laws and regulations. Should material cases occur, these would have to be reported in the audited financial statements. | 8 |
| **Transport** | | | | |
| G4-EN30 | Significant environmental impacts of transporting products and other goods and materials, and transporting members of the workforce | p. 63 | | 8 |
| **Supplier Environmental Assessment** | | | | |
| G4-EN32 | New suppliers screened using environmental criteria | pp. 118–119 | | 8 |
| G4-EN33 | Significant actual and potential negative environmental impacts in the supply chain | pp. 118–119 | | 8 |
| **Environmental Grievance Mechanisms** | | | | |
| G4-EN34 | Formal grievances about environmental impacts | | No formal grievances concerning environmental impacts were filed in fiscal 2015. | 8 |

| G4 Indicators and Description | | Location | Comments and Online Annexes | UNGC |
|---|---|---|---|---|
| **Labor practices and decent work** | | | | |
| | Management approach | pp. 42–53, 54–56, 72–73 | | |
| **Employment** | | | | |
| G4-LA1 | Employee turnover | pp. 42–43 | | 6 |
| G4-LA2 | Benefits provided to full-time employees | pp. 50–52 | | |
| G4-LA3 | Parental leave | p. 50 | | 6 |
| **Labor/Management Relations** | | | | |
| G4-LA4 | Minimum notice periods regarding significant operational changes | p. 53 | | 3 |
| **Occupational Health and Safety** | | | | |
| G4-LA5 | Workforce representation in health and safety committees | pp. 51–52 | | |
| G4-LA6 | Injuries, occupational diseases and work-related accidents | pp. 54–56, 66–67, 147 | | |
| G4-LA8 | Health and safety topics covered in formal agreements with trade unions | pp. 51–52 | | |
| **Training and Education** | | | | |
| G4-LA9 | (Vocational) training | pp. 46–48 | | 6 |
| G4-LA10 | Programs for skills management and lifelong learning | pp. 47–51 | | |
| G4-LA11 | Regular performance and career development reviews | pp. 47, 52 | | 6 |
| **Diversity and Equal Opportunity** | | | | |
| G4-LA12 | Composition of governance bodies | pp. 6–7, 48–50, 100–102, 146, 147 | | 6 |
| **Equal Remuneration for Women and Men** | | | | |
| G4-LA13 | Pay differentials by gender | p. 52 | For non-managerial employees, collective agreements mean there are no notable differences between the salaries of female and male employees. Managers' compensation is based on their responsibilities and performance and also on aspects such as industry and managerial experience. | 6 |
| **Supplier Assessment for Labor Practices** | | | | |
| G4-LA14 | New suppliers screened using labor practices criteria | pp. 118–119 | | |
| G4-LA15 | Significant actual and potential negative impacts for labor practices in the supply chain | pp. 118–119 | | |
| **Labor Practices Grievance Mechanisms** | | | | |
| G4-LA16 | Formal grievances about labor practices | | No formal grievances concerning labor practices were filed in fiscal 2015. | |

| G4 Indicators and Description | | Location | Comments and Online Annexes | UNGC |
| --- | --- | --- | --- | --- |
| **Human rights** | | | | |
| | Management approach | pp. 32–37, 48–49, 53, 118–119 | | |
| **Investment** | | | | |
| G4-HR1 | Investment agreements and contracts 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 2015, we received no reports or other indications of human rights violations by our suppliers. | 2 |
| G4-HR2 | Training on human rights aspects | | We do not implement training dedicated to the topic of human rights. In our view, human rights principles are so firmly anchored in LANXESS's corporate culture that no further training appears to be necessary. Our Code of Conduct includes unambiguous instructions regarding the respect of human rights. This Code of Conduct is a central element of our training programs. There was no statistical measurement of the amount of time devoted to the topic of human rights in general compliance training. | 1 |
| **Non-Discrimination** | | | | |
| G4-HR3 | 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. | 6 |
| **Freedom of Association and Collective Bargaining** | | | | |
| G4-HR4 | Violation of the right to exercise freedom of association or collective bargaining | p. 53 | | 3 |
| **Child Labor** | | | | |
| G4-HR5 | 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. | 5 |
| **Forced or Compulsory Labor** | | | | |
| G4-HR6 | 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. | 4 |
| **Security Practices** | | | | |
| G4-HR7 | Security personnel training | | LANXESS employs its own security personnel at its sites in certain individual cases. We primarily procure security services from specialized external providers. They, like all our suppliers, are subject to our Supplier Code of Conduct, which also covers human rights. In addition, professional security providers contracted by LANXESS are subject to the relevant security legislation in each country. In South Africa, for example, security personnel undergo regular training which is documented and complies with the requirements of the Private Security Industry Regulatory Authority of South Africa (PSIRA). | 1 |

| G4 Indicators and Description | | Location | Comments and Online Annexes | UNGC |
|---|---|---|---|---|
| **Indigenous Rights** | | | | |
| G4-HR8 | Violations involving rights of indigenous people | | In fiscal 2015, we received no reports or other indications of cases involving the violation of indigenous rights. | 1 |
| **Assessment** | | | | |
| G4-HR9 | Operations that have been subject to human rights reviews and/or impact assessments | | The Group Compliance Management System covers all LANXESS's business operations and entities. These are regularly subjected to internal and external audits that are performed globally for all business units. Such activities comprise observation and – if necessary – the introduction of suitable measures to guarantee respect for human rights. In fiscal 2015, audits were performed at seven country units, which equates to 29% of our sites worldwide. | 1 |
| **Supplier Human Rights Assessment** | | | | |
| G4-HR10 | Suppliers and contractors that have undergone human rights screening | pp. 118–119 | | 2 |
| G4-HR11 | Significant actual and potential negative human rights impacts in the supply chain | pp. 118–119 | | 2 |
| **Significant Actual and Potential Negative Human Rights Impacts in the Supply Chain and Actions Taken** | | | | |
| G4-HR12 | Formal grievances related to human rights | | No formal grievances concerning human rights were filed in fiscal 2015. | 1 |
| **Society** | | | | |
| | Management approach | pp. 32–37, 74–77 | | |
| **Local Communities** | | | | |
| G4-SO1 | Operations with implemented local community engagement, impact assessments and development programs | pp. 74–77 | | 1 |
| G4-SO2 | Operations with significant potential or actual negative impacts on local communities | pp. 61–66, 168–169 | | 1 |
| **Anti-Corruption** | | | | |
| G4-SO3 | Business units analyzed for risks related to corruption | | The analysis of risks related to corruption is the responsibility of our Corporate Audit 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: at least 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 |
| G4-SO4 | 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 |
| G4-SO5 | Incidents of corruption and actions taken | | In fiscal 2015, 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 2015, we recorded a single-digit number of cases of passive corruption. | 10 |

| G4 Indicators and Description | | Location | Comments and Online Annexes | UNGC |
|---|---|---|---|---|
| **Anti-Competitive Behavior** | | | | |
| G4-SO7 | Legal actions for anti-competitive behavior, anti-trust, and monopoly practices | | The company is not involved in any legal actions regarding anti-competitive behavior or violations of antitrust law. | |
| **Compliance** | | | | |
| G4-SO8 | Penalties for non-compliance with laws and regulations | | In fiscal 2015, no monetary fines or other penalties were imposed on LANXESS for non-compliance with laws and regulations. Should material cases occur, these would have to be reported in the audited financial statements. | |
| **Supplier Assessment for Impacts on Society** | | | | |
| G4-SO9 | New suppliers screened using criteria for impacts on society | pp. 118–119 | | |
| G4-SO10 | Significant actual and potential negative impacts on society in the supply chain | pp. 118–119 | | |
| **Grievance Mechanisms for Impacts on Society** | | | | |
| G4-SO11 | Formal grievances about impacts on society | | No formal grievances concerning impacts on society were filed in fiscal 2015. | |
| **Product responsibility** | | | | |
| | Management approach | pp. 32–37, 57–59 | | |
| **Customer Health and Safety** | | | | |
| G4-PR1 | Significant product and service categories for which health and safety impacts are assessed | pp. 54–59, 118–119 | | |
| G4-PR2 | Incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of products and services during their life cycle | | LANXESS currently does not yet have a system for recording such cases. In fiscal 2015, we received no indications of non-compliance with pertinent regulations. | |
| **Product and Service Labeling** | | | | |
| G4-PR3 | Type of product and service information required by legislation | pp. 57–59 | | |
| G4-PR4 | Incidents of non-compliance with regulations and voluntary codes concerning product and service information | | LANXESS currently does not yet have 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. | |
| G4-PR5 | Customer satisfaction including results of surveys measuring customer satisfaction | p. 40 | | |
| **Marketing Communications** | | | | |
| G4-PR6 | Sale of banned or disputed products | p. 58 | | |
| **Customer Privacy** | | | | |
| G4-PR8 | Complaints regarding customer data privacy | | In fiscal 2015, we received no reports or other indications of complaints regarding breaches of customer privacy and losses of customer data. | |
| **Compliance** | | | | |
| G4-PR9 | Fines for non-compliance with laws and regulations concerning the provision and use of products and services | | In fiscal 2015, no monetary fines or other penalties were imposed on LANXESS for non-compliance with laws and regulations concerning the provision and use of products and services. Should material cases occur, these would have to be reported in the audited financial statements. | |

# Glossary

## Industry-specific terms

CLP and GHS CLP is the abbreviation for classification, labeling and packaging. The E.U. CLP Regulation contains provisions for the classification, labeling and packaging of substances and mixtures.

It 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.

Commodities This is the collective term for economic goods such as fuels, agricultural products, precious metals and chemical products, the quality of which can be identified on the basis of unambiguous criteria and does not differ from one supplier to the next. In virtually transparent markets for these goods, price and volume are the only differentiators that sellers can use.

Compounding facility A facility for processing and finishing engineering plastics to enhance their functional properties.

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.

Networked site Production site where many different production processes and value chains are integrated as a highly efficient network; for example, the by-products from one production plant are used by another facility are the same site to manufacture another product. The network principle results in lower energy and raw material consumption while ensuring high production output. It is thus resource-friendly and reduces logistics costs at the same time.

OSHA Occupational Safety and Health Administration: an agency of the United States Department of Labor that is authorized to adopt occupational safety standards. OSHA also enforces these standards with the aim of reducing the number of work-related accidents and their consequences.

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. Styrene-butadiene rubber is the most important of the synthetic rubbers and 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.

## 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 the 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 the 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; it 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.

NAFTA The North American Free Trade Agreement is an economic alliance between the United States, Canada and Mexico that makes the North American continent a free trade zone.

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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Interim Report Q3 2016

Your direct route to the LANXESS IR website

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