Combined Management Report of the LANXESS Group and LANXESS AG

Combined Management Report

Group structure

Legal structure

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

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

Principal Direct or Indirect Subsidiaries of LANXESS AG

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

Changes to the Group portfolio

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

Management and control organization

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

For additional information, please also see the Corporate Governance Report.

Business

Business organization

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

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

The segments in brief

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

Performance Polymers

Business units	Butyl Rubber[1]
	Performance Butadiene Rubbers[1]
	Keltan Elastomers[2]
	High Performance Elastomers[2]
	High Performance Materials
Sites	Brilon, Dormagen, Hamm-Uentrop, Krefeld-Uerdingen, Leverkusen and Marl, Germany
	Antwerp and Zwijndrecht, Belgium
	Sittard-Geleen, Netherlands
	La Wantzenau and Port-Jérôme, France
	Sarnia, Canada
	Gastonia and Orange, U.S.A.
	Cabo, Duque de Caxias, Porto Feliz and Triunfo, Brazil
	Nantong and Wuxi, China
	Jhagadia, India
	Singapore
Applications	Tires
	Automotive
	Electronics
	Electrical engineering
	Medical equipment

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

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

Advanced Intermediates

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

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

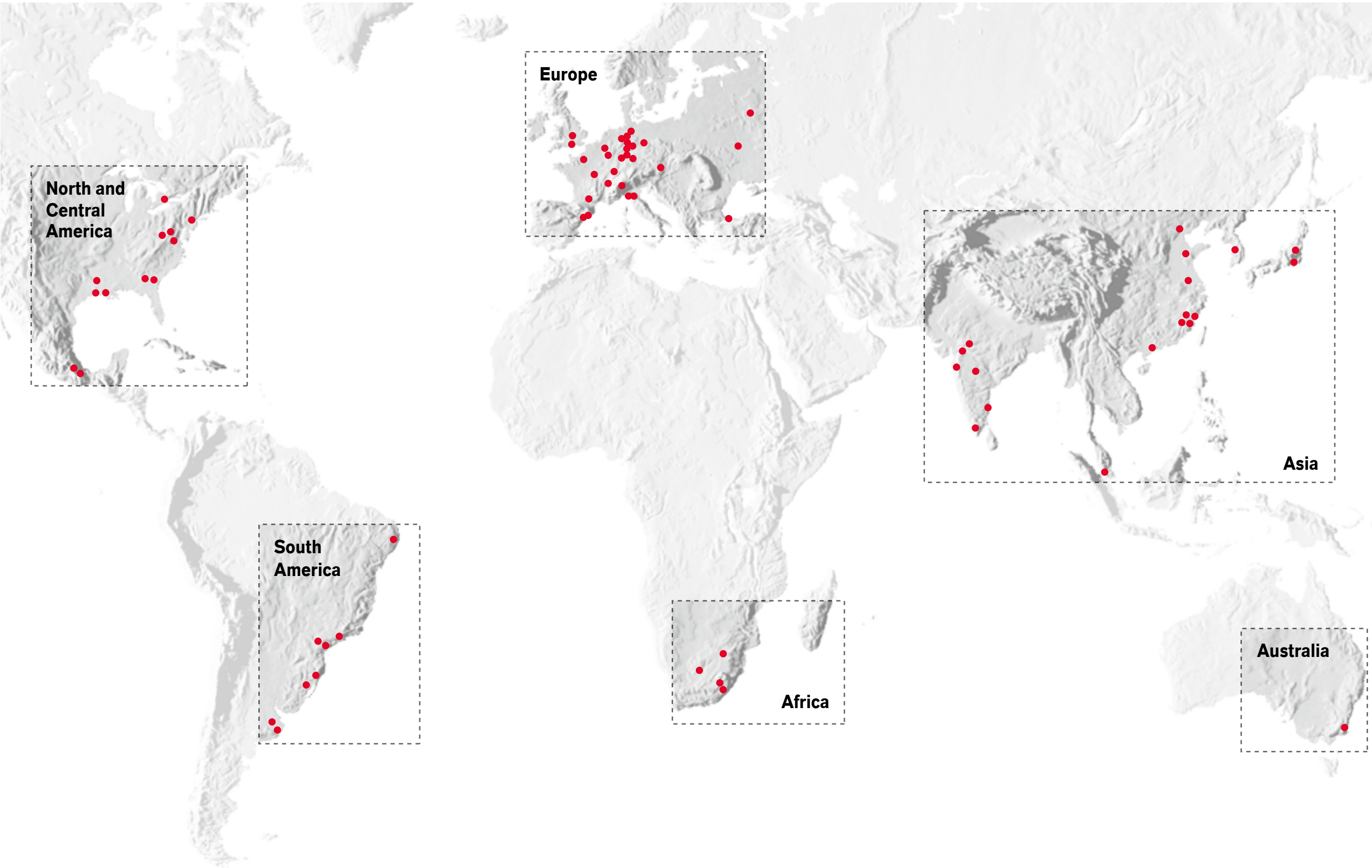
We have combined our application-oriented process and functional chemicals operations in the Performance Chemicals segment.

Performance Chemicals

Business units	Material Protection Products
	Inorganic Pigments
	Functional Chemicals[1]
	Leather
	Rhein Chemie[1]
	Rubber Chemicals[2]
	Liquid Purification Technologies
Sites	Bitterfeld, Brunsbüttel, Dormagen, Krefeld-Uerdingen, Leverkusen and Mannheim, Germany
	Epierre, France
	Antwerp, Belgium
	Branston, United Kingdom
	Filago, Italy
	Lipetsk, Russia
	Vilassar de Mar, Spain
	Merebank, Newcastle and Rustenburg, South Africa
	Burgettstown, Bushy Park, Chardon, Greensboro, Little Rock and Pittsburgh, U.S.A.
	Porto Feliz, Brazil
	Burzaco, Merlo and Zárate, Argentina
	Changzhou, Qingdao, Shanghai and Wuxi, China
	Jhagadia, India
	Toyohashi, Japan
	Singapore
	Sydney, Australia
Applications	Disinfection
	Protection and preservation of wood, construction materials, coatings and foodstuffs
	Color pigments
	Polymer additives
	Leather processing products
	Tire chemicals
	Water treatment products

1) Effective January 1, 2015, merged to form the new Rhein Chemie Additives business unit
2) Effective January 1, 2015, divided between the Advanced Industrial Intermediates and the new Rhein Chemie Additives business units

LANXESS has a Presence Throughout the World



Strategy

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

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

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

Structural challenges on the supply side

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

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

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

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

Extensive realignment program initiated

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

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

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

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

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

Capital expenditure strategy

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

- Having focused in recent years on the construction of world-scale plants in Singapore and China, we intend in the future to target investment more specifically – with the exercise of strict cost discipline – on improving the efficiency of existing plants and on new plants for the Advanced Intermediates and Performance Chemicals segments.
- We invest in sustainably growing markets that are the strategic focus for our operating segments.
- Capital expenditures must satisfy clear financial criteria that, at a minimum, preserve the average return on capital employed (ROCE) achieved by the LANXESS Group during a normal business cycle.
- Capital expenditures are mostly financed out of the cash flow from operating activities or, if that is insufficient, from other available liquidity or credit lines.

Financing strategy

Our financing policy is conservative and sustainable. Its cornerstones are accessing international financial markets and securing long-term financial flexibility.

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

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

Value management and control system

Value Management and Control System

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

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

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

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

Earning power

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

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

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

Company-specific lead indicators

Lead indicators support the timely identification of material changes in the company's earnings, asset and financial position and the initiation of appropriate measures.

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

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

Profitability

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

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

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

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

Cost of capital

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

In 2014, ROCE was 7.9% – against 5.8% in 2013 – and thus almost level with our weighted average cost of capital (WACC) after adjustment for comparability.

Capital employment

To optimize our working capital at the operational level, we use two key performance indicators: DSO (days of sales outstanding) and DIO (days of inventory outstanding). These describe receivables in relation to sales and inventories in relation to the cost of goods sold for the previous quarter. From the reporting year, DIO replaces the previously used ratio DSI (days of sales in inventories). In 2014, DIO was at 79.1 days (2013: 70.7 days) and DSO at 48.0 days (2013: 47.8 days).

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

Debt

The net financial debt ratio, which we use solely at Group level, is defined as net financial liabilities divided by EBITDA pre exceptionals. Net financial liabilities are the total of current and non-current financial liabilities, less cash, cash equivalents and near-cash assets. The financial liabilities reflected in the statement of financial position are adjusted here for liabilities for accrued interest. Due to lower net financial liabilities at December 31, 2014, the net financial debt ratio decreased to 1.7, against 2.4 at the previous year's reporting date. Our net financial liabilities declined by €395 million to €1,336 million. Moreover, at Group level, provisions for pensions and other post-employment benefits are considered components of debt. They rose by €347 million compared with the end of 2013, to €1,290 million.

Net Financial Liabilities

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

Procurement and production

Procurement

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

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

Our biggest suppliers of chemical raw materials in 2014 included BASF, Bayer, BP, Braskem, Evonik, ExxonMobil, INEOS, LyondellBasell, Nova Chemicals, PT Petrokimia Butadiene Indonesia, Sabic, Shell Chemicals and Total.

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

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

We systematically apply best-practice processes. These include e-procurement tools, such as e-catalogs, auctions and electronic marketplaces, many of which are integrated into our internal IT systems. In 2014, about 66% of all items ordered (2013: around 64%) were handled in e-procurement systems.

Our HSEQ management process begins when raw materials and services are procured. In the reporting year, our procurement transactions involved more than 16,500 suppliers. Based on the principles of the U.N. Global Compact, the International Labour Organization (ILO), Responsible Care® and other corporate responsibility codes, we expect our suppliers to comply with all applicable national and other laws and regulations on safeguarding the environment, ensuring health and safety in the workplace and using appropriate labor and hiring practices. These criteria, which are defined in our Supplier Code of Conduct, have a key role in our selection and evaluation of suppliers.

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

Production

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

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

The following significant changes occurred in our global production network in 2014:

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

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

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

Sales organization and customers

Sales organization

We sell our products all over the world, to several thousand customers in more than 150 countries across all continents. LANXESS's long-standing customer base includes leaders in each of its user industries. We have well-established customer relationships in all sales regions. To meet our customers' needs, we have set up very flexible marketing and sales structures. We manage our sales throughout the world through 49 companies owned by LANXESS itself. In countries where we do not yet have our own company, we work with local sales partners.

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

In 2014, we expanded our e-business activities in purchasing, sales and logistics. Altogether, more than 1,000,000 orders and the respective automated follow-up notices were handled as e-business. This capability is provided by the "LANXESS one" Internet portal and the system-to-system connections via ELEMICA. We will continue to expand this process, which provides benefits for all involved, by adding further partners and technical services. The net sales invoice values accounted for by e-business came to approximately €1.8 billion, an increase of about 3% on the previous year.

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

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

Selling Costs

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

Customers

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

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

Shares of Sales by Industry Sector

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

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

The number of customers in each segment varies widely. The Performance Polymers segment had some 3,600 customers in 2014 (2013: 3,500), while Advanced Intermediates and Performance Chemicals had about 3,100 (2013: 3,000) and around 11,300 (2013: 11,600), respectively. This information is based on the number of customer accounts in each segment. Each segment includes all customer groups and sales categories. However, one customer may do business with more than one segment.

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

Research and development

Research and development makes an important contribution toward increasing our competitiveness and expanding our product portfolio through the development of innovative products and processes as well as the ongoing optimization of existing production processes. In 2014, we redefined our focus in the course of realigning our decentral and central research and development activities. We are now concentrating on projects with a short- to medium-term time horizon for the products and processes in our core businesses.

Organizational focus

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

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

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

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

In the area of process innovation, the emphasis is on planning new processes and integrating new technologies into existing production processes with the aim of achieving cost and technology leadership. One focus is on reviewing current production processes using mathematical and experimental methods in order to pinpoint optimization potential. In this way, for example, we have identified and in some cases achieved considerable savings on raw materials and energy. We have also succeeded in further reducing our operating costs by implementing process control concepts that include online analytics in a number of plants. These concepts enable us to run our plants even closer to the optimum operating point.

Product innovation is focused on generating new products and new applications for existing products as well as on product modifications. The development of new products is more broadly based than in the business units, the main topics are generally applicable to multiple business units. Here, too, our research goals are derived from the needs of our customers in the markets that are relevant to LANXESS.

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

Main research and development projects

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

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

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

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

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

Cost trend and employees

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

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

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

Research and Development Expenses

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

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

Number of Employees in Research and Development

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

Fields of activity and patent strategy

Within the context of our global realignment, we are focusing our research and development activities on market-driven core projects. In 2014, we conducted around 210 projects (2013: 260), around 120 of which (2013: 150) aimed to design new products and applications or improve existing ones. Some 90 projects (2013: around 110) concerned process technology issues with a view to reducing costs, improving efficiency or increasing capacity. We plan to have roughly 20% of the research and development projects we started in 2014 in the market or technical implementation stages by the end of 2015 (2013: about 20%).

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

Corporate responsibility

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

We consider compliance with laws and ethical principles to be the basis for sustainable corporate governance. The "Code for Legal Compliance and Corporate Responsibility at LANXESS," which is applicable throughout the Group, specifies minimum standards and gives our employees advice and guidance on complying with these standards.

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

Integrated management system

At LANXESS, a central management system provides the necessary global structures to ensure responsible commercial practices. Worldwide, we apply internal directives and operating procedures together with the ISO 9001 and ISO 14001 international standards for quality and environmental management. External, independent experts regularly audit the progress of system integration at new sites and the performance of our management system worldwide. Confirmation of our compliance with ISO 9001 and ISO 14001 takes the form of a global matrix certificate. We successfully completed a follow-up audit in 2014.

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

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

Environment data

We use an electronic data capture system for the systematic global recording of key performance indicators (KPIs) in the areas of safety and environmental protection. Data for all indicators except the LTIFR (lost time injury frequency rate) are gathered only at those production sites in which the company has a holding of more than 50%. In the year under review, PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft assessed our HSE indicators for 2014 and the necessary data recording processes in the course of a business audit, again with a view to achieving a "limited assurance" rating.

Social commitment

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

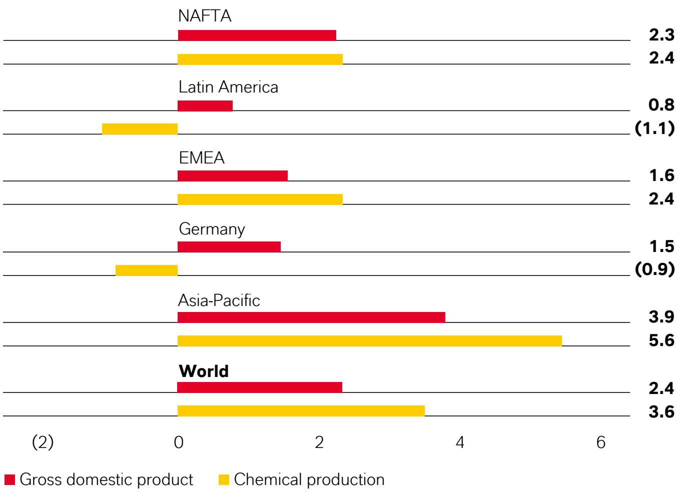
Legal environment

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

Business conditions

GDP and Chemical Production in 2014

Change vs. prior year in real terms (%)

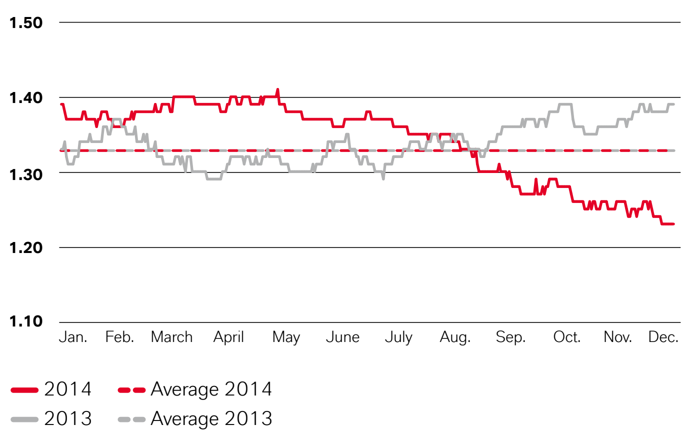


The economic environment

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

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

Value of the U.S. Dollar against the Euro



On the raw material markets, prices declined over the course of the reporting year. We are particularly affected by the prices of petrochemical raw materials as they have a material impact on our production costs. The price of our most important strategic raw material, butadiene, declined over the course of the year – especially from the beginning of the second half. Reflecting the development of the oil price, the prices of feedstocks such as benzene and toluene also decreased.

The chemical industry

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

Evolution of major user industries

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

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

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

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

Evolution of Major User Industries in 2014

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

Key events influencing the company's business

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

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

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

Comparison of forecast and actual business

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

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

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

Comparison of Forecast and Actual Business 2014

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

Business performance of the LANXESS Group

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

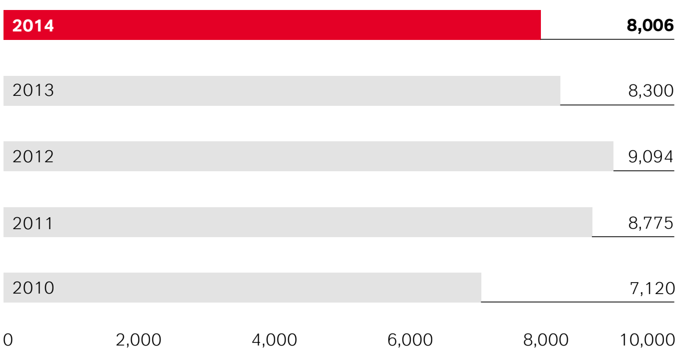
Key Financial Data

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

Sales and earnings

Group Sales

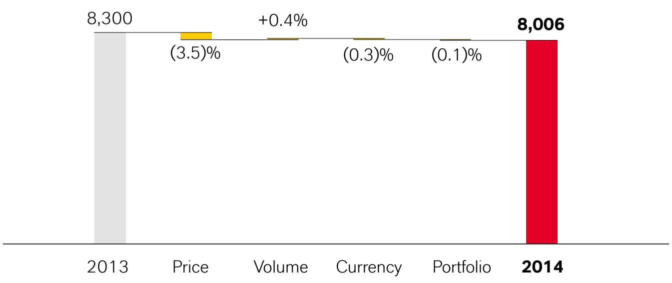
€ million



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

Effects on Sales

€ million/%



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

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

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

Sales by Segment

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

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

Order book status

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

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

Gross profit

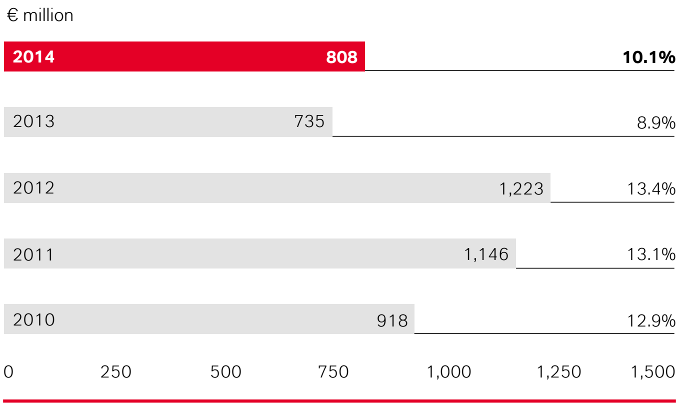
The cost of sales showed a disproportionately large decline of 4.9% compared with sales, to €6,418 million. Declining procurement prices for raw materials and energies as well as higher capacity utilization coupled with lower idle capacity costs had a positive impact and more than offset the opposing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

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

EBITDA and operating result (EBIT)

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

EBITDA and EBITDA Margin Pre Exceptionals



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

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

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

EBITDA Pre Exceptionals by Segment

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

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

Reconciliation of EBITDA Pre Exceptionals to Operating Result (EBIT)

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

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

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

Reconciliation of EBIT to Net Income (Loss)

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

Financial result

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

Income before income taxes

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

Income taxes

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

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

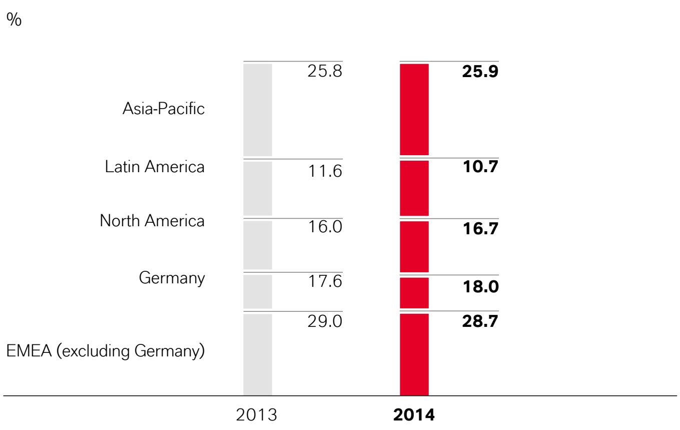
The LANXESS Group posted net earnings of €47 million, an increase of €206 million year on year. A loss of €3 million was attributable to non-controlling interests, compared with a loss of €9 million in the previous year.

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

Earnings per share pre exceptionals were €1.98, against €1.37 the year before. This value was calculated from the earnings per share adjusted for exceptional items and attributable tax effects. In the reporting year, exceptional items came to €184 million after €381 million in 2013.

Business trends by region

Sales by Market



Sales by Market

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

EMEA (excluding Germany)

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

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

Germany

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

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

North America

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

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

Latin America

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

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

Asia-Pacific

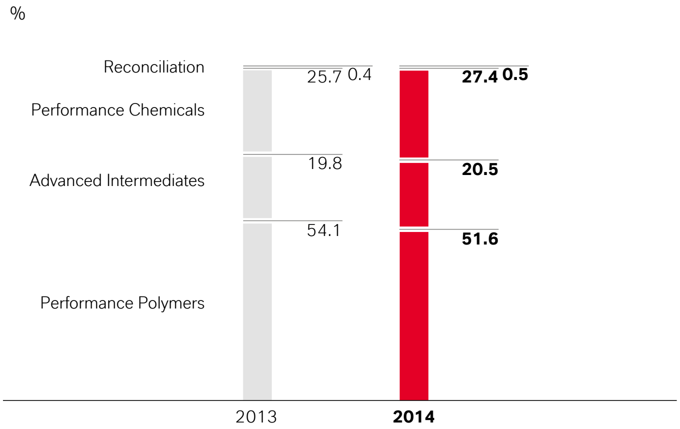
Sales in the Asia-Pacific region declined by €67 million, or 3.1%, to €2,073 million in 2014. Adjusted for negative currency effects and slight portfolio effects, sales were down by 2.4%. This development was primarily due to the business performance in our Performance Polymers and Advanced Intermediates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

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

Segment information

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

Sales by Segment



Performance Polymers

Overview of Key Data

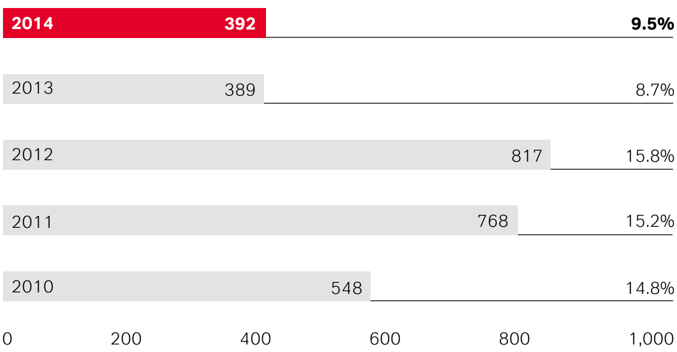
	2013		2014		Change
	€ million	Margin %	€ million	Margin %	%
Sales	4,486		4,128		(8.0)
EBITDA pre exceptionals	389	8.7	392	9.5	0.8
EBITDA	372	8.3	351	8.5	(5.6)
Operating result (EBIT) pre exceptionals	135	3.0	181	4.4	34.1
Operating result (EBIT)	(117)	(2.6)	120	2.9	> 100
Cash outflows for capital expenditures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

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

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

EBITDA and EBITDA Margin Pre Exceptionals

€ million



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

Exceptional items amounted to €61 million, €41 million of which impacted EBITDA. Most of the exceptional charges with no impact on EBITDA were due to write-downs recognized on a pilot plant of the Butyl Rubber business unit. The exceptional charges which impacted EBITDA were largely related to measures associated with the "Let's LANXESS again" and "Advance" programs. Exceptional items in 2013 amounted to €252 million, €17 million of which impacted EBITDA. Most of the exceptional charges were impairment charges recognized by the Keltan Elastomers and High Performance Elastomers business units.

Advanced Intermediates

Overview of Key Data

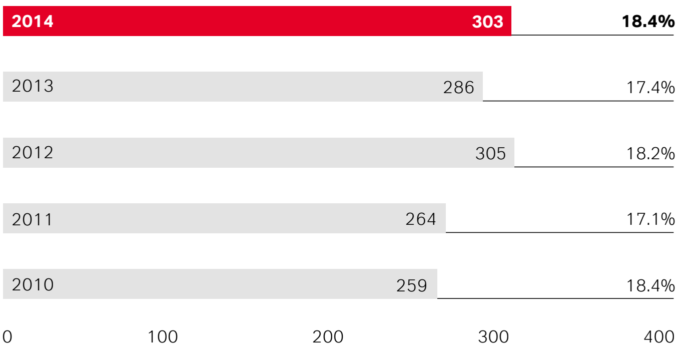
	2013		2014		Change
	€ million	Margin %	€ million	Margin %	%
Sales	1,647		1,643		(0.2)
EBITDA pre exceptionals	286	17.4	303	18.4	5.9
EBITDA	287	17.4	293	17.8	2.1
Operating result (EBIT) pre exceptionals	209	12.7	214	13.0	2.4
Operating result (EBIT)	210	12.8	204	12.4	(2.9)
Cash outflows for capital expenditures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

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

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

EBITDA and EBITDA Margin Pre Exceptionals

€ million



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

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

Performance Chemicals

Overview of Key Data

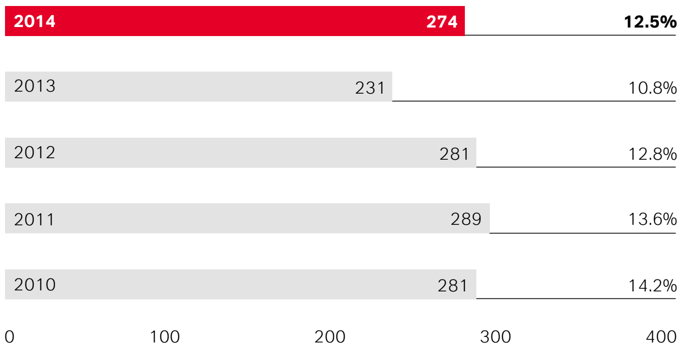
	2013		2014		Change
	€ million	Margin %	€ million	Margin %	%
Sales	2,132		2,193		2.9
EBITDA pre exceptionals	231	10.8	274	12.5	18.6
EBITDA	181	8.5	240	10.9	32.6
Operating result (EBIT) pre exceptionals	139	6.5	188	8.6	35.3
Operating result (EBIT)	54	2.5	154	7.0	> 100
Cash outflows for capital expenditures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

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

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

EBITDA and EBITDA Margin Pre Exceptionals

€ million



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

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

Reconciliation

Overview of Key Data

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

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

Statement of financial position and financial condition

Statement of financial position

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

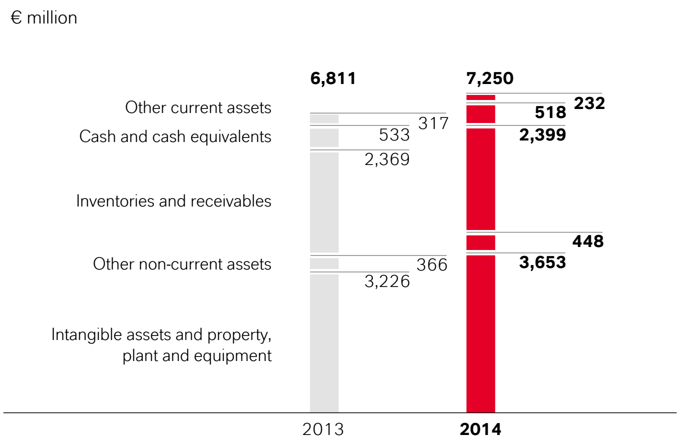
Structure of the Statement of Financial Position

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

Structure of the statement of financial position

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

Structure of the Statement of Financial Position – Assets



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

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

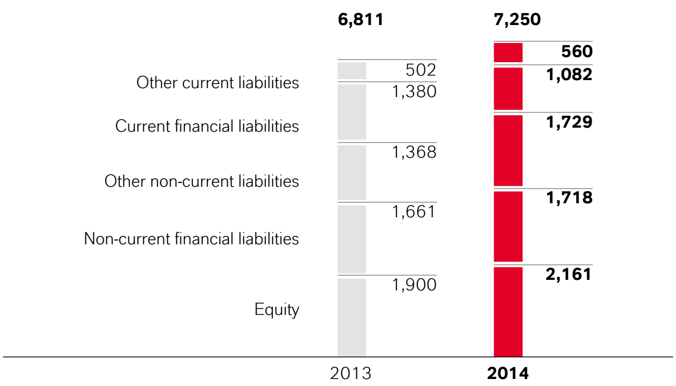
The LANXESS Group has significant internally generated intangible assets that are not reflected in the statement of financial position in light of accounting rules. These include the brand equity of LANXESS and the value of other brands of the Group. A variety of measures was deployed in the reporting period to continually enhance these assets and help strengthen the positions our business units hold in their respective markets.

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

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

Structure of the Statement of Financial Position – Equity and Liabilities

€ million



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

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

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

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

The Group's key ratios developed as follows:

Ratios

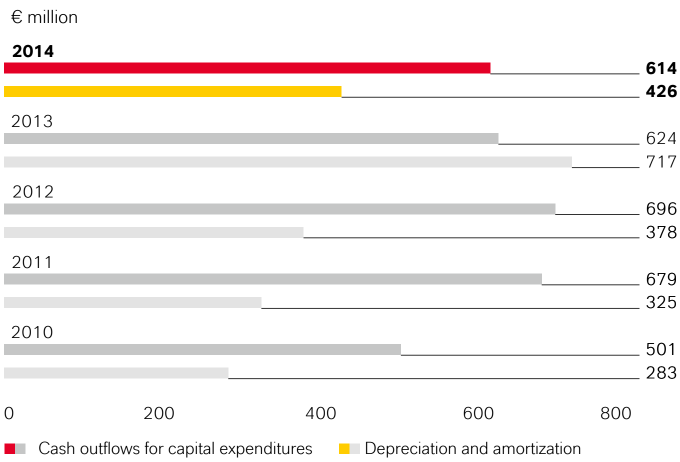
%		2010	2011	2012	2013	2014
Equity ratio	Equity[1] / Total assets	31.1	30.2	31.0	27.9	29.8
Non-current asset ratio	Non-current assets / Total assets	48.3	50.7	49.8	52.7	56.6
Asset coverage I	Equity[1] / Non-current assets	64.3	59.4	62.2	52.9	52.7
Asset coverage II	Equity[1] and non-current liabilities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

1) Including non-controlling interests

Capital expenditures

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

Cash Outflows for Capital Expenditures vs. Depreciation and Amortization



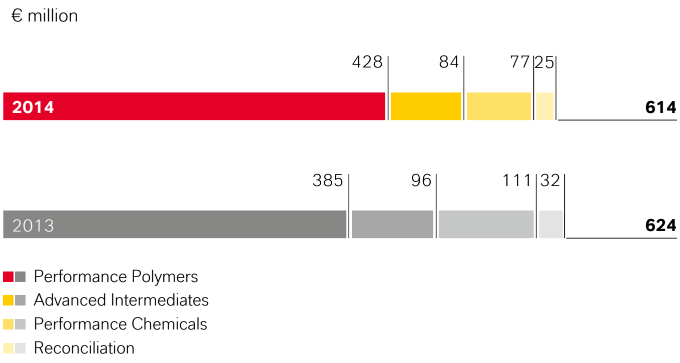
In the reporting year, capital expenditures focused on the following areas:

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

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

In regional terms, 23% of our capital expenditures in the reporting period were made in Germany, 17% in the EMEA region (excluding Germany), 7% in North America, 5% in Latin America and 48% in Asia-Pacific. Capital expenditures in Germany mostly comprised our investments to increase capacities and modernize facilities in all segments, especially investments in expansions for the Advanced Industrial Intermediates and Saltigo business units. The continued large share of capital expenditures made in the Asia-Pacific region in the reporting year is due primarily to the construction of a new production plant for high-performance neodymium-based performance butadiene rubber (Nd-PBR) for the Performance Butadiene Rubbers business unit in Singapore and the construction of a new production plant for EPDM rubber for the Keltan Elastomers business unit in Changzhou, China.

Cash Outflows for Capital Expenditures by Segment



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

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

Selected Capital Expenditure Projects 2014

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

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

Financial condition

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

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

Cash Flow Statement

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

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

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

LANXESS's investing activities in fiscal 2014 resulted in a cash outflow of €587 million, up from €342 million in the previous year. Disbursements for intangible assets and property, plant and equipment came to €614 million, which was below the prior-year level of €624 million. The cash outflows for the acquisition of subsidiaries and other businesses, net of acquired cash and cash equivalents, amounted to €15 million in 2013. The acquisitions made in that year were PCTS Specialty Chemicals Pte. Ltd., Singapore, and the phosphorus chemicals portfolio of Thermphos France S.A.R.L., Epierre, France. Cash inflows from financial assets came to €8 million and mainly comprised the proceeds from the sale of shares in money market funds. The sale of the shares of Perlon-Monofil GmbH, Dormagen, Germany, resulted in a cash inflow of €3 million, net of divested cash and cash equivalents.

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

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

The net change in cash and cash equivalents from business activities in fiscal 2014 was minus €12 million, against €39 million the previous year. After taking into account currency-related and other changes in cash and cash equivalents of €3 million, cash and cash equivalents at the closing date amounted to €418 million, against €427 million at the previous year's closing date. Taken together with near-cash assets (short-term investment of liquid assets in money market funds) of €100 million, against €106 million the previous year, the Group retained a sound liquidity position of €518 million as of December 31, 2014, compared to €533 million at the end of 2013.

Development of LANXESS Ratings and Rating Outlook Since 2010

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

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

LANXESS Group ratings Access to the capital markets and good relations with German and international commercial banks are essential for achieving our financial management objectives. Accordingly, ongoing dialogue and communication with banks, investors and rating agencies are of crucial importance. In fiscal 2014, the latter reduced LANXESS's creditworthiness from BBB and Baa2 to BBB– and Baa3, respectively. However, they raised the outlook to stable. Justifying this downward assessment, the rating agencies cited factors such as LANXESS's latterly weaker financial data resulting from the persistently difficult business environment for rubber. They based their stable outlook on the measures taken by LANXESS, including the capital increase made in the reporting period and the implementation of the global realignment program we initiated.

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

The main change to our financial portfolio during the reporting period resulted from the redemption of the €500 million bond that matured in April. For this purpose, we drew on a credit line we have with the European Investment Bank. The proceeds of the capital increase made in May 2014 served to finance the "Let's LANXESS again" program and strengthen our financial position. In the fourth quarter of 2014, we repaid two bank loans ahead of schedule in order to reduce gross indebtedness and lower interest burden. We funded the growth program which ends in 2015 from business operations and using existing liquidity and credit lines.

LANXESS launched a €2.5 billion debt issuance program in March 2009. On this basis and aligned with the prevailing market conditions, bonds can be placed on the capital market very flexibly with respect to timing and volume. As of December 31, 2014, just under €1.5 billion of the €2.5 billion financing facility had been utilized to issue bonds and private placements. Utilization was correspondingly reduced after redemption of our €500 million bond in April 2014. Capital market financing is a central component in LANXESS's financing mix, which is subject to regular review to ensure the adequate diversification of our financing sources.

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

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

As of December 31, 2014, LANXESS had no material financing items not reported in the statement of financial position in the form of factoring, asset-backed structures or project financing, for example.

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

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

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

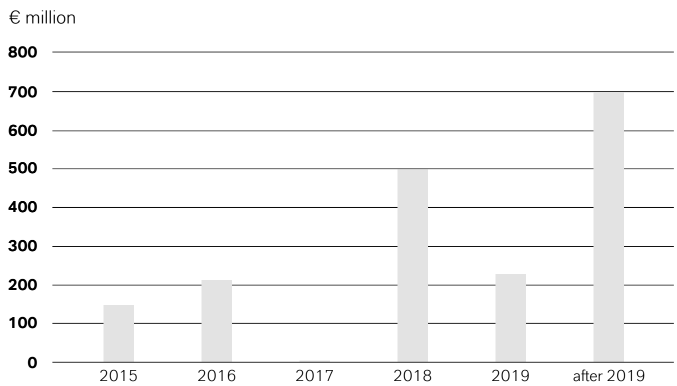
Financing Structure

Instrument	Amount € million	Term	Interest rate %	Financial covenant[1]
Eurobond 2009/2016 (€200 million)	199	September 2016	5.500	no
Eurobond 2011/2018 (€500 million)	498	May 2018	4.125	no
Eurobond 2012/2022 (€500 million)	494	November 2022	2.625	no
Private placement 2012/2022 (€100 million)	100	April 2022	3.500	no
Private placement 2012/2027 (€100 million)	99	April 2027	3.950	no
CNH bond 2012/2015 (CNH 500 million)	66	February 2015	3.950	no
Development bank loan	228	April 2019		no
Other loans	98	n/a		no
Finance lease	72	n/a		no
Total financial liabilities	**1,854**			
Cash and cash equivalents	418	≤ 3 months		
Near-cash assets	100	≤ 3 months		
Total liquidity	**518**			
Net financial liabilities	**1,336**			

1) Ratio of net financial liabilities to EBITDA pre exceptionals

Due to extensive financing measures taken in past fiscal years, we have continually improved the maturity structure of our financial liabilities. At the time this combined management report was finalized, LANXESS was not exposed to any refinancing risks as it had taken early action to refinance those financial liabilities that are due to mature. The other loans related mainly to the use of credit facilities by subsidiaries in Brazil, China, India and Argentina, some of which mature in 2015 and are extended on a regular, e.g. annual, basis.

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



Liquidity analysis In addition to cash and cash equivalents of €418 million and investments in highly liquid AAA money market funds of €100 million, LANXESS has additional sizeable liquidity reserves in the form of undrawn credit facilities. The investments in money market funds are undertaken only at European Group companies that are not subject to restrictions on foreign exchange and capital transfers. We can therefore freely dispose of the funds. Around 86% of our cash is held in Group companies in countries with no restrictions on foreign exchange and capital transfers. Only about 14% of our cash is held in companies in regulated capital markets where cash transfers are restricted.

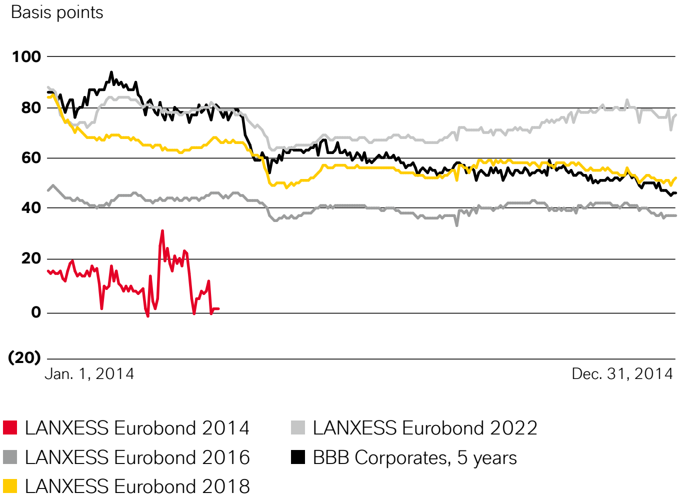
Thanks to our good liquidity position, our solvency was assured at all times in fiscal 2014. This is an aspect that was assessed positively by the rating agencies in their credit ratings in 2014.

By far the most important of LANXESS's credit lines is the syndicated credit facility of €1.25 billion, which has not been significantly drawn upon to date. In February 2015, we extended this facility by one year until February 2020. This credit facility is designed as an operating line of credit and to provide funds for capital investment. It corresponds to market requirements in the European syndicated loan market for investment-grade companies with a BBB rating. Another important credit line is the €150 million facility we agreed with the European Investment Bank in fiscal 2014. None of our major loan agreements contains a financial covenant. LANXESS had unused credit lines totaling around €1.5 billion as of December 31, 2014, unchanged against the end of the previous year.

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

Bond performance – evolution of credit spread in 2014 An important indicator for corporate bonds, apart from the absolute change in price, is the relative valuation of the risk specific to the issuer in comparison to a reference interest rate. This credit risk premium is expressed in what is known as the credit spread. Due to the higher default risk associated with longer bond maturity, long-term bonds generally feature a wider credit spread. This, and factors such as liquidity and trading volume, also apply to the various LANXESS bonds. The following chart shows the evolution of the credit spreads of our bonds and the average credit spread of corporate bonds with a BBB rating and a five-year maturity in comparison to the interest rate swap curve.

LANXESS Eurobond Spreads vs. BBB Corporates Index



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

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

Management's summary of business development and the fiscal year

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

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

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

We upheld our conservative accounting and financing policy. In accordance with the consistency principle, we essentially applied the same measurement methods and exercised the same discretion as in the previous year. Our equity ratio improved from 27.9% to 29.8%, which was attributable above all to the capital increase. Total assets increased, mainly due to capital expenditures.

Our statement of financial position shows that our liquidity position remains solid. Additional substantial liquidity reserves in the form of undrawn credit lines are also available. Of the total financial liabilities, 86% bear a fixed interest rate over the term of the financing, which is below the prior-year level of 98%. This enabled us to improve the balance between floating-rate assets and financial liabilities and additionally benefit from the currently very low interest rates. Our financial liabilities are free of financial covenants.

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

In the prior year, we made appropriate corrections to our assets affected by the risks associated with the challenging competitive situation resulting from growing capacities, lower selling prices and less favorable prices for raw materials and energy. Although there has been no fundamental change to this environment, we believe that our company's business situation remains positive on account of its balanced financing position in the long term and the intactness of the megatrends in the medium term.

Key Business Data – Multi-Period Overview

€ million	2010	2011	2012	2013	2014
Earnings performance					
Sales	7,120	8,775	9,094	8,300	8,006
EBITDA pre exceptionals	918	1,146	1,223	735	808
EBITDA margin pre exceptionals	12.9%	13.1%	13.4%	8.9%	10.1%
EBITDA	890	1,101	1,186	624	644
Operating result (EBIT) pre exceptionals	635	826	847	288	402
Operating result (EBIT)	607	776	808	(93)	218
EBIT margin	8.5%	8.8%	8.9%	(1.1)%	2.7%
Net income (loss)	379	506	508	(159)	47
Earnings per share (€)	4.56	6.08	6.11	(1.91)	0.53
Financial position					
Cash flow from operating activities	430	672	838	641	797
Depreciation and amortization	283	325	378	717	426
Cash outflows for capital expenditures	501	679	696	624	614
Net financial liabilities	913	1,515	1,483	1,731	1,336
Assets and liabilities					
Total assets	5,666	6,878	7,519	6,811	7,250
Non-current assets	2,738	3,489	3,747	3,592	4,101
Current assets	2,928	3,389	3,772	3,219	3,149
Net working capital	1,372	1,766	1,849	1,679	1,600
Equity (including non-controlling interests)	1,761	2,074	2,330	1,900	2,161
Pension provisions	605	679	893	943	1,290
Indicators					
ROCE	17.0%	17.2%	15.6%	5.8%	7.9%
Equity ratio	31.1%	30.2%	31.0%	27.9%	29.8%
Non-current asset ratio	48.3	50.7	49.8	52.7	56.6
Asset coverage I	64.3	59.4	62.2	52.9	52.7
Net working capital/sales	19.3%	20.1%	20.3%	20.2%	20.0%
Employees (as of December 31)	14,648	16,390	17,177	17,343	16,584

Earnings, asset and financial position of LANXESS AG

LANXESS AG serves primarily as the management holding company for the LANXESS Group. The principal management functions for the entire Group are performed by the Board of Management. The Board of Management shapes Group strategy and manages resource allocation, infrastructure and organization. The Group management company is also responsible for financing and communication with LANXESS's key stakeholders. The economic performance of LANXESS AG depends principally on the operating business entities in the LANXESS Group and on the development of the chemical industry. The balance of income and losses from investments in affiliated companies resulting from profit or loss transfers and dividends from affiliated companies is of key importance for the future ability of LANXESS AG to pay a dividend. Therefore, especially the statements made in the "Opportunity and risk report" in this combined management report apply in principle to LANXESS AG as well.

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

Sales and earnings of LANXESS AG

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

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

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

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

General administration expenses increased against the previous year, up €4 million, or 10.3%, to €43 million. They principally comprised personnel and other business expenses not directly related to the services provided to Group companies. The increase in other operating income was primarily due to the reversal of provisions. The operating result improved by €16 million to minus €23 million.

The financial result, which comprises the balance of income and losses from investments in affiliated companies, the net interest position, and other financial income and expense, decreased by €107 million to minus €37 million. This change was primarily due to the profit transfer of €67 million from LANXESS Deutschland GmbH, down €102 million from the previous year, and to the assumption of a loss of €13 million from LANXESS International Holding GmbH. By contrast, the €28 million decrease in net interest expense to €57 million had a positive effect and was mainly attributable to the repayment of borrowings from subsidiaries.

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

Taking into account the profit carryforward of €3 million and a withdrawal from other retained earnings of €135 million, the distributable profit as of December 31, 2014, increased to €53 million from €48 million at the end of 2013.

Asset and capital structure of LANXESS AG

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

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

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

LANXESS AG had total assets of €2,884 million as of December 31, 2014, which was €337 million, or 10.5%, below the prior-year figure. Non-current assets were €758 million and primarily included the carrying amount of the investment in LANXESS Deutschland GmbH, which stands at €739 million. The share of non-current assets in total assets increased from 23.5% to 26.3%. Current assets declined by €337 million, or 13.7%, to €2,122 million and accounted for 73.6% of total assets, compared with 76.3% in 2013. Receivables from subsidiaries accounted for 60.8% of total assets and related principally to financial transactions and short-term loans. The share of bank balances and securities in total assets decreased from 14.5% to 12.1%.

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

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

Employees

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

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

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

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

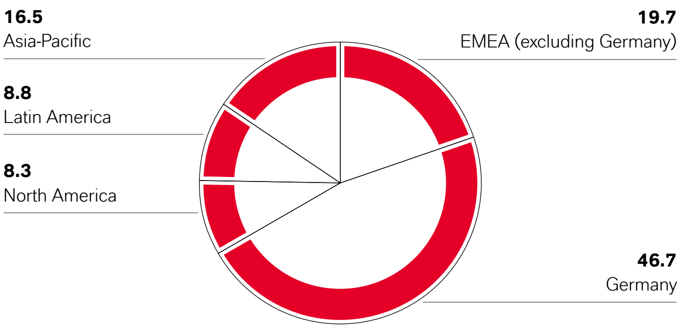
Part-time employees accounted for 7.0% of the workforce at our German core companies as of the reporting date. Individuals with severe disabilities made up 5.4% of the workforce at our German companies. In addition, we routinely award contracts to work centers for the disabled.

The lost time injury frequency rate (LTIFR), known as MAQ (injuries for every million hours worked) in Germany, is the key indicator used to assess occupational safety within the LANXESS Group. In 2014, the LTIFR was 2.3, compared with 3.2 in 2013.

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

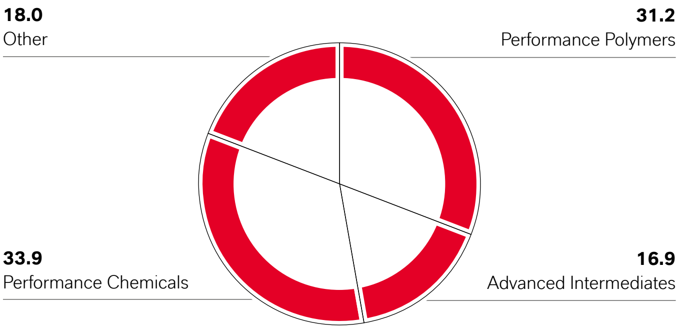
Employees by Region

%



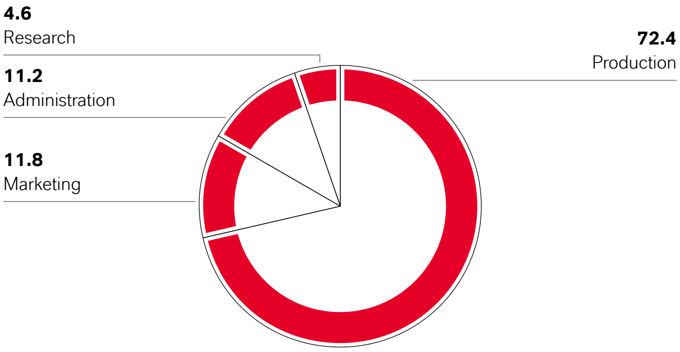
Employees by Segment

%



Employees by Functional Area (Annual Average)

%



HR strategy

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

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

In addition to developing and implementing innovative concepts for addressing the challenges resulting from demographic change, our top long-term strategic human resources goal is to attract and cultivate a range of talented employees for LANXESS. We aim to strengthen our diversity, particularly in terms of age, national origin and gender. As part of our Diversity & Inclusion initiative, we have set a goal for the company: to voluntarily increase the proportion of women in middle and upper management to around 20% by 2020. The figure currently stands at around 15.3%.

Compensation report

Compensation of the Board of Management

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

The compensation system that was introduced for members of the Board of Management in 2010 was approved by the Annual Stockholders' Meeting of LANXESS AG on May 28, 2010. This compensation system was applied when concluding the service contracts with all Board of Management members.

The components of the compensation for members of the Board of Management are the annual base salary; the variable components, which are the Annual Performance Payment, the Long-Term Incentive Plan/Long-Term Stock Performance Plan and the Long-Term Performance Bonus; and a retirement pension. The three variable components are linked to LANXESS's annual performance and, particularly, to its corporate success over a number of years. The average compensation mix of 30% annual base salary and 70% variable compensation components, assuming 100% target attainment, is strongly aligned with the company's performance and long-term value creation. The present service contracts for members of the Board of Management set out the annual base salary and limits on the amounts for the variable compensation components. They do not provide for an additional separate limit on total compensation, even taking into account a possible discretionary bonus.

Compensation Mix for Members of the Board of Management

%	
Annual base salary	30
Annual Performance Payment	36
Long-Term Incentive Plan/Long-Term Stock Performance Plan	20
Long-Term Performance Bonus	14
	100

Annual base salary The fixed compensation comprises the annual base salary and compensation in kind, the latter consisting mainly of the tax value of perquisites such as the use of a company car. The annual base salary of the members of the Board of Management is market-oriented and in line with that paid at other comparable companies.

Variable compensation The annual performance-based component of the variable compensation, known as the Annual Performance Payment (APP), is based on corporate business targets and other conditions, such as the attainment of certain Group EBITDA targets, which are defined by the Supervisory Board before the beginning of the respective fiscal year. In the case of 100% target attainment, the individual APP budget for 2014 for Mr. Zachert is 125% and for the other members of the Board of Management 115% of their respective annual base salaries. The maximum payment is defined on an annual basis by the Supervisory Board. For fiscal 2014, it has been capped at 100% and for fiscal 2015 at 150% of the individual budgets for the members of the Board of Management – assuming 100% target attainment. Actual payments may differ from the amount calculated in advance.

The Long-Term Incentive Plan (LTIP) is another element of variable compensation. This compensation component is based on the performance of LANXESS stock against a reference index, the Dow Jones STOXX 600 Chemicals^{SM}. The LTIP responds to the call by legislators for a stronger focus on long-term company performance. It is divided into three three-year tranches, with the first tranche having begun in 2008. Participation required a prior personal investment each year in LANXESS shares to a value of 13% of the annual base salary. The shares were subject to a five-year lock-up period. The last payments from the LTIP were made in 2013. 100% target attainment brought a payment per tranche of 50% of the individual target income, which is the annual base salary plus the APP assuming 100% target attainment.

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

The LTSP is divided into four four-year tranches. The 2010–2013 tranche is also based on the performance of LANXESS stock against the Dow Jones STOXX 600 Chemicals^{SM} reference index. Compared to the previous LTIP, the possible payment per tranche under the new plan has been reduced from 50% to 30% of the individual target income, assuming 100% target attainment. The condition for participation in the LTSP is a prior personal investment each year in LANXESS shares to a value of 5% of the annual base salary. The shares are subject to an average five-year lock-up period. The LTSP 2014–2017 offered since 2014 uses the MSCI World Chemicals Index as the new reference index but is otherwise largely unchanged from the 2010–2013 tranche.

Compensation of the Board of Management

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

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

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

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

The LTPB, which is the third variable compensation component, is likewise aligned with long-term corporate performance. It rewards target attainment only after two successive fiscal years. The basis for calculating the LTPB is the individual APP target attainment for the fiscal years in question. The exact amount of the LTPB results from the average individual APP target attainment for the two fiscal years. Assuming an average APP target attainment of 100%, the LTPB amounts to 45% of the annual base salary. Actual payments in 2015 and 2016 may differ from the amounts calculated in advance.

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

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

The pension plan for the members of the Board of Management is a defined contribution plan stipulating a basic contribution to be made by the company equal to 25% of the annual base salary and APP. The maximum amount taken into account for calculating the APP contribution is that due on 100% target attainment, irrespective of the actual target attainment. Moreover, the members of the Board of Management must themselves pay an amount from deferred compensation amounting to 12.5% of the APP. The members of the Board of

Management may increase their personal contribution to up to 25% of the APP. From the date of entitlement, up to 30% of the accumulated capital – including the interest thereon – may be converted to a pension benefit. There are claims arising from provisions in place before 2006 that are granted as vested rights to individual members of the Board of Management. If the service contract ends before the beneficiary reaches the age of 60, the company pays certain additional benefits up to a defined ceiling.

LANXESS has established provisions for the future claims of Board of Management members. The total service cost recognized under IFRS accounting rules in the 2014 consolidated financial statements for this purpose was €2,496 thousand (2013: €1,264 thousand). The present value of the obligations for the members of the Board of Management serving as of December 31, 2014 was €9,994 thousand (2013: €21,740 thousand). Under IFRS accounting principles, the service cost for pension entitlements earned in 2014 and the present value of the obligations, including acquired rights, as of December 31, 2014 amounted, respectively, to €1,574 thousand and €1,993 thousand for Mr. Zachert, €254 thousand and €2,095 thousand (2013: €394 thousand and €1,584 thousand) for Dr. Düttmann, and €148 thousand and €5,906 thousand (2013: €118 thousand and €5,090 thousand) for Dr. van Roessel. The service cost for Dr. Heitmann and Dr. Breuers for their service on the Board of Management in 2014 came to €366 thousand and €154 thousand, respectively.

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

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

Benefits associated with and following termination of service on the Board of Management The members of the Board of Management have indemnification rights should their service contracts be terminated for defined reasons at the instigation of the company or in the event of a material change of control over the company. The terms depend on the respective circumstances and, regardless of the remaining term of the service contract, include severance payments amounting to up to two times the annual base salary or, in the event of a change of control, three times the annual base salary, plus the APP and LTPB assuming 100% target achievement and compensation pro rata temporis of LTSP rights.

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

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

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

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

Other benefits In 2014, no member of the Board of Management received benefits or assurances of benefits from third parties in respect of their duties as members of the Board of Management.

No loans were granted to members of the Board of Management in fiscal 2014.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Compensation of the Supervisory Board

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

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

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

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

No variable compensation was paid in fiscal 2014.

The expected compensation payable for the term of office that began with the conclusion of the Annual Stockholders' Meeting on May 28, 2010, and runs until the conclusion of the Annual Stockholders' Meeting that resolves to ratify the Supervisory Board members' actions for fiscal 2014 was valued at €0 thousand (2013: €1,800 thousand) at December 31, 2014.

None of the members of the Supervisory Board received benefits for services provided personally during the reporting period. No loans or advances were granted to members of the Supervisory Board during the reporting year.

The following table breaks down the compensation received by each member of the Supervisory Board for their work on the Supervisory Board in fiscal 2014.

Compensation of the Supervisory Board[1)]

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

1) Figures exclude value-added tax

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

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

1. The capital stock of LANXESS AG amounted to €91,522,936 as of December 31, 2014, and is composed of 91,522,936 no-par bearer shares. All shares carry the same rights and obligations. One vote is granted per share, and profit is distributed per share. The rights and obligations arising from the shares are governed by the German Stock Corporation Act.

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

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

4. No shares carry special rights granting control authority.

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

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

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

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

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

Conditional capital The Annual Stockholders' Meeting of LANXESS AG on May 18, 2011, authorized the Board of Management until May 17, 2016, with the approval of the Supervisory Board, to issue – in one or more installments – warrant bonds and/or convertible bonds, profit-participation rights and/or income bonds or a combination of these instruments (collectively referred to as "bonds") – as either registered or bearer bonds – with a total nominal value of up to €2,000,000,000, with or without limited maturity, and to grant option rights to, or impose option obligations on, the holders or creditors of warrant bonds, profit-participation rights with warrants or income bonds with warrants, and/or to grant conversion rights to, or impose conversion obligations on, the holders or creditors of convertible bonds, convertible profit-participation rights or convertible income bonds in respect of bearer shares of the company representing a total pro rata increase of up to €16,640,534 in the company's capital stock on the terms to be defined for these bonds. Pursuant to Section 4, Paragraph 4 of the articles of association, the capital stock of LANXESS AG is thus conditionally increased by up to €16,640,534 (Conditional Capital).

The conditional capital increase shall only be implemented to the extent that the holders or creditors of, or persons obligated to exercise, option or conversion rights pertaining to bonds issued by the company or a dependent company against cash contributions, or issued against cash contributions and guaranteed by the company or a dependent company, on or before May 17, 2016, on the basis of the authorization granted to the Board of Management by the Annual Stockholders' Meeting on May 18, 2011, exercise their option or conversion rights or, where they are obligated to do so, fulfill such obligation, or to the extent that the company elects to grant shares in the company in place of all or part of the cash amount due for payment. The conditional capital increase shall not be implemented if cash compensation is granted or if the company's own shares, shares issued out of authorized capital or shares in another listed company are used to service the option or conversion rights.

When issuing bonds, the Board of Management is authorized, with the approval of the Supervisory Board, to exclude subscription rights in the following cases:

- for residual amounts resulting from the subscription ratio;
- insofar as is necessary to grant to holders of previously issued option or conversion rights or obligations subscription rights to the number of new shares to which they would be entitled to subscribe as stockholders upon exercise of their option or conversion rights or fulfillment of their option or conversion obligations;
- in the case of issuance against cash contributions, if the issue price is not significantly below the theoretical market value of the bonds with option or conversion rights or conversion obligations, as determined using accepted pricing models; if bonds are issued by application of Section 186, Paragraph 3, Sentence 4 of the German Stock Corporation Act, in which case the issued shares may not exceed a total of 10% of the capital stock either at the time this authorization takes effect or at the time it is utilized;
- if profit-participation rights or income bonds without option or conversion rights or conversion obligations are vested with bond-like characteristics.

Authorized Capital I and II Pursuant to Section 4, Paragraph 2 of LANXESS AG's articles of association, the Annual Stockholders' Meeting on May 23, 2013, authorized the Board of Management until May 22, 2018, with the approval of the Supervisory Board, to increase the capital stock on one or more occasions by issuing new no-par shares against cash or contributions in kind up to a total amount of €16,640,534 (Authorized Capital I). Stockholders are generally entitled to subscription rights when Authorized Capital is utilized. With the approval of the Supervisory Board, subscription rights can be excluded for residual amounts and in order to grant holders of warrants or convertible bonds issued by the company and its affiliates subscription rights to the number of new shares for which such parties would be entitled to subscribe upon exercise of their conversion or option rights. Moreover, subscription rights can be excluded with the approval of the Supervisory Board when the company's capital stock is increased against contributions in kind, particularly for the acquisition of companies. Subscription rights can also be excluded with the approval of the Supervisory Board in order to grant holders of convertible and/or warrant bonds issued by the company or its affiliates new shares upon exercise of their rights. Finally, subscription rights can also be excluded with the approval of the Supervisory Board if the issue price of the new shares is not significantly lower than the stock market price at the time the issue price is fixed and the issued shares do not exceed 10% of the company's capital stock. The upper limit of 10% of the capital stock is reduced by the proportionate interest in the capital stock which is attributable to those shares issued or sold during the term of this authorization while excluding stockholders' rights in direct or analogous application of Section 186, Paragraph 3, Sentence 4 of the German Stock Corporation Act. Further details are given in Section 4, Paragraph 2 of the articles of association.

In addition, pursuant to Section 4, Paragraph 3 of LANXESS AG's articles of association, the Annual Stockholders' Meeting on May 28, 2010, authorized the Board of Management until May 27, 2015, with the approval of the Supervisory Board, to increase the company's capital stock on one or more occasions by issuing new no-par shares against cash or contributions in kind up to a total amount of €8,320,268 (Authorized Capital II). In fiscal 2014, €8,320,266 of the original Authorized Capital II of €16,640,534 was used to increase the share capital. Stockholders are generally entitled to subscription rights when Authorized Capital is utilized. With the approval of the Supervisory Board, subscription rights can be excluded for residual amounts and in order to grant holders of warrants or convertible bonds issued by the company and its affiliates subscription rights to the number of new shares for which such parties would be entitled to subscribe upon exercise of their conversion or option rights. Moreover, subscription rights can be excluded with the approval of the Supervisory Board when the company's capital stock is increased against contributions in kind, particularly for the acquisition of companies. Subscription rights can also be excluded with the approval of the Supervisory Board in order to grant holders of convertible and/or warrant bonds issued by the company or its affiliates new shares upon exercise of their rights. Finally, subscription rights can also be excluded with the approval of the Supervisory Board if the issue price of the new shares is not significantly lower than the stock market price at the time the issue price is fixed and the issued shares do not exceed 10% of the company's capital stock. The upper limit of 10% of the capital stock is reduced by the proportionate interest in the capital stock which is attributable to those shares issued or sold during the term of this authorization while excluding stockholders' rights in direct or analogous application of Section 186, Paragraph 3, Sentence 4 of the German Stock Corporation Act. Further details are given in Section 4, Paragraph 3 of the articles of association.

8. The service contracts between the company and the members of the Board of Management of LANXESS AG contain provisions regarding the potential departure of the members of the Board of Management in the context of a change of control. These are outlined in the compensation report in this combined management report. Such agreements, albeit with different terms, also exist between the company and members of the first level of upper management. In addition, the terms for placing bonds under the company's existing debt issuance program may contain a change-of-control clause which gives bondholders the right to redeem the bond should certain events occur that affect its rating. This applies to the €200 million Eurobond issued by LANXESS Finance B.V. in the 2009 fiscal year, the €500 million Eurobond issued by LANXESS Finance B.V. in the 2011 fiscal year, and the €500 million Eurobond issued by LANXESS Finance B.V. in November 2012. At the end of fiscal 2014, it also applied to the CNH 500 million bond issued by LANXESS Finance B.V. in February 2012 and redeemed in February 2015. All of these bonds are guaranteed by LANXESS AG. The terms for two private placements with a volume of €100 million each made by LANXESS Finance B.V. under the debt issuance program in the 2012 fiscal year likewise contain corresponding change-of-control clauses. These placements are also guaranteed by LANXESS AG. In fiscal 2011 and 2014, LANXESS Finance B.V. and LANXESS AG signed agreements with an investment bank for loans of €200 million and €150 million, respectively. The loan agreement signed by LANXESS Finance B.V. was transferred to LANXESS AG in January 2015. These agreements may be terminated without notice or repayment of the outstanding loans may be required if another company or person gains control of more than 50% of LANXESS AG. The company also entered into an agreement with a syndicate of banks concerning a credit facility that is currently at €1,250 million. This agreement can also be terminated without notice if another company or person takes control of more than 50% of LANXESS AG. Furthermore, according to agreements between the company and LANXESS Pension Trust e.V., the company is obligated to make considerable payments to LANXESS Pension Trust e.V. in the event of a change of control.

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

Report pursuant to Section 289a of the German Commercial Code

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

Events after the end of the reporting period

No events of particular significance took place after December 31, 2014, that could be expected to have a material effect on the earnings, asset and financial position of the LANXESS Group or LANXESS AG.

Report on risks, opportunities and future perspectives

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

Economic outlook

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

Expected Growth 2015

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

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

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

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

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

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

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

Expected Evolution of Major User Industries

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

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

Future perspectives

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

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

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

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

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

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

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

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

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

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

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

Expected financial position of the LANXESS Group

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

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

Financing measures LANXESS is in a good position due to the long-term nature of its financing since it ensures the financing for planned capital expenditures and the realignment program it has initiated by future cash flows, available liquidity and existing lines of credit. The same also applies to the expected dividend payment. Other than for the redemption of a CNH 500 million bond in February 2015, there will be no further significant need for refinancing in fiscal 2015. In addition, LANXESS will continue its efforts to secure long-term funding as part of a conservative financing policy by further diversifying its financing sources and implementing forward-looking financing measures.

Expected earnings position of LANXESS AG In the current fiscal year, we expect the earnings position of LANXESS AG to be substantially better than in 2014. It is influenced by the administration expenses the company incurs in performing its tasks as a management holding company and by the financial result, especially the net interest position and the balance of income and losses from investments in affiliated companies. We expect the net interest position to be negative on account of the financing structure. The balance of income and losses from investments in affiliated companies and the corresponding ability of LANXESS AG to pay a dividend will depend in large measure on the profit transfers and dividends paid by the other companies of the LANXESS Group. We will maintain our consistent dividend policy and expect LANXESS AG to report a distributable profit that will enable our stockholders to adequately participate in the LANXESS Group's earnings in the coming year.

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

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

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

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

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

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

Opportunity and risk report

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

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

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

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

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

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

In line with this division of duties, we have assigned responsibility to risk owners for the following:

- identification and assessment of opportunities and risks;
- implementation of control measures (measures taken to exploit or enhance opportunities and to avoid or minimize risks);
- monitoring the development of opportunities and risks (e.g. on the basis of performance indicators and, perhaps also, early warning indicators);
- risk mitigation (measures to minimize damage upon occurrence of a risk event);
- communication of the key opportunities and risks to the management committees of the business units and group functions.

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

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

The Corporate Development Group Function systematically analyzes and measures significant and strategic opportunities and risks with the goal of ensuring that the Group is pursuing the correct long-term strategy.

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

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

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

The duty to report opportunities and risks to the Corporate Controlling Group Function is based on the anticipated impact on Group net income or EBITDA pre exceptionals. All opportunities and risks must be reported if their anticipated impact is more than €1 million following the implementation of countermeasures. In addition, those risks must be reported which have an anticipated impact that was reduced by more than €10 million through the implementation of countermeasures. These thresholds guarantee that the information gathered about opportunities and risks is comprehensive and that the collection of information is not just limited to material risks or risks that could jeopardize the future of the company as a going concern. The Corporate Controlling Group Function centrally determines the top opportunities and risks only after the information has been gathered.

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

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

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

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

Event-based opportunities and risks (such as the failure of a supplier or the occurrence of an insured event) that would only impact earnings if they actually occur are evaluated on the basis of the expected probability of their occurrence and the predicted effect on EBITDA pre exceptionals or Group net income.

Significance of the Group-wide planning process Corporate planning is a core element of our opportunity and risk management. Events with a high probability of occurrence flow directly into the planning process. The processes for corporate planning and intrayear forecasting as well as the corresponding analyses and suggestions for action are steered by the Corporate Controlling Group Function, which works closely in this regard with the business units. Certain Board of Management meetings are dedicated to discussing and adopting corporate planning outcomes, including the associated opportunities and risks. We monitor, and if necessary adjust, the annual budget in any given fiscal year by regularly updating our expectations for business development.

Compliance as an integral component Risk management also includes preventing illegal conduct by our employees. To this end, we obtain extensive legal advice concerning business transactions and obligate employees by means of our compliance code to observe the law and to act responsibly. The compliance code is part of a comprehensive compliance management system that has been structured in accordance with the principles of an internationally recognized framework for enterprise risk management (COSO). A Compliance Committee promotes and monitors adherence to our compliance guidelines. Its work is supported by compliance officers who have been appointed for each country in which we have a subsidiary. The Compliance Committee is chaired by a Group Compliance Officer, who reports directly and regularly to the Board of Management.

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

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

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

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

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

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

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

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

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

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

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

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

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

Procurement markets On the procurement side, the principal opportunities and risks lie in the high volatility of raw material and energy prices. An increase or decrease in the price of the materials we use directly results in higher or lower production costs. If prices decrease, write-downs may have to be recognized on inventories. In addition, changes in raw material prices result in higher or lower selling prices – either immediately or after a delay. We mitigate situations like this by following a sensible inventory and procurement policy. Most of the company's raw material and energy needs are met by long-term supply contracts and contracts containing price escalation clauses. Many agreements with customers also contain price escalation clauses. We also have the option of hedging this risk via derivatives transactions if liquid futures markets are available for hedging raw material and energy price risks (see also "Financial markets"). Additionally, we are constantly looking for ways to use our resources more efficiently so that we can offset higher costs by raising productivity. The volatility of raw material prices, especially for our key raw material butadiene, impacts our Performance Polymers segment in particular.

To guard against possible supply bottlenecks due to factors such as the failure of a supplier or of an upstream operation at a networked site, we pursue an appropriate inventory strategy and line up alternative sources of supply.

Human resources The risk of industrial actions resulting from disputes in connection with negotiations concerning future collective pay agreements or associated with restructuring measures cannot be ruled out. We also face increases in our personnel expenses because of future wage increases. Such an increase in the cost of human resources can be just as detrimental to earnings as increases in raw material prices, as described above, but in the case of human resources we cannot hedge the risk in futures markets or pass it on to our customers. We counter this risk by fostering open communication with our employees and their representatives in a culture of active labor relations. The employee representatives in various countries have been consulted especially with regard to our "Let's LANXESS again" program. Continuous use is made of existing dialogue platforms such as the European Forum, which brings together the works councils in Europe. We also actively seek dialogue with the representatives of our employees, the trade unions and other interest groups in the other regions in which we operate.

Our employees' expert knowledge of internal processes and issues relating to their areas of specialization is a critical factor in the efficiency of our business operations. We take various approaches to mitigate the risk of losing this expertise and to increase our employees' loyalty to the company, including attractive compensation models, challenging jobs and international career options. We continue to invest in the next generation of employees by increasing the number of training opportunities in Germany. We have also launched and expanded regional internship, trainee and loyalty programs in, for example, North America, Brazil, India and China as well as Germany. In some regions and countries, including China, we continue to go into schools in search of interesting talents we can develop. In Germany, our preschool education program aims to arouse the interest of the youngest children in scientific phenomena.

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

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

There are a number of other HR risks which, because of their long-term nature, will have virtually no impact on the planned EBITDA pre exceptionals for fiscal 2015. These risks include in particular demographic change, which we actively manage. In Germany, in order to ensure continued access to a highly skilled workforce, we have been implementing a comprehensive package of measures known as "XCare" since 2009. Interdisciplinary working groups are collaborating closely with employee representatives at LANXESS to develop innovative concepts to preempt and actively address shifts resulting from demographic change. We have also initiated comparable programs in other regions.

Plant operations and hazards A lack of plant availability and disruptions of plant and process safety can make it impossible for us to meet production targets and adequately service existing demand, resulting in a loss of marginal income. We use a comprehensive range of measures to counter this scenario. These include proactive facility maintenance, regular compliance checks, the preparation of risk assessments and systematic training of employees to improve standards and safety. We also counter the risk of unplanned production stoppages by manufacturing certain products at various sites worldwide.

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

LANXESS's product portfolio includes substances that are classified as hazardous to health. In order to prevent possible harm to health, we systematically test the properties of our products and draw our customers' attention to the risks associated with their use. We also carry product liability insurance that is customary in our industry.

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

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

The operation and use of IT systems entails risks. For example, networks or systems may fail, or data and information may be compromised or destroyed because of operator and programming errors or external factors. In particular, we are observing a growing number of threats to our IT infrastructure resulting from outside attack. All of these can cause serious business interruptions. To mitigate such risks, we invest in suitable data protection systems designed to prevent the loss of data and information. Various security and monitoring tools and access restriction and authorization systems are used to ensure the integrity, confidentiality and availability of data and information and the trouble-free operation of systems. With a view to improving the security of our IT infrastructure, we are evaluating existing security measures for their suitability in defending against current attack scenarios. Where necessary, these measures will be upgraded. Additional security systems are being established worldwide as defense against new and specific threats.

Corporate strategy We actively pursue the strategic optimization of the enterprise. Our efforts include ongoing efficiency enhancement, strengthening of core businesses, active portfolio management and proactive participation in industry consolidation through partnerships, divestments and acquisitions. Further information can be found in the "Strategy" section of this combined management report.

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

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

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

Unlocking and exploiting operational opportunities is an important aspect of LANXESS's entrepreneurial activities. We are committed to using existing products and new solutions to advance our growth and sustainably strengthen our position in global markets. Investing in new plants as well as expanding the capacities and increasing the productivity of existing ones are key elements in these efforts. The anticipated effects are taken into account in our planning or are reported as opportunities. In principle, we expect investments to yield benefits but they are also coupled with risks. Thus, for example, the success of our investments in Asia has been substantially impacted by the challenging competitive situation in the synthetic rubber businesses. The preparatory work for investments that exceed a specified significance threshold is the responsibility of the relevant business units. After review by an Investment Committee set up for this purpose, the information is presented to the Board of Management for a decision. By following this procedure, we ensure that investments are in line with our corporate strategy and satisfy our profitability and security requirements.

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

Sales and earnings effects expected from our investments and acquisitions are already considered in our forecasts. These targeted investments may also generate further operational opportunities because they enable us to unlock new potential and improve our positioning in key markets.

Sales markets LANXESS is inherently exposed to general economic developments and political change in the countries and regions in which the LANXESS Group operates. Regional differences in economic performance and the associated demand trends can affect the Group's pricing and sales potential in its various geographical markets, with corresponding positive or negative effects on its earnings. Our global presence, which we are continuing to expand in growth markets, enables us to participate in favorable regional developments and, at the same time, reduce our dependence on certain regions. This approach is discussed in further detail in the "Strategy" section of this combined management report.

The volatility and cyclicality that are typical of the global chemical and polymer markets and their dependence on developments in customer industries harbor uncertainties for LANXESS's business. As well as the influence of general economic development, the particular dependence of the rubber business on customers in the tire and automotive industries can result in sales volatility. Additional and unplanned sales opportunities may arise through access to new markets or the acquisition of new customers. In addition to being subject to these demand-side market influences, our earning power can be impacted by structural changes in markets, such as the disappearance of existing competitors or the entry of new ones and the availability of additional capacities, regional shifts, the migration of customers to countries with lower costs, and product substitution or market consolidation trends in some sectors. We counter such trends by systematically managing costs and continuously adjusting our product portfolio, sharpening its focus and aligning our offering with innovative customer segments which will enable us to operate successfully in the long term.

In our Performance Polymers segment, the synthetic rubber business continues to face increasing competition, partly from new manufacturers entering the market. In some business units, this may result in further overcapacities and stronger competition on prices. LANXESS is pursuing a product-specific strategy in these areas based on factors such as product and process differentiation and global positioning. In 2014, the company additionally initiated the three-phase “Let’s LANXESS again” program for the global realignment of the LANXESS Group. Further information about this program can be found in the “Strategy” section.

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

Financial Opportunities and Risks

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

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

Currency risks from potential declines in the value of financial instruments due to exchange rate fluctuations (transaction risks) arise mainly when receivables and payables are denominated in a currency other than the company’s local currency. These risks and the currency risks arising on financial transactions, including the interest component, are generally fully hedged through forward exchange contracts. In the short term, therefore, the appreciation or depreciation of the euro against other major currencies can have no material impact on future cash flows.

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

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

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

Raw materials/energies Where certain market-price risks for energies and raw materials cannot be passed on to customers in their entirety, they may be hedged on a case-by-case basis by forward commodity contracts in order to reduce the volatility of cash flows. As in the previous year, LANXESS had no forward commodity contracts as at the reporting date.

• Liquidity and refinancing
We ensure our access to the capital markets and our solvency through a conservative financing policy and a target capital structure that is largely based on the ratio systems used by leading rating agencies. Our conservative financing policy takes into account the risk of a change to our rating and the associated effects on financial risk management, even though LANXESS has no direct influence on the assessments by independent rating agencies.

Our main liquidity reserve is a €1.25 billion syndicated credit facility, which remained largely undrawn on the reporting date. In February 2015, its original term was extended by one year to February 2020. We have a further material credit line of €150 million with the European Investment Bank. In addition to credit facilities, the Group has short-term liquidity reserves of €518 million in the form of cash and cash equivalents and highly liquid investments in AAA-rated money market funds. Accordingly, the LANXESS Group has a liquidity position based on a broad range of financing instruments.

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

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

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

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

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

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

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

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

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

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

Legal, regulatory and political environment Companies in the LANXESS Group are subject to legal risks and are parties to various litigations. The outcome of individual proceedings cannot be predicted with assurance due to the uncertainties always associated with legal disputes. To the extent necessary in light of the known circumstances in each case, we have set up risk provisions for the event that the outcome of such proceedings is unfavorable to LANXESS. Taking into account existing provisions and insurance, as well as agreements reached with third parties in respect of liability risks arising from legal disputes, it is currently estimated that none of these proceedings will materially affect our planned EBITDA pre exceptionals.

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

Regulatory measures may lead to the tightening of safety, quality and environmental regulations and standards. These may result in additional costs and liability risks. Particularly noteworthy in this regard is the implementation of the E.U. Regulation concerning the Registration, Evaluation, Authorization and Restriction of Chemicals (REACH). As well as direct costs that could arise due to additional measures necessary to comply with these standards, market structures could change to our disadvantage as a result of a shift by suppliers and customers to regions outside Europe. Additional requirements imposed by energy and environmental policy, such as the new emission trading regulations, new environmental taxes and the redistribution of costs associated with the German Renewable Energy Act, could result in higher costs and in part substantial disadvantages in international competition. With a view to mitigating this risk, we are discussing the economic consequences of increasing energy prices with the authorities and government – either directly or in cooperation with other energy-intensive companies via industry organizations.

LANXESS was and is responsible for numerous sites at which chemicals have been produced for periods that in some cases exceed 140 years. This responsibility also extends to waste disposal facilities. The possibility cannot be ruled out that pollution occurred during this time that has not been discovered to date. We are committed to the Responsible Care® initiative and pursue active environmental management and proactive environmental protection management. This includes constant monitoring and testing of the soil, groundwater and air and of various emissions. We have set up sufficient provisions for necessary containment or remediation measures in areas with identified contamination. Additional information on our environmental provisions can be found in Note [14], “Other non-current and current provisions,” to the consolidated financial statements.

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

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

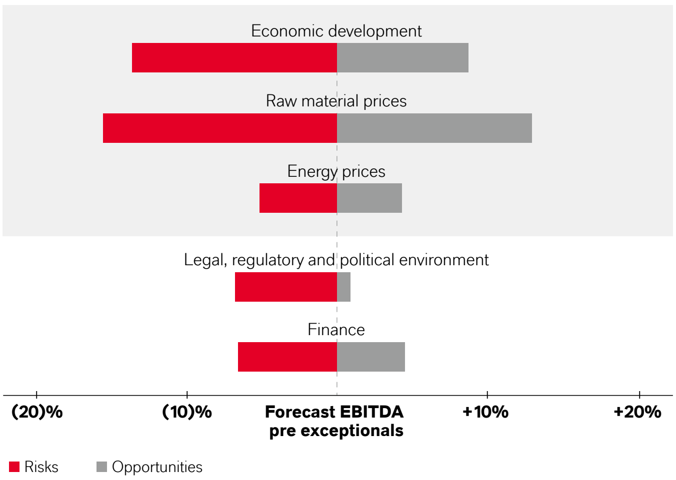
Tax matters are subject to a degree of uncertainty in terms of their assessment by the tax authorities in Germany and other countries. Even if we believe that all circumstances have been reported correctly and in compliance with the law, the possibility cannot be ruled out that the tax authorities may come to a different conclusion in individual cases.

Significance of opportunities and risks and result of opportunity and risk assessment The opportunities and risks of future development that we identify are categorized and grouped. Their significance lies in their potential impact on planned EBITDA pre exceptionals. Individual categories or groups in which the opportunity or risk may produce a deviation of more than 5% from our projected EBITDA pre exceptionals in the planning year are considered to be of medium to high significance.

Within the context of opportunity and risk management for the planning year, the economic development, raw material prices and energy prices categories as well as the legal, regulatory and political environment and finance groups are considered to be of medium to high significance. Based on the scenarios applied or the assumed probability of occurrence, these categories and groups could produce a positive deviation of up to 13% or a negative deviation of up to 16% from our projected EBITDA pre exceptionals, which is our key controlling parameter. The aforementioned groups were influenced in particular by opportunities and risks in the environmental policy, currencies and insurance categories. Opportunities and risks in other categories – such as risks from litigations – are of very little significance.

Opportunitiy and Risk Profile[1]

%



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

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

Summary of overall opportunities and risks In recent years, LANXESS has consistently aligned its product portfolio to the key growth trends and is successfully positioned in major growth markets. Through targeted investments, we are continuing to strengthen our segments worldwide and are pursuing our research and development activities to deliver process and product innovations in all segments that will continue to set us apart from our competitors. We are responding to increasing competition, especially in our synthetic rubber businesses, with our "Let's LANXESS again" program for the global realignment of our company. Our global position and our flexible corporate structures enable us to rapidly respond to the challenges we face and successfully utilize the strategic and operational opportunities that arise in the future.

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

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

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