Notes to the Consolidated Financial Statements

General information

LANXESS AG is entered as a stock corporation in the Commercial Register of the Cologne District Court under HRB 53652. Its registered office is at Kennedyplatz 1, 50569 Cologne, Germany.

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

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

Structure and components of the consolidated financial statements

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

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

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

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

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

Financial reporting standards and interpretations applied

The consolidated financial statements of the LANXESS Group as of December 31, 2014 were prepared in accordance with the International Financial Reporting Standards (IFRS) as endorsed by the European Union (E.U.) and the corresponding interpretations, together with the additional requirements of Section 315a, Paragraph 1 of the German Commercial Code (HGB).

Accounting for participating interests in other entities

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

Impairment of assets

Also mandatory as of the beginning of 2014 are the amendments to IAS 36 that were published in May 2013. The new rules make it clear that the recoverable amount of an asset or cash-generating unit now only has to be disclosed for periods in which a write-down has been recognized or reversed. Additional disclosures are required when a write-down is recognized or reversed and the recoverable amount is based on fair value less costs of disposal. Since these amendments relate solely to disclosures in the notes to the financial statements, they had no impact on the earnings, asset and financial position.

Further changes

The mandatory first-time application of the following financial reporting standards and interpretations in 2014 currently has no impact, or no material impact, on the LANXESS Group:
- Amendments to IAS 32: Offsetting financial assets and financial liabilities
- Amendments to IAS 39: Novation of derivatives and continuation of hedge accounting

Financial reporting standards and interpretations issued but not yet mandatory

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

Financial instruments

In November 2009, the IASB published IFRS 9. The new requirements this standard introduced for classifying and measuring financial assets were supplemented in October 2010 by requirements for the measurement of financial liabilities and the derecognition of financial instruments. In November 2013, the IASB published amendments to IFRS 9 containing new rules on hedge accounting. These amendments allow early adoption of the requirement that fair value changes attributable to changes in the credit risk of a liability designated as at fair value through profit or loss be presented in other comprehensive income under certain conditions even if the other rules of IFRS 9 are not simultaneously applied. In July 2014, the IASB issued the final version of IFRS 9. This contains revised regulations for classifying and measuring financial assets and, for the first time, rules on impairment charges for financial instruments. The expected loss model is now used to anticipate and recognize future losses as well as losses that have already been incurred. The new standard is to be applied for annual periods beginning on or after January 1, 2018. Earlier application is permitted. It has not yet been endorsed by the E.U. The LANXESS Group is currently evaluating the impact the application of this standard will have on its earnings, asset and financial position.

Revenue from contracts with customers

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

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

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

Consolidation

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

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

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

Scope of consolidation

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

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

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

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

Fully consolidated companies

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

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

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

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

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

Investments accounted for using the equity method

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

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

Joint operations

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

Currency translation

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

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

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

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

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

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

Exchange Rates

€ 1		Closing rate, Dec. 31		Average rate	
		2013	2014	2013	2014
Argentina	ARS	8.99	10.28	7.28	10.76
Brazil	BRL	3.23	3.22	2.87	3.12
China	CNY	8.35	7.54	8.16	8.19
United Kingdom	GBP	0.83	0.78	0.85	0.81
India	INR	85.23	76.54	77.82	81.05
Japan	JPY	144.72	145.23	129.62	140.39
Canada	CAD	1.47	1.41	1.37	1.47
Singapore	SGD	1.74	1.61	1.66	1.68
South Africa	ZAR	14.57	14.04	12.83	14.41
United States	USD	1.38	1.21	1.33	1.33

Accounting policies and valuation principles

The accounting policies and valuation principles are the same as those used in the previous fiscal year and have been consistently applied. However, certain changes have resulted from the mandatory first-time application in 2014 of new or amended financial reporting standards and interpretations. These changes are explained in the section headed "Financial reporting standards and interpretations applied."

Intangible assets

Intangible assets comprise goodwill and other intangible assets such as software, concessions, industrial property rights, similar rights and assets, and licenses to such rights and assets. Acquired intangible assets with a definite useful life are recognized at cost and amortized over their respective useful lives using the straight-line method. The amortization period for intangible assets other than goodwill is between 3 and 20 years. Amortization for 2014 has been allocated to the respective functional areas. Any further decline in value is recognized by means of a write-down. Write-downs are reversed in the following year if the reasons for them no longer exist, provided that this does not cause the carrying amounts of the assets to exceed either the amortized cost at which they would have been carried if the write-downs had not been recognized or their current recoverable amount. The lower of these two amounts is recognized. Intangible assets with indefinite useful lives and goodwill are not amortized. They are tested for impairment annually or more often if events or a change in circumstances indicate a possible impairment. Any impairment charges are recognized in other operating expenses. Impairment charges on goodwill are not reversed.

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

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

Property, plant and equipment

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

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

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

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

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

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

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

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

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

Useful Lives

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

Leasing

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

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

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

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

Financial instruments

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

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

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

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

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

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

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

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

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

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

Derivative financial instruments and hedging transactions

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

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

Determination of fair value

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

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

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

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

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

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

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

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

Inventories

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

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

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

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

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

Cash and cash equivalents

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

Non-current assets and liabilities held for sale

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

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

Provisions

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

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

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

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

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

The stock-based compensation program for members of the Supervisory Board provides for variable cash settlement, provided that LANXESS stock has outperformed a defined index during their term of office. Provisions are established for the expected obligations on the basis of the fair value of the expected settlement amount.

The LANXESS Group also records provisions for current or pending legal proceedings where the resulting expenses can be reasonably estimated. These provisions include all estimated fees and legal costs and the cost of potential settlements. However, litigation expenses are only included if it is assumed that they will have to be borne by LANXESS. The amounts of such provisions are based upon information and cost estimates provided by the Group's legal advisers. The provisions are regularly reviewed together with the Group's legal advisers and adjusted if necessary.

Contingent liabilities

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

Liabilities

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

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

Sales and other revenues

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

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

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

Research and development expenses

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

Income taxes

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

Income tax liabilities and provisions for income taxes comprise the liabilities relating to the respective fiscal year and any liabilities from previous years. They are assessed on the basis of the applicable legislation, taking into account present legal practice judgments and prevailing opinion.

In accordance with IAS 12, deferred taxes are calculated for temporary differences between the carrying amounts of assets or liabilities in the statement of financial position and the tax base and for differences arising from consolidation measures or realizable tax loss carryforwards. The calculations are based on tax planning calculations and customary and realizable tax strategies. Deferred taxes are calculated at the rates which are expected to apply in the individual countries at the time of realization, taking into account the period for which deferred taxes may be used and any constraints on the utilization of loss carryforwards. These are based on the statutory regulations in force, or already enacted in relation to future periods, as of the closing date.

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

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

Statement of cash flows

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

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

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

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

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

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

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

Global impairment testing procedure and impact

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

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

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

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

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

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

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

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

The results of the global impairment tests in fiscal 2013 and 2014 are outlined in the following section.

Estimation uncertainties and the exercise of discretion

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

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

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

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

The assumptions and estimates used for the impairment test conducted on assets in fiscal 2014 could differ from the actual values in subsequent periods, necessitating subsequent valuation adjustments. The annual impairment tests are based on a discount rate after taxes of 7.4% (2013: 7.9%), without using growth rates to determine the perpetual annuity. The calculation is based on a capital value method which is allocated to Level 3 of the fair value hierarchy in accordance with IFRS 13. The testing of the cash-generating units showed no need for the recognition or reversal of impairment charges in fiscal 2014. There has been no material change in the estimates used for the impairment charges recognized in the previous year for the cash-generating units Keltan Elastomers, High Performance Elastomers and Rubber Chemicals.

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

Further, in view of the challenging competitive environment and the change in the assessment of growth prospects, impairment tests were performed in 2013 on the High Performance Elastomers cash-generating unit in the Performance Polymers segment and the Rubber Chemicals cash-generating unit in the Performance Chemicals segment using a discount rate after taxes of 7.8%. These tests led to the recognition of a €54 million impairment charge for the High Performance Elastomers cash-generating unit and a €29 million impairment charge for the Rubber Chemicals cash-generating unit. The business activities of the High Performance Elastomers cash-generating unit comprise the production and distribution of synthetic rubber with special technical properties for the manufacturing industry, especially the automotive and construction sectors, and mechanical engineering. The impairment test led to the recognition of a €54 million impairment charge to reduce the carrying amount to the recoverable amount less costs of disposal. This impairment charge was recognized in the income statement under other operating expenses. €1 million pertained to intangible assets and €53 million to property, plant and equipment. The business activities of the Rubber Chemicals cash-generating unit comprise the production and marketing of specialty rubber chemicals sold mainly to manufacturers of tires and technical rubber products. The impairment test as of year end 2013 led to the recognition of a €29 million impairment charge to reduce the carrying amount to the recoverable amount less costs of disposal. This impairment charge was recognized in the income statement under other operating expenses in fiscal 2013. €5 million pertained to intangible assets and €24 million to property, plant and equipment.

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

The impairment test performed on goodwill items in 2014 did not indicate any need for recognition of impairment charges. Neither a one-percentage-point increase in the discount rate nor a 10% reduction in expected future net cash flows would have led to the recognition of an impairment charge on goodwill items.

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

The recognition and measurement of provisions are also affected by assumptions as to the probability of utilization, timing, the underlying discount rate and the absolute level of risk. The LANXESS Group performed sensitivity analyses on all provisions existing as of December 31, 2014, as required by the IFRS. These involved calculating the impact of variations in the parameters used, especially the probability of occurrence, discount rate and absolute level of risk. The outcome of these sensitivity analyses shows that variations in the assumptions described above would not have a material impact on the level of other provisions reported in the consolidated financial statements of the LANXESS Group. For further information on the sensitivity analyses relating to provisions for pension and other post-employment benefits, see Note [13].

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

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

There is also a degree of uncertainty surrounding the assessment of certain tax situations by the tax authorities. Although the LANXESS Group believes it has presented all tax-relevant information correctly and in compliance with the law, it is possible that the tax authorities may occasionally reach different conclusions. Provisions have been established where changes in tax assessments are probable. In addition, charges from tax risks from previous years are not considered to be likely. In the event of unfavorable developments, LANXESS could be faced with additional charges in the low-double-digit millions of euros. The calculations are principally based on experience of the outcome of previous tax audits and their impact on the subsequent periods and the applicable legislation, taking into account present legal practice and prevailing opinion.

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

Companies consolidated

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

	EMEA (excl. Germany)	Germany	North America	Latin America	Asia-Pacific	**Total**
Fully consolidated companies (incl. parent company)						
Jan. 1, 2014	23	12	5	5	20	65
Additions						0
Retirements		(1)			(1)	(2)
Mergers					(1)	(1)
Dec. 31, 2014	**23**	**11**	**5**	**5**	**18**	**62**
Consolidated associates and jointly controlled entities						
Jan. 1, 2014		2				2
Additions						0
Retirements						0
Mergers						0
Dec. 31, 2014	**0**	**2**	**0**	**0**	**0**	**2**
Non-consolidated companies						
Jan. 1, 2014	2	2	1	3	2	10
Additions						0
Retirements					(1)	(1)
Mergers						0
Dec. 31, 2014	**2**	**2**	**1**	**3**	**1**	**9**
Total						
Jan. 1, 2014	25	16	6	8	22	77
Additions	0	0	0	0	0	0
Retirements	0	(1)	0	0	(2)	(3)
Mergers	0	0	0	0	(1)	(1)
Dec. 31, 2014	**25**	**15**	**6**	**8**	**19**	**73**

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

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

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

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

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

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

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

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

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

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

Other information on companies consolidated

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

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

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

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

Notes to the statement of financial position

1 Intangible assets

Changes in intangible assets were as follows:

Changes in Intangible Assets in 2013

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

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

Changes in Intangible Assets in 2014

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

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

2 Property, plant and equipment

Changes in property, plant and equipment were as follows:

Changes in Property, Plant and Equipment in 2013

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

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

Changes in Property, Plant and Equipment in 2014

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

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

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

Assets Held Under Finance Leases

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

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

3 Investments accounted for using the equity method

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

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

Data from the Income Statement and Statement of Comprehensive Income

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

Data from the Statement of Financial Position

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

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

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

4 Investments in other affiliated companies

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

As of December 31, 2014, all the other investments classified as available-for-sale financial assets – apart from the shares in Gevo, Inc., Englewood, United States, and BioAmber Inc., Minneapolis, United States – comprised unlisted equity instruments. Since the fair values of these instruments at the closing date could not be reliably determined, they were recognized at cost. There are currently no plans to dispose of these investments.

5 Derivative financial instruments

The derivative financial instruments held by the LANXESS Group comprise forward exchange contracts and are capitalized in the consolidated financial statements for fiscal 2014 at a total fair value of €19 million (2013: €78 million). Instruments with a negative fair value totaling €121 million (2013: €34 million) are recognized as liabilities.

Derivative Financial Instruments

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

Derivative Financial Instruments

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

Cash flow hedges As of December 31, 2014, the unrealized losses recognized in other comprehensive income in 2014 or earlier periods from currency hedging contracts that qualify for hedge accounting amounted to €50 million (2013: unrealized gains of €5 million). In 2014, €1 million was reclassified from equity to profit or loss due to the realization of the hedged transactions and recognized as a loss (2013: gain of €5 million). Currency hedging contracts concluded to hedge future sales in foreign currencies had a total notional amount of €1,017 million (2013: €967 million). As of December 31, 2014, these contracts had positive fair values of €3 million (2013: €35 million) and negative fair values of €73 million (2013: €30 million). Contracts with a total notional amount of €756 million (2013: €712 million) were due within one year. The hedged cash flows will be realized within the next three years.

The LANXESS Group expects that, of the unrealized losses on currency hedges recognized in other comprehensive income in 2014, €42 million will be reclassified from equity to profit or loss in 2015 and €8 million in 2016 (2013: €7 million of unrealized gains in 2014 and €2 million of unrealized losses in 2015).

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

6 Other non-current and current financial assets

Other Financial Assets

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

Other Financial Assets

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

As of the reporting date, there were no receivables from lease agreements (finance leases) in which the other party, as lessee, is to be regarded as the economic owner of the leased assets (2013: €2 million due within one year).

Write-downs of other financial assets amounted to €7 million (2013: €7 million) and related to other financial receivables which have been written down entirely.

7 Other non-current assets

Other non-current assets are carried at amortized cost less any write-downs. No write-downs were made in 2013 or 2014.

Other non-current assets comprised:

Other Non-Current Assets

€ million	Dec. 31, 2013	Dec. 31, 2014
Receivables from pension obligations	22	0
Other receivables	33	33
	55	**33**

The €22 million decline in receivables from pension obligations was mainly attributable to the change in value of the plan assets held by the associated pension fund. The other receivables include periodic accruals and other reimbursement claims.

8 Inventories

The inventories of the LANXESS Group comprised:

Inventories

€ million	Dec. 31, 2013	Dec. 31, 2014
Raw materials and supplies	238	260
Work in process, finished goods and merchandise	1,061	1,124
	1,299	**1,384**

Inventories of €227 million (2013: €246 million) are reflected at net realizable value.

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

Write-Downs of Inventories

€ million	2013	2014
Balance at beginning of year	(86)	(92)
Additions charged as expenses	(36)	(65)
Reversals/utilization	28	33
Changes in scope of consolidation	–	1
Exchange differences	2	(4)
Balance at end of year	**(92)**	**(127)**

9 Trade receivables

All trade receivables – totaling €1,015 million (2013: €1,070 million) – are due within one year. Of the trade receivables, €3 million (2013: €3 million) pertained to investments accounted for using the equity method and €1,012 million (2013: €1,067 million) pertained to other customers.

Trade receivables as of December 31, 2014, are stated after write-downs of €17 million (2013: €18 million) on gross receivables of €17 million (2013: €19 million).

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

Write-Downs of Trade Receivables

€ million	2013	2014
Balance at beginning of year	(13)	(18)
Additions charged as expenses	(9)	(4)
Reversals/utilization	3	6
Exchange differences	1	(1)
Balance at end of year	**(18)**	**(17)**

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

Maturity Structure of Past-Due Trade Receivables

€ million	Dec. 31, 2013	Dec. 31, 2014
Carrying amount	1,070	1,015
of which neither impaired nor past due	939	896
of which unimpaired but past due by		
up to 30 days	106	94
between 31 and 60 days	12	15
between 61 and 90 days	7	3
more than 90 days	5	7

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

10 Near-cash assets

The near-cash assets of €100 million (2013: €106 million) comprise units of money market funds that can be sold at any time and are expected to be realized within twelve months after the closing date.

11 Other current assets

Other receivables and other assets totaling €185 million (2013: €198 million) are stated at amortized cost less any write-downs, which were €2 million in 2014. They principally comprise miscellaneous claims for tax refunds amounting to €144 million (2013: €128 million), mainly pertaining to sales taxes, and other reimbursement claims from goods and service transactions.

12 Equity

Capital stock The capital stock of LANXESS AG amounted to €91,522,936 as of December 31, 2014 and is composed of 91,522,936 no-par bearer shares. All shares carry the same rights and obligations. One vote is granted per share, and profit is distributed per share.

Capital increase On May 7, 2014, the Board of Management of LANXESS AG resolved, with the approval of the Supervisory Board and pursuant to the authorization of the Annual Stockholders' Meeting of May 28, 2010, on Authorized Capital II, to increase the capital stock of LANXESS AG by a nominal amount of €8,320,266, corresponding to nearly 10% of the capital stock, by the issuance of 8,320,266 new no-par bearer shares under exclusion of stockholders' subscription rights, in order to strengthen the LANXESS Group's financial position. The new shares were placed with international investors through an accelerated bookbuilding process at a price of €52 per share. The capital increase took effect on May 9, 2014, when it was entered in the commercial register. The placement increased the company's equity by the gross proceeds of €433 million. The transaction costs of €7 million were recorded as a deduction from equity, taking tax effects of €2 million into account. Following this capital increase, the capital stock of LANXESS AG is now €91,522,936.

Authorized capital As of December 31, 2014, the company's authorized capital comprised the following:

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

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

Conditional capital As of December 31, 2014, the company's conditional capital comprised the following:

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

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

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

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

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

Capital reserves The capital reserves of LANXESS AG were increased by €419,456,790 in the fiscal year and stood at €1,225,652,280 as of December 31, 2014.

Other reserves The €437 million decrease in other reserves to €1,253 million was entirely attributable to the decrease in retained earnings from €1,531 million to €1,094 million.

Retained earnings comprise prior years' undistributed income of companies included in the consolidated financial statements. They also contain remeasurements of the net defined benefit liability from post-employment benefit plans and the related tax effects.

Other equity components The other equity components mainly comprise exchange differences from the translation of operations outside the eurozone and remeasurements of derivatives for purposes of cash flow hedge accounting.

Non-controlling interests Non-controlling interests comprise the interests held by other stockholders in the equity of Europigments, S.L., Barcelona, Spain, Rhein Chemie (Qingdao) Co., Ltd., Qingdao, China, and LANXESS-TSRC (Nantong) Chemical Industrial Co., Ltd., Nantong, China.

Capital management The main purpose of capital management in the LANXESS Group is to maintain the long-term viability of the business operations and achieve an attractive return on capital compared to the chemical industry average. LANXESS's financial policy defines a second key criterion for capital management, which is to maintain an investment-grade rating. To achieve this goal, the Group has to meet indicators set by the rating agencies. Most of these are derived from the statement of financial position, the income statement or the statement of cash flows. Details can be found in the section headed "Value management and control system" in the combined management report for fiscal 2014. Capital management in the LANXESS Group entails decisions by the relevant internal bodies on the capital structure shown on the statement of financial position, the appropriateness of the company's equity, the use of the distributable profit, the amount of the dividend, the financing of capital expenditures, and thus on issuances or repayments of debt. The articles of association of LANXESS AG do not contain any specific capital requirements.

13 Provisions for pensions and other post-employment benefits

Most employees in the LANXESS Group are entitled to retirement benefits on the basis of contractual agreements or statutory regulations. These are provided through defined contribution or defined benefit plans.

Defined contribution plans In the case of defined contribution plans, the company pays contributions into separate pension funds. These contributions are included in the functional cost items as expenses for the respective year, and thus in the operating result. Once the contributions have been paid, the company has no further payment obligations. Payments to defined contribution plans in 2014 totaled €49 million (2013: €49 million).

Multi-employer plans The pension plan in Germany financed through Bayer-Pensionskasse is also accounted for in the consolidated financial statements as a defined contribution plan. The above amounts include contributions of €28 million (2013: €28 million) to Bayer-Pensionskasse. Contributions of about the same amount are expected for the following fiscal year.

Bayer-Pensionskasse is a legally independent private insurance company and is therefore subject to the German Insurance Supervision Act. Since the obligations of the participating entities are not confined to payment of the contributions for the respective fiscal year, Bayer-Pensionskasse constitutes a defined benefit multi-employer plan and therefore would normally have to be accounted for pro rata as a defined benefit plan.

Bayer-Pensionskasse is financed not on the principle of coverage for individual benefit entitlements, but on the actuarial equivalence principle, based on totals for the whole plan. This means that the sum of existing plan assets and the present value of future contributions must be at least equal to the present value of the future benefits payable under the plan. The LANXESS Group is therefore exposed to the actuarial risks of the other entities participating in Bayer-Pensionskasse. Thus no consistent or reliable basis exists for allocating the benefit obligation, plan assets and costs that would enable LANXESS to account for Bayer-Pensionskasse as a defined benefit plan in accordance with IAS 19. As contributions are based on future coverage of the total obligation, all participating entities pay contributions at the same rates based on the employee income levels on which social security contributions are payable. Bayer-Pensionskasse is therefore accounted for as a defined contribution plan and not as a defined benefit plan.

There are no minimum funding requirements, nor is there any information that could be used to estimate the future contributions on the basis of current underfunding or overfunding. The statutes do not provide for the sharing of any surplus or shortfall in the event that Bayer-Pensionskasse is wound up or LANXESS ceases to participate.

LANXESS's share of the total contributions to Bayer-Pensionskasse was unchanged from the previous year at approximately 17%. Bayer-Pensionskasse has been closed to new members since January 1, 2005.

Defined benefit plans The global post-employment benefit obligations are calculated at regular intervals – at least every three years – by an independent actuary using the projected unit credit method. Comprehensive actuarial valuations are generally undertaken annually for all major post-employment benefit plans.

Contractually based defined benefit pension plans exist primarily in Germany, Canada and Brazil.

The defined benefit pension obligations in Germany mainly relate to lifelong benefits payable in the event of death or disability or when the employee reaches retirement age. Benefits are determined on the basis of the total annual pension increments earned during the period of employment and vary according to employees' individual salaries. Additional pension entitlements exist that are related to salary components set aside by employees and are payable when they reach retirement age. Alongside direct commitments, the pension adjustment obligation assumed by Bayer-Pensionskasse is accounted for in a separate defined benefit plan in accordance with Section 16 of the German Occupational Pensions Improvement Act (BetrAVG).

In Canada, the defined benefit obligations comprise, in particular, lifelong pension benefits, which are payable in the event of disability or death or when the employee reaches retirement age. The level of these benefits is determined from the total annual pension increments earned during the period of employment, depending on the employee's individual salary and the actual date of retirement. The existing defined benefit pension plans are closed to new members.

In Brazil, the defined benefit obligations comprise lifelong benefits, principally in the event of death or disability or when the employee reaches retirement age. The benefits are calculated according to the total annual pension increments earned during the period of employment and also depend on individual salary, the number of years for which statutory social insurance contributions have been paid, and comparable statutory pension benefits. The principal defined benefit pension plans are closed to new members.

Only limited defined benefit pension obligations exist on the basis of statutory regulations. These principally comprise obligations to make a lump-sum payment if employment is terminated. The amount of this payment mainly depends on years of service and final salary.

The other post-employment benefit obligations primarily relate to the reimbursement of retirees' healthcare costs in North and South America. The other post-employment benefit obligations in Germany comprise other long-term benefits payable to employees and benefits payable upon termination of employment. These are mainly early-retirement benefits and collectively agreed salary components granted in the form of pension benefits. They are included in pension provisions as they are by nature pension entitlements.

The defined benefit pension obligations are financed both internally through provisions and externally through legally independent pension funds. The pension obligations in Germany are partly covered on a voluntary basis via LANXESS Pension Trust e.V., Leverkusen, Germany. The allocation of funds to LANXESS Pension Trust e.V. is dependent on future decisions by the company. In Canada and Brazil, pension obligations have to be financed through pension funds. Allocations to pension funds in these countries are determined by the regulatory environments and the need to comply with funding regulations. Contributions are paid mainly by the employer. The investment strategy is determined principally by the LANXESS Corporate Pension Committee and is designed to protect the capital, optimally manage risks, take into account changes in pension obligations and ensure the timely availability of plan assets. At the regional level, the strategy is generally directly coordinated and monitored by representatives of LANXESS via the relevant committees of the pension funds or of LANXESS Pension Trust e.V., taking regulatory requirements into account. In Brazil, the investment of plan assets forms an integral part of the pension fund's overall investment strategy and is basically managed and supervised by the pension fund.

Minimum funding requirements may have to be met for defined benefit obligations in both Brazil and Canada. These depend on the local regulatory framework and are reflected in additional pension provisions. Funding surpluses from defined benefit plans are recognized as receivables relating to pension obligations to the extent that they can be used to reduce future contributions, taking into account the asset ceiling. These mainly relate to defined benefit plans in Brazil. The respective calculations are based on actuarial valuations.

In 2014, total expenses of €120 million (2013: €106 million) for defined benefit plans were recognized in profit or loss and are split between the operating result and the financial result as follows:

Expenses for Defined Benefit Plans

€ million	Pension plans		Other post-employment benefit plans	
	2013	2014	2013	2014
Operating result				
Current service cost	34	37	36	38
Past service cost	17	10	(9)	0
Gains/losses from settlements	0	0	–	–
Administration expenses/taxes	1	1	0	0
Actuarial gains/losses from changes in financial assumptions	–	–	0	2
Financial result				
Net interest	22	27	5	5
Recognized in profit or loss	**74**	**75**	**32**	**45**

Administration expenses in the operating result contain expenses from the investment of assets that are not directly attributable to the earning of income on plan assets. The costs of managing the plan assets that are directly attributable to the earning of income on plan assets are recognized in other comprehensive income.

The actuarial gains and losses relate to other non-current employee benefits or termination benefits that are included in pension provisions because they are by nature retirement benefits.

The net interest is the balance of the interest expense from compounding the defined benefit obligation, interest expense from changes in the effects of the asset ceiling and minimum funding requirements, and interest income from plan assets.

The table shows the amounts recognized in other comprehensive income rather than profit or loss in 2014:

Amounts Recognized in Other Comprehensive Income

€ million	Pension plans		Other post-employment benefit plans	
	2013	2014	2013	2014
Return on plan assets excluding amounts included in interest	(45)	21	0	0
Actuarial gains/losses from changes in demographic assumptions	0	(17)	0	0
Actuarial gains/losses from changes in financial assumptions	101	(282)	7	(7)
Actuarial gains/losses from experience adjustments	(37)	(12)	4	2
Changes in effects of the asset ceiling	(61)	2	–	–
Changes in effects of minimum funding requirements	(2)	(15)	–	–
Amounts recognized in other comprehensive income	**(44)**	**(303)**	**11**	**(5)**

The change in the net defined benefit liability for post-employment benefit plans is shown in the following table:

Changes in Net Defined Benefit Liability

€ million	Pension plans		Other post-employment benefit plans	
	2013	2014	2013	2014
Net defined benefit liability, January 1	**708**	**797**	**121**	**124**
Recognized in profit or loss	74	75	32	45
Recognized in other comprehensive income	44	303	(11)	5
Employer contributions	(13)	(21)	0	(1)
Benefits paid	(21)	(22)	(10)	(17)
Business combinations and disposals	1	(5)	0	0
Exchange differences	4	3	(8)	4
Net defined benefit liability, December 31	**797**	**1,130**	**124**	**160**
Recognized in the statement of financial position				
Receivables from pension obligations	(22)	0	–	–
Provisions for pensions and other post-employment benefits	819	1,130	124	160
Net defined benefit liability, December 31	**797**	**1,130**	**124**	**160**

The components of the reconciliation of the net recognized liability are explained in the following tables, which show the development of the defined benefit obligation, the external plan assets and the effects of the asset ceiling and minimum funding requirements, and explain the major changes.

The defined benefit obligation developed as follows:

Change in Defined Benefit Obligation

€ million	Pension plans		Other post-employment benefit plans	
	2013	2014	2013	2014
Defined benefit obligation				
Defined benefit obligation, January 1	1,854	1,787	125	128
Current service cost	34	37	36	38
Interest expense	90	93	5	5
Actuarial gains/losses from changes in demographic assumptions	0	17	0	0
Actuarial gains/losses from changes in financial assumptions	(101)	282	(7)	9
Actuarial gains/losses from experience adjustments	37	12	(4)	(2)
Past service cost	17	10	(9)	0
Gains/losses from settlements	0	0	–	–
Employee contributions	1	2	–	–
Benefits paid	(70)	(78)	(10)	(17)
Disbursements for settlements	–	0	–	–
Business combinations and disposals	1	(6)	–	0
Other additions	33	0	–	–
Administration expenses/taxes	0	0	0	0
Exchange differences	(109)	22	(8)	5
Defined benefit obligation, December 31	**1,787**	**2,178**	**128**	**166**

Of the defined benefit obligation for pensions, Germany accounts for 58% (2013: 56%), Canada for 22% (2013: 22%) and Brazil for 15% (2013: 17%).

The other post-employment benefit obligations comprise €74 million (2013: €63 million) for the reimbursement of health care costs and €92 million (2013: €65 million) for miscellaneous other benefit commitments.

The actuarial gains and losses from changes in demographic assumptions result from the application of new mortality tables, mainly in Canada.

Remeasurements of the defined benefit liability due to changes in actuarial gains and losses resulting from changes in financial assumptions are mainly attributable to changes in the discount rates for defined benefit obligations in the main countries of relevance for LANXESS.

The changes in past service cost for pension obligations and in current service cost for the other post-employment benefit obligations result mainly from the "Advance" and "Let's LANXESS again" programs in Germany and relate to early-retirement agreements, to improvements to existing benefit entitlements for employees taking early retirement, and to severance agreements. In the previous year, the other post-employment benefit obligations included a negative change in past service cost in the United States due to the new regulatory requirements aimed at securing health care benefits.

The disposals result from the divestment of Perlon-Monofil GmbH, Dormagen, Germany.

The other additions in 2013 mainly resulted from the reclassification of existing pension plans in Belgium as defined benefit plans because the insurance companies' guaranteed interest rates have dropped below the statutory minimum return on contributions to corporate pension plans.

The exchange differences pertaining to defined benefit obligations mainly resulted from changes in the exchange rates for the Canadian dollar and the Brazilian real.

The change in external plan assets is shown in the following table:

Change in External Plan Assets

€ million	Pension plans		Other post-employment benefit plans	
	2013	2014	2013	2014
Plan assets at fair value				
Plan assets, January 1	1,146	1,046	4	4
Interest income	68	73	0	0
Return on plan assets excluding amounts included in interest	(45)	21	0	0
Gains/losses from settlements	–	–	–	–
Employer contributions	13	21	0	1
Employee contributions	1	2	–	–
Benefits paid	(49)	(56)	0	0
Disbursements for settlements	–	–	–	–
Business combinations and disposals	–	(1)	–	–
Other additions	33	–	–	–
Costs of managing plan assets/taxes	(1)	(1)	0	0
Exchange differences	(120)	20	0	1
Plan assets, December 31	**1,046**	**1,125**	**4**	**6**

Of the plan assets, Canada accounts for 40% (2013: 37%), Brazil for 34% (2013: 36%) and Germany for 19% (2013: 20%).

Employer contributions are used both for external funding of pension obligations where LANXESS is eligible for reimbursements of pension payments and for external funding of pension obligations where subsequent pension payments will be made directly out of external plan assets.

The latter type of obligations exists mainly outside Germany and totaled €21 million in 2014 (2013: €13 million). External funding where LANXESS can assert reimbursement claims mainly pertains to LANXESS Pension Trust e.V. No additional funding was provided to LANXESS Pension Trust e.V in 2014 or 2013.

The disposals result from the divestment of Perlon-Monofil GmbH, Dormagen, Germany.

The exchange differences pertaining to plan assets mainly resulted from changes in the exchange rates for the Canadian dollar and the Brazilian real.

Changes in the effects of the asset ceiling and minimum funding requirements are shown in the following table:

Changes in Effects of the Asset Ceiling and Minimum Funding Requirements for Defined Benefit Plans

€ million	Effects of the asset ceiling		Minimum funding requirements	
	2013	**2014**	**2013**	**2014**
January 1	**0**	**54**	**0**	**2**
Interest expense	0	7	0	0
Additions (+) / deductions (–)	61	(2)	2	15
Exchange differences	(7)	0	0	1
December 31	**54**	**59**	**2**	**18**

Changes in the effects of the asset ceiling mainly relate to the Brazilian defined benefit pension plans, while changes in minimum funding requirements relate to the Canadian plans.

The fair value of plan assets is comprised as follows:

Breakdown of Plan Assets as of December 31

€ million	**2013**	**2014**
Cash and cash equivalents	69	25
of which quoted in an active market	69	25
Equity instruments	231	215
of which quoted in an active market	120	110
Government bonds	245	393
of which quoted in an active market	245	393
Corporate bonds	372	268
of which quoted in an active market	304	204
Investment funds	35	132
of which quoted in an active market	16	102
Real estate	27	23
Insurance contracts	55	60
of which quoted in an active market	0	1
Other	16	15
of which quoted in an active market	0	3
	1,050	**1,131**

The plan assets do not include any real estate used by the company, nor do they normally include any financial instruments owned by the company. However, plan assets could conceivably include index products containing LANXESS securities.

The following weighted discount rates were used to calculate the defined benefit obligation and determine the pension expense:

Valuation Assumptions as of December 31

%	Pension plans		Other post-employment benefit plans	
	2013	**2014**	**2013**	**2014**
Discount rate	5.31	4.38	3.98	2.87
Germany	3.75	2.75	1.43	0.59
Canada	4.50	3.75	4.75	3.75
Brazil	12.25	12.50	12.25	12.50

The following weighted valuation assumptions were used for the other parameters:

Valuation Assumptions as of December 31

%	Pension plans		Other post-employment benefit plans	
	2013	**2014**	**2013**	**2014**
Expected salary increases	3.4	3.3	3.2	3.1
Expected benefit increases	2.2	2.3	–	–
Expected increases in medical costs	–	–	7.3	7.0
Expected long-term increases in medical costs	–	–	5.2	5.1

The assumptions are weighted on the basis of the defined benefit obligation at year end. The discount rates used for Germany and Canada are derived from high-quality fixed-interest corporate bonds with the same maturities. In Brazil, however, there is no liquid market for such bonds so the discount rate is based on those for government bonds with the same maturities. This method of deriving the discount rates is unchanged from the previous year in the principal countries.

The long-term cost increase for medical care is expected to take place within 13 years (2013: 13 years).

The Heubeck mortality tables 2005 G form the biometric basis for the computation of pension obligations in Germany. Current national biometric assumptions are used to compute benefit obligations at other Group companies.

A change in the principal valuation parameters would result in the following percentage changes in the defined benefit obligation:

Sensitivities of Defined Benefit Obligations as of December 31, 2014

%	Pension plans		Other post-employment benefit plans	
	2013	**2014**	**2013**	**2014**
Discount rate				
+0.5%-pt.	(8.1)	(7.8)	(3.3)	(2.9)
–0.5%-pt.	8.7	8.9	3.7	3.2
Expected salary increases				
+0.25%-pt.	0.5	0.5	0.2	0.2
–0.25%-pt.	(0.4)	(0.5)	(0.2)	(0.2)
Expected benefit increases				
+0.25%-pt.	3.6	3.9	–	–
–0.25%-pt.	(3.2)	(3.7)	–	–
Mortality				
–10%	2.7	2.7	3.2	1.1
Expected increases in medical costs				
+1%-pt.	–	–	3.7	3.6
–1%-pt.	–	–	(3.4)	(3.3)

The sensitivity of the mortality rates was calculated for the countries with significant pension obligations. A reduction in mortality increases the individual life expectancy of insurees. A 10% reduction would increase the average life expectancy of employees of retirement age in the countries of importance for LANXESS by about one year.

Sensitivity is calculated by altering one parameter while leaving all the others unchanged. The method used is the same as for the actuarial valuation of benefit obligations. However, sensitivity calculations depend on interest rate effects and the absolute change in the parameter. Moreover, it is unlikely in practice that only one parameter would change, so the change in a parameter could correlate with other assumptions. Where the expected development of the parameter used in the sensitivity calculation was based on a different variation in the parameter, the stated change in the benefit obligation was approximated using the straight-line method.

The weighted average duration of defined benefit pension obligations was 17 years (2013: 16 years). This figure was based on weighted average durations of 21 years (2013: 20 years) for Germany, 13 years (2013: 11 years) for Canada and 10 years (2013: 12 years) for Brazil. The weighted average duration of the defined benefit obligations for other post-employment benefits was 7 years (2013: 9 years).

The funded status is reported in the following table as the underfunding or overfunding of the defined benefit obligation after deduction of plan assets, without taking into account changes in the effects of the asset ceiling or minimum funding requirements:

Funded Status as of December 31

€ million	Pension plans		Other post-employment benefit plans	
	2013	**2014**	**2013**	**2014**
Funded status				
Defined benefit obligation for funded plans	1,497	1,790	12	14
External plan assets	(1,046)	(1,125)	(4)	(6)
Underfunding of funded plans	**451**	**665**	**8**	**8**
Defined benefit obligation for unfunded plans	290	388	116	152
Funded status, December 31	**741**	**1,053**	**124**	**160**

The expected cash outflow for pension fund contributions and benefit payments in 2015 is €42 million based on year-end 2014 exchange rates.

14 Other non-current and current provisions

On the closing date, the LANXESS Group had other current provisions of €350 million (2013: €355 million) and other non-current provisions of €275 million (2013: €258 million). The maturity structure of other provisions is shown in the following table:

Other Provisions

€ million	Dec. 31, 2013				Dec. 31, 2014			
	Up to 1 year	1–5 years	Over 5 years	**Total**	Up to 1 year	1–5 years	Over 5 years	**Total**
Personnel	100	49	39	188	142	43	34	219
Environmental protection	16	18	71	105	15	27	74	116
Trade-related commitments	96	6	–	102	68	8	–	76
Restructuring	39	14	5	58	30	12	5	47
Miscellaneous	104	44	12	160	95	55	17	167
	355	**131**	**127**	**613**	**350**	**145**	**130**	**625**

The total of other provisions increased from €613 million to €625 million in 2014. The changes in other provisions were as follows:

Changes in Other Provisions in 2014

€ million	**Jan. 1, 2014**	Additions	Interest effect	Utilization	Reversals	Exchange differences	**Dec. 31, 2014**
Personnel	188	138	3	(99)	(14)	3	219
Environmental protection	105	8	4	(6)	0	5	116
Trade-related commitments	102	35	1	(49)	(14)	1	76
Restructuring	58	15	0	(21)	(6)	1	47
Miscellaneous	160	68	1	(28)	(36)	2	167
	613	**264**	**9**	**(203)**	**(70)**	**12**	**625**

Personnel-related provisions Personnel-related provisions are mainly established for annual performance-related compensation and multi-year compensation programs.

Multi-year compensation programs

Stock-based compensation LANXESS AG offers a stock-based compensation program to members of the Management Board and top-level managers. The program provides for cash settlement. Following the granting of rights under a three-year Long-Term Incentive Plan launched in 2008 (LTIP 2008–2010), a new Long-Term Stock Performance Plan (LTSP 2010–2013) was introduced in 2010 under which rights were granted for the years 2010–2013. Awards are based on the performance of LANXESS stock relative to the Dow Jones STOXX 600 Chemicals^{SM}. The Long-Term Stock Performance Plan (LTSP 2014–2017) introduced in 2014 is largely identical with the LTSP 2010–2013. The main difference is that awards are based on the performance of LANXESS stock relative to the MSCI World Chemicals Index. The base price of the stock and the benchmark index for the LTSP programs are calculated using a volume-weighted average of the closing prices on the first ten trading days in January of the year of issue of the tranche. The date of issue of the rights granted and still outstanding and the rights from the outstanding tranches is February 1 each year. Participation in the programs is conditional upon each manager making a personal investment in LANXESS stock, depending on his/her base salary.

LTIP 2008–2010 If LANXESS stock outperformed the index, a payment of at least €0.75 per right was made. For each percentage point up to 5% by which the stock outperformed the index, €0.05 was paid in addition. For each percentage point above 5%, €0.06667 was paid in addition. The maximum possible payment per right, however, was €2.00.

LTSP 2010–2013 and LTSP 2014–2017 If LANXESS stock outperforms the respective index, a payment of at least €0.75 per right is made. For each percentage point by which the stock outperforms the index, €0.125 is paid in addition. The maximum possible payment per right, however, is €2.00.

Obligations arising from the stock-based compensation are valued on the basis of the following principal parameters:

Principal Parameters as of December 31

%	2013	2014
Expected share price volatility	37.0	34.0
Expected dividend payment	2.0	2.0
Expected volatility of Dow Jones STOXX 600 Chemicals^{SM}	20.0	19.0
Correlation between LANXESS stock and Dow Jones STOXX 600 Chemicals^{SM}	77.0	73.0
Expected volatility of MSCI World Chemicals Index	–	16.0
Correlation between LANXESS stock and MSCI World Chemicals Index	–	66.0
Risk-free interest rate	0.6	0.0

The relevant risk-free interest rate in 2014 was 0.01 % (2013: 0.63%).

The expected volatilities are based on the historical volatility of LANXESS stock and the Dow Jones STOXX 600 Chemicals^{SM} or the MSCI World Chemicals Index in the past four years.

At the end of 2014, there were no longer any rights outstanding from the LTIP programs. The following table provides information on the tranches of the other programs outstanding as of December 31, 2014:

LTIP and LTSP

	LTIP 2008–2010	LTSP 2010–2013				LTSP 2014–2017
	Tranche 2010	Tranche 2010	Tranche 2011	Tranche 2012	Tranche 2013	Tranche 2014
Duration	6 years	7 years	7 years	7 years	7 years	7 years
Vesting period	3 years	4 years	4 years	4 years	4 years	4 years
Holding period for personal investment shares	Feb. 1, 2013	Jan. 31, 2017	Jan. 31, 2017	Jan. 31, 2017	Jan. 31, 2017	Jan. 31, 2018
Initial LANXESS share price	€27.28	€27.28	€55.60	€44.54	€63.25	€47.41
Initial Dow Jones STOXX 600 Chemicals^{SM} price	432.44 points	432.44 points	564.17 points	533.45 points	665.98 points	–
Initial MSCI World Chemicals Index price	–	–	–	–	–	238.07 points
Fair value per right as of December 31, 2013	€0.90	€0.92	€0.15	€0.26	€0.25	–
Fair value per right as of December 31, 2014	–	€0.25	€0.05	€0.10	€0.07	€0.54
Change in number of outstanding rights						
Outstanding rights as of January 1, 2014	9,888	9,525,520	10,493,544	11,532,576	12,774,998	–
Rights granted	–	–	–	–	–	13,619,349
Rights exercised	9,888	9,392,924	–	–	–	–
Rights compensated	–	35,883	2,009,082	2,117,354	2,183,824	1,701,484
Rights forfeited	–	85,734	929,130	998,254	1,065,541	269,070
Outstanding rights as of December 31, 2014	**0**	**10,979**	**7,555,332**	**8,416,968**	**9,525,633**	**11,648,795**

LANXESS shares were trading at €38.46 at year end 2014. The Dow Jones STOXX 600 Chemicals^{SM} benchmark index stood at 786.36 points, while the MSCI World Chemicals Index was 256.43 points.

Due to the exercise of the rights from the 2010 tranche of the LTSP 2010–2013 at maximum value and the settlement of rights in connection with LANXESS's realignment program, net expense of €16 million was recorded in 2014 (2013: net gain of €3 million). The rights from the tranches granted in 2010 were exercised at maximum value. A provision of €3 million existed as of December 31, 2014 (2013: €12 million). Of this amount, the intrinsic value of rights exercisable as of the closing date accounted for €0 million (2013: €0 million).

LANXESS stock plan An employee stock plan was implemented in 2013 under which LANXESS staff could purchase shares in the company at a 50% discount. Employees acquired a total of 225,419 LANXESS shares under this program. These shares must be retained for at least three years. Since there are no further conditions attached to this stock plan, the discount of €5 million in the prior year was expensed immediately. Stock plans are discretionary benefits granted by LANXESS and do not confer any right to receive or claim similar benefits in the future.

Environmental provisions The Group's activities are subject to extensive legal requirements in the jurisdictions in which it does business. Compliance with environmental laws may require LANXESS to remove or mitigate the effects of the release or disposal of chemical substances at various sites. Under some of these laws, a current or previous site owner or plant operator may be held liable for the costs of removing hazardous substances from the soil or groundwater on its property or neighboring areas, or rendering them harmless, without regard to whether the owner or operator knew of or caused the presence of the contaminants, and often regardless of whether the practices that resulted in the contamination were legal at the time they occurred. As many of LANXESS's production sites have a long history of industrial use, it is not always possible to accurately predict the effects such situations may have on the LANXESS Group in the future.

Since LANXESS is a chemical company, the possibility therefore cannot be excluded that soil or groundwater contamination may have occurred at its locations in the past. Claims in this regard could be brought by government agencies, private organizations or individuals. Such claims would then relate to the remediation of sites or areas of land owned by the LANXESS Group where products were manufactured by third parties under contract manufacturing agreements or where waste from production facilities operated by the LANXESS Group was treated, stored or disposed of.

Potential liabilities exist with respect to various sites under legislation such as the U.S. environment law commonly known as "Superfund." At locations in the United States, numerous companies, including LANXESS, have been notified that the U.S. authorities or private individuals consider such companies to be potentially responsible parties under Superfund or related laws. At some sites, LANXESS may be the sole responsible party. Remediation measures have already been initiated at most of the sites concerned.

The existing provisions for environmental remediation costs relate primarily to the rehabilitation of contaminated sites, recultivation of landfills, and redevelopment and water protection measures. The provisions for environmental remediation costs are stated at the present value of the expected commitments where environmental assessments or clean-ups are probable, the costs can be reasonably estimated and no future economic benefit is expected to arise from these measures. Costs are estimated based on significant factors such as previous experience in similar cases, environmental assessments, current cost levels and new circumstances affecting costs, our understanding of current environmental laws and regulations, the number of other potentially responsible parties at each site and the identity and financial position of such parties in light of the joint and several nature of the liability, and the remediation methods likely to be employed.

It is difficult to estimate the future costs of environmental protection and remediation because of many uncertainties concerning the legal requirements and the information available about conditions in the various countries and at specific sites. Subject to these factors, but taking into consideration experience gained to date with matters of a similar nature, we believe our provisions to be adequate based upon currently available information. However, the possibility that additional costs could be incurred beyond the amounts accrued cannot be excluded. LANXESS nevertheless estimates that such additional costs, should they occur, would not materially impact the Group's earnings, asset and financial position.

Trade-related commitments Provisions for trade-related commitments mainly comprise those for rebates, customer discounts, product returns, impending losses and onerous contracts.

Provisions for restructuring Provisions for restructuring totaled €47 million on December 31, 2014 (2013: €58 million). Of this amount, €25 million (2013: €38 million) comprised provisions for human resources measures and €22 million (2013: €20 million) comprised provisions for other expenses and, to a small extent, for demolition.

Sundry provisions The sundry provisions contain provisions for guarantees and product liability, and provisions for other liabilities.

15 Other non-current and current financial liabilities

The following tables show the structure and maturities of other financial liabilities:

Other Financial Liabilities as of Dec. 31, 2013

€ million	Current	Non-current					
	2014	2015	2016	2017	2018	>2018	Total
Bonds	500	60	199		497	692	**1,448**
Liabilities to banks	105	46	46	39	22		**153**
Liabilities under finance leases	9	6	6	5	4	19	**40**
Other primary financial liabilities	54	2	1	2		3	**8**
	668	**114**	**252**	**46**	**523**	**714**	**1,649**

Other Financial Liabilities as of Dec. 31, 2014

€ million	Current	Non-current					
	2015	2016	2017	2018	2019	>2019	Total
Bonds	66	199		498		693	**1,390**
Liabilities to banks	78	10			228		**238**
Liabilities under finance leases	8	9	7	6	6	36	**64**
Other primary financial liabilities	30	2	2			2	**6**
	182	**220**	**9**	**504**	**234**	**732**	**1,698**

The following bonds were outstanding on December 31, 2014:

Bonds

Issuance	Nominal amount million	Carrying amount € million	Interest rate %	Maturity
September 2009	200 EUR	199	5.500	September 2016
May 2011	500 EUR	498	4.125	May 2018
February 2012	500 CNH	66	3.950	February 2015
April 2012	100 EUR	100	3.500	April 2022
April 2012	100 EUR	99	3.950	April 2027
November 2012	500 EUR	494	2.625	November 2022

The weighted average interest rate for the LANXESS Group's financial liabilities denominated in euros and other currencies at year end was 3.8% (2013: 4.8%).

Liabilities under lease agreements are recognized if the leased assets are capitalized under property, plant and equipment as the economic property of the Group (finance leases). Lease payments totaling €94 million (2014: €60 million), including €22 million (2013: €11 million) in interest, are to be made to the respective lessors in future years.

Other primary financial liabilities include accrued interest of €26 million (2013: €53 million) on financial liabilities. Of this amount, €24 million (2013: €52 million) relates to the above-mentioned bonds.

Information on the fair values of financial liabilities and the contractually agreed payments, especially interest payments, is given in Note [35].

16 Non-current and current income tax liabilities

The non-current and current income tax liabilities comprised:

Income Tax Liabilities

€ million	Dec. 31, 2013		
	Non-current	Current	Total
Provisions	49	20	69
Payables	–	1	1
	49	**21**	**70**

Income Tax Liabilities

€ million	Dec. 31, 2014		
	Non-current	Current	Total
Provisions	25	42	67
Payables	–	2	2
	25	**44**	**69**

17 Other non-current and current liabilities

At year end the other non-current liabilities comprised:

Other Non-Current Liabilities

€ million	Dec. 31, 2013	Dec. 31, 2014
Payroll liabilities	0	14
Social security liabilities	5	5
Miscellaneous liabilities	84	99
	89	**118**

The miscellaneous non-current liabilities mainly included asset subsidies of €97 million (2013: €83 million) granted by third parties.

The other current liabilities are recognized at settlement cost. They comprise:

Other Current Liabilities

€ million	Dec. 31, 2013	Dec. 31, 2014
Payroll liabilities	15	53
Other tax liabilities	45	47
Social security liabilities	20	21
Miscellaneous liabilities	46	45
	126	**166**

The increase in payroll liabilities mainly relates to severance payments in connection with the “Let’s LANXESS again” program.

Other tax liabilities include not only Group companies’ own tax liabilities, but also taxes withheld for payment to the authorities on behalf of third parties.

Social security liabilities include, in particular, social insurance contributions that had not been paid by the closing date.

The miscellaneous liabilities principally comprise accruals for outstanding invoices relating to the reporting period. As of December 31, 2014, there were liabilities of less than €1 million to Currenta GmbH & Co. OHG, Leverkusen, Germany. There were no such liabilities to other affiliated companies in 2013.

18 Trade payables

Trade accounts are payable mainly to third parties. As in the previous year, the entire amount totaling €799 million (2013: €690 million) is due within one year.

Trade payables of €109 million (2013: €40 million) related to Currenta GmbH & Co. OHG, Leverkusen, Germany, which is accounted for using the equity method, and its affiliated companies, while trade payables of €690 million (2013: €650 million) related to other suppliers.

19 Further information on liabilities

Of the total liabilities, €738 million (2013: €721 million) have maturities of more than five years. The change was mainly attributable to an increase in liabilities under finance leases.

Notes to the income statement

20 Sales

Sales, which amounted to €8,006 million (2013: €8,300 million), mainly comprise goods sold less discounts and rebates.

A breakdown of sales and the change in sales by segment and region is given in the segment information (see Note [37]).

21 Cost of sales

Cost of Sales

€ million	2013	2014
Expenses for raw materials and merchandise	4,234	4,000
Direct manufacturing and other production costs	2,518	2,418
	6,752	**6,418**

Direct manufacturing costs include those for personnel, depreciation, amortization, write-downs, energies, and goods and services procured. The other production costs mainly comprise inventory valuation effects and inventory discrepancies.

22 Selling expenses

Selling Expenses

€ million	2013	2014
Marketing costs	471	459
Outward freight charges and other selling expenses	284	283
	755	**742**

The selling expenses mainly comprise those for the internal and external marketing and sales organization, freight charges, warehousing, packaging and the provision of advice to customers.

23 Research and development expenses

The research and development expenses of €160 million (2013: €186 million) mainly include the costs incurred to gain new scientific and technical knowledge, expenses relating to the search for alternative products and production processes, and costs for applying the results of research.

24 General administration expenses

The general administration expenses, amounting to €278 million (2013: €301 million), comprise costs not directly related to operational business processes and the costs for the country organizations.

25 Other operating income

Other Operating Income

€ million	2013	2014
Income from non-core business	92	84
Income from hedging with derivative financial instruments	7	0
Income from the reversal of provisions	5	8
Gains from the disposal of non-current assets	3	1
Income from reversals of write-downs of receivables and other assets	1	1
Miscellaneous operating income	20	24
	128	**118**

26 Other operating expenses

Other Operating Expenses

€ million	2013	2014
Expenses for non-core business	84	74
Write-downs of trade receivables and other current assets	9	4
Expenses for hedging with derivative financial instruments	0	3
Exceptional items	381	184
of which impairment charges recognized on cash-generating units	257	0
Losses from the disposal of non-current assets	1	0
Miscellaneous operating expenses	52	43
	527	**308**

Of the exceptional items of €184 million (2013: €124 million, excluding impairment charges recognized on cash-generating units), €70 million (2013: €72 million) was allocable to the cost of sales in line with its economic relevance, while €39 million (2013: €9 million) was allocable to research and development expenses, €32 million (2013: €22 million) to administration expenses, €23 million (2013: €9 million) to selling expenses, and €20 million (2013: €12 million) to miscellaneous operating expenses.

The exceptional items mainly comprise the costs of the "Let's LANXESS again" program for the global realignment of the Group, and the costs of the "Advance" program initiated the previous year. The research and development costs they include comprise write-downs of €19 million on a pilot facility in the Butyl Rubber business unit (Performance Polymers segment).

The impairment charges of €257 million recognized on the cash-generating units in 2013 mainly related to the Performance Polymers segment and, to a lesser extent, the Performance Chemicals segment. They were primarily allocable to the cost of sales. Further information on the background to and the extent of the impairment charges recognized can be found in the section headed "Estimation uncertainties and exercise of discretion."

The impairment test performed on the cash-generating units in 2014 did not show any need for the recognition or reversal of impairment charges.

27 Financial result

The financial result is comprised as follows:

Financial Result

€ million	2013	2014
Income from investments accounted for using the equity method	**0**	**2**
Interest income	2	3
Interest expense	(108)	(72)
Net interest expense	**(106)**	**(69)**
Interest expense from compounding interest-bearing provisious	(33)	(41)
Net exchange loss	(1)	(23)
Miscellaneous financial expenses	0	(7)
Dividends and income from other affiliated companies	(6)	0
Other financial income and expense	**(40)**	**(71)**
Financial result	**(146)**	**(138)**

Interest expense mainly includes payments of bond interest. The amount recognized has been adjusted for capitalized borrowing costs of €17 million (2013: €15 million). The interest portion of the lease payments under finance leases, amounting to €3 million (2013: €3 million), is included in interest expense. In 2013, the income from other affiliated companies was reduced by €6 million due to a valuation adjustment for the interest held in BioAmber Inc., Minneapolis, United States, resulting from that company's stock performance.

28 Income taxes

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

The breakdown of income taxes by origin is as follows:

Income Taxes by Origin

€ million	2013	2014
Current taxes	(17)	(59)
Deferred taxes resulting from		
temporary differences	62	(1)
statutory changes in tax rates	0	0
loss carryforwards	26	24
Income taxes	**71**	**(36)**

In 2014, deferred tax income and deferred tax expenses of roughly the same amount resulted from changes in temporary differences.

The actual tax expense for 2014 was €36 million (2013: tax income of €71 million). This is €11 million (2013: €5 million) more than the expected tax expense of €25 million (2013: expected tax income of €76 million).

In calculating the expected tax expense for the LANXESS Group, an unchanged overall tax rate of 31.8% was applied to the German companies. This comprises a corporation tax rate of 15.0%, plus a solidarity surcharge (5.5% of corporation tax) and trade tax.

The reconciliation of the expected tax result to the actual tax result is as follows:

Reconciliation to Reported Tax Result

€ million	2013	2014
Income (loss) before income taxes	(239)	80
Aggregated income tax rate of LANXESS AG	31.8%	31.8%
Expected tax result	76	(25)
Tax difference due to differences between local tax rates and the hypothetical tax rate	(8)	(14)
Reduction in taxes due to		
tax-free income and reduction of tax bases	4	3
utilization of unrecognized loss carryforwards	0	3
Increase in taxes due to non-tax-deductible expenses	(7)	(15)
Other tax effects	6	12
Actual tax result	**71**	**(36)**
Effective tax rate	29.7%	45.0%

The deferred tax assets and liabilities are allocable to the various items of the statement of financial position as follows:

Deferred Taxes

€ million	Dec. 31, 2013		Dec. 31, 2014	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible assets	11	52	9	52
Property, plant and equipment	32	119	29	130
Inventories	20	3	31	1
Receivables and other assets	8	24	8	29
Pension provisions	157	0	243	–
Other provisions	96	11	93	11
Liabilities	28	3	58	0
Loss carryforwards	85	–	111	–
	437	**212**	**582**	**223**
of which non-current	264	179	392	182
Set-off	(183)	(183)	(202)	(202)
	254	**29**	**380**	**21**

The change in deferred taxes is calculated as follows:

Changes in Deferred Taxes

€ million	2013	2014
Deferred taxes as of January 1	**129**	**225**
Tax income/expense recognized in the income statement	88	23
Changes in scope of consolidation	(5)	(1)
Deferred taxes recognized in other comprehensive income	9	111
Exchange differences	4	1
Deferred taxes as of December 31	**225**	**359**

The deferred taxes recognized in other comprehensive income comprised €91 million (2013: €6 million) related to remeasurements of the net defined benefit liability for post-employment benefit plans and €20 million (2013: €3 million) relating to financial instruments. In addition, other comprehensive income contained current taxes of €4 million (2013: minus €1 million).

Deferred tax assets of €337 million (2013: €75 million) relate to tax jurisdictions in which losses were recorded in 2014 or 2013. The increase was mainly attributable to the fact that the corporate tax entity in Germany reported a loss, primarily due to the exceptional items in connection with the "Advance" and "Let's LANXESS again" programs. The deferred tax assets of €231 million for the German tax entity mainly related to differences in the valuations of pension provisions for tax purposes. LANXESS assumes that is will generate sufficient taxable income in the future to realize the deferred tax assets.

Based on tax planning calculations and strategies, deferred tax assets of €111 million (2013: €85 million) were recognized on the €380 million (2013: €292 million) in tax loss carryforwards that represent income likely to be realized in the future. This amount included deferred taxes of €82 million (2013: 59 million) on loss carryforwards with an unlimited carryforward period.

Deferred taxes were not recognized for €158 million (2013: €192 million) of tax loss carryforwards. Of this amount, €100 million (2013: €147 million) can theoretically be used over more than five years. Further, deferred tax assets were not recognized in 2014 for tax-deductible temporary differences of €43 million (2013: €29 million). Accordingly, deferred taxes on loss carryforwards of €39 million (2013: €52 million) and deferred tax assets on tax-deductible temporary differences of €15 million (2013: €11 million) were not recognized.

29 Earnings and dividend per share

The calculation of earnings per share for 2014 included only earnings from continuing operations and was based on the weighted average number of shares outstanding during the reporting period. As of December 31, 2013, 83,202,670 shares were outstanding. The capital increase in the second quarter of 2014 outlined in Note [12] resulted in the issuance of 8,320,266 new shares, so from this time 91,522,936 shares were outstanding. The capital increase was taken into account on a pro rata temporis basis when calculating the average number of shares outstanding. On this basis, the weighted average number of shares outstanding in the reporting period was 88,472,172. Since there are currently no equity instruments in issue that could dilute earnings per share, basic and diluted earnings per share are identical. Further information on equity instruments that could dilute earnings per share in the future is contained in Note [12].

Earnings per Share

	2013	2014	Change %
Net income (loss) (€ million)	(159)	47	> 100
Number of shares outstanding	83,202,670	88,472,172	6.3
Earnings per share (undiluted/diluted) (€)	**(1.91)**	**0.53**	**> 100**

LANXESS AG reported a distributable profit of €53 million for fiscal 2014 (2013: €48 million). The dividend payment made to stockholders of LANXESS AG during fiscal 2014 amounted to €0.50 per share (2013: €1.00 per share).

30 Personnel expenses

The breakdown of personnel expenses is as follows:

Personnel Expenses

€ million	2013	2014
Wages and salaries	1,006	1,106
Social security contributions	194	202
Retirement benefit expenses	128	136
Social assistance benefits	11	13
	1,339	**1,457**

Total personnel expenses increased in 2014, mainly as a result of the expenses for the “Let’s LANXESS again” program and for performance-related remuneration. The personnel expenses shown here do not contain the interest expenses for compounding personnel-related provisions, especially pension provisions, which is reflected in the financial result (see Note [27]).

Other information

31 Employees

The average number of employees in the LANXESS Group in 2014 was 16,807 (2013: 17,430). The decline compared to the previous year was mainly due to employees who left the company as a result of the “Advance” and “Let’s LANXESS again” programs, and to changes in the scope of consolidation.

Employees by Function

	2013	2014
Production	12,456	12,163
Marketing	2,082	1,987
Administration	1,980	1,878
Research	912	779
	17,430	**16,807**

32 Contingent liabilities and other financial commitments

Contingent liabilities result from guarantees and similar instruments assumed on behalf of third parties. They represent potential future commitments in cases where the occurrence of certain events would create an obligation that was uncertain at the closing date. An obligation to perform under such contingent liabilities arises in the event of delayed settlement or insolvency of the debtor.

Contingent liabilities as of December 31, 2014 amounted to €7 million (2013: €8 million). There are no contingent liabilities relating to Currenta GmbH & Co. OHG, Leverkusen, Germany, which is accounted for using the equity method. As a personally liable partner in Currenta GmbH & Co. OHG, LANXESS may be required to inject further capital into this company in the future.

Apart from provisions, liabilities and contingent liabilities, financial commitments also exist under operating leases.

As explained in the section on recognition and valuation principles, operating leases are those which – unlike finance leases – do not transfer substantially all risks and rewards incidental to the ownership of the leased assets to the lessee. In the LANXESS Group, operating leases are mainly used for operational reasons and not as a means of financing.

The minimum non-discounted future lease and rental payments relating to operating leases totaled €390 million (2013: €492 million).

The respective payment obligations mature as follows:

Maturity Structure of Lease and Rental Payments

€ million	Dec. 31, 2013	Dec. 31, 2014
Up to 1 year	61	56
1 to 2 years	54	48
2 to 3 years	49	41
3 to 4 years	41	36
4 to 5 years	40	35
More than 5 years	247	174
	492	**390**

Payments under operating leases in 2014 amounted to €67 million (2013: €61 million). Future lease and rental payments include agreements relating to the Group's headquarters in Cologne, to which it relocated in 2013, and to the production site in Singapore.

Financial commitments resulting from orders already placed under purchase agreements relating to planned or ongoing capital expenditure projects in the area of property, plant and equipment and intangible assets totaled €171 million (2013: €283 million). Of the respective payments, €130 million are due in 2015, €38 million in 2016 and €3 million in 2017.

Description of the master agreement Under the master agreement that was concluded between Bayer AG and LANXESS AG together with the Spin-Off and Takeover Agreement, Bayer AG and LANXESS AG agreed, among other things, on commitments regarding mutual indemnification for liabilities in line with the respective asset allocation and on special arrangements allocating responsibility to deal with claims in the areas of product liability, environmental contamination and antitrust violations. The master agreement also contains arrangements for the allocation of tax effects relating to the spin-off and to the preceding measures to create the subgroup that was subsequently spun off.

33 Related parties

In the course of its operations, the LANXESS Group sources materials, inventories and services from a large number of business partners around the world. These include companies in which LANXESS AG has a direct or indirect interest. Transactions with these companies are carried out on an arm's-length basis.

Transactions with Currenta GmbH & Co. OHG, Leverkusen, Germany, which is accounted for in the consolidated financial statements using the equity method, and its subsidiaries mainly comprised the purchase of site services in the fields of utilities, infrastructure and logistics totaling €423 million (2013: €455 million). As of December 31, 2014, trade payables of €109 million (2013: €40 million) and receivables of €3 million (2013: €5 million) existed as a result of these transactions. In addition, a provision of €5 million was recorded as of the reporting date in respect of the claim by Currenta GmbH & Co. OHG to offset the loss for 2014. There were also payment obligations to Currenta GmbH & Co. OHG amounting to €1 million (2013: €5 million) under operating leases and obligations of €4 million (2013: €3 million) under purchase agreements. Contingent liabilities relating to Currenta GmbH & Co. OHG are outlined in the previous section.

Information on the compensation of the Board of Management and Supervisory Board can be found in the next section.

34 Compensation of the Board of Management and the Supervisory Board

For fiscal 2014, total compensation of €9,982 thousand (2013: €6,647 thousand) was paid to the members of the Board of Management of LANXESS AG, comprising €7,649 thousand (2013: €4,777 thousand) in short-term compensation (fixed compensation, annual bonus, benefits in kind and other), €0 thousand (2013: €34 thousand) in compensation relating to the previous year, and other long-term compensation components totaling €932 thousand (2013: €977 thousand) as part of the Long-Term Performance Bonus (LTPB). The total also includes compensation paid under the stock-based Long-Term Stock Performance Plan (LTSP), under which 1,648,500 share-based compensation rights were granted in 2014 (2013: 1,564,125). The fair value of these rights at the grant date was €1,401 thousand (2013: €859 thousand). Personnel expenses for the stock-based compensation programs amounted to €2,168 thousand in fiscal 2014 (2013: a gain of €887 thousand).

Details of the compensation system for members of the Board of Management and an individual breakdown of the compensation are given in the “Compensation report” section of the combined management report for fiscal 2014.

In addition, service costs of €2,496 thousand (2013: €1,264 thousand) relating to defined benefit pension plans were incurred in 2014 for members of the Board of Management as part of their compensation package. The present value of the defined benefit obligation as of December 31, 2014 was €9,994 thousand (2013: €21,740 thousand).

The total net expense for the compensation of the members of the Board of Management in 2014 was €14,935 thousand (2013: €6,165 thousand). This amount includes expense of €1,690 thousand for the severance payment made to Dr. Breuers. Together with settlement of his LTSP rights amounting to €729 thousand, benefits granted to a former member of the Board of Management who stepped down during the fiscal year totaled €2,419 thousand and were granted during the fiscal year.

The balances outstanding to members of the Board of Management totaled €2,336 thousand (2013: €4,706 thousand), comprising provisions of €1,346 thousand (2013: €1,653 thousand) for annual bonuses, €687 thousand (2013: €1,899 thousand) for the LTPB and €303 thousand (2013: €1,154 thousand) for the LTSP.

Pension benefits of €293 thousand (2013: €308 thousand) were paid to former members of the Board of Management. The total obligation toward former members of the Board of Management as of December 31, 2014 was €27,921 thousand (2013: €11,578 thousand). Payments totaling €1,983 thousand were made to former members of the Board of Management in fiscal 2014 (2013: €308 thousand).

The members of the Supervisory Board received total compensation of €1,936 thousand in 2014 (2013: €1,874 thousand), which was paid at the start of the following year. The provisions established for stock-based compensation for Supervisory Board members as of December 31, 2014 amounted to €0 thousand (2013: €1,800 thousand).

In addition, the employee representatives on the Supervisory Board who are on LANXESS’s payroll received remuneration under their employment contracts. The amounts of these salaries represented appropriate compensation for the employees’ functions and tasks within the Group.

Details of the compensation system for members of the Supervisory Board and an individual breakdown of the amounts paid are contained in the “Compensation report” section in the combined management report for fiscal 2014.

No loans were granted to members of the Board of Management or the Supervisory Board in fiscal 2014 or 2013.

35 Financial instruments

Primary financial instruments are reflected in the statement of financial position. In compliance with IAS 39, financial assets are categorized as “loans and receivables,” “held at fair value through profit or loss,” “held to maturity” or “available for sale” and, accordingly, recognized at cost or fair value. Liability instruments that are neither held for trading nor constitute derivatives are recognized at amortized cost.

Risks and risk management The global alignment of the LANXESS Group exposes its business operations, earnings and cash flows to a variety of market risks. Material financial risks to the Group as a whole, such as currency, interest rate, counterparty, liquidity and raw material price risks, are centrally managed.

These risks could impair the earnings and financial position of the LANXESS Group. The various risk categories and the risk management system for the LANXESS Group are outlined below.

The principles of risk management are defined by the Board of Management. At the regular strategy meetings of the Financial Risk Committee, which are chaired by the Chief Financial Officer, reports on the outcome of financial risk management and on current risks levels are presented and any further action is decided upon. Simulations are performed to assess the impact of market trends. The implementation of the Financial Risk Committee’s decisions and ongoing risk management are undertaken centrally by the Treasury Group Function. The aim of financial risk management is to identify and evaluate risks and to manage and limit their effects as appropriate.

Currency risks Since the LANXESS Group undertakes transactions in various currencies, it is exposed to fluctuations in the relative value of these currencies. The development of the U.S. dollar against the euro is of particular relevance.

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

The risks relating to operating activities are systematically monitored and analyzed. To this end, both sales and costs are planned in foreign currencies. In the long term, exchange rate fluctuations could adversely affect future cash flows should the LANXESS Group not be able to absorb them, for example, by pricing its products in the respective local currencies. This risk is minimized by partial hedging with derivative financial instruments. Changes in the fair values of these instruments are recognized in the financial result or, in the case of cash flow hedges, in other comprehensive income. Realized income or expense from the effective portion of cash flow hedges is recognized in other operating income or expenses. Hedging is performed in line with principles determined by the Board of Management and is subject to continuous monitoring.

If the exchange rate for the euro had been 5% higher against the hedged currencies on the reporting date, this would have had a €23 million (2013: €19 million) effect, mainly on other comprehensive income, which would have improved accordingly. This effect mainly relates to the U.S. dollar. A correspondingly lower rate for the euro would have had basically the opposite effect.

Many companies in the LANXESS Group are based outside the eurozone. Since the Group prepares its consolidated financial statements in euros, the annual financial statements of these subsidiaries are translated into euros for consolidation purposes. Changes in the average exchange rate for a given local currency from one period to the next can materially affect the translation of both sales and earnings reported in this currency into euros (translation risk). Unlike the effect of exchange rate fluctuations in the case of transaction risk, translation risk has no impact on Group cash flows in the local currency.

The LANXESS Group has material assets, liabilities and businesses outside the eurozone that are reported in local currencies. The related long-term currency risks are estimated and evaluated on a regular basis. In view of these risks, however, foreign currency transactions are only concluded if consideration is being given to withdrawing from a particular business and it is intended to repatriate the funds released by the withdrawal. The effects of exchange rate fluctuations on the translation of net positions into euros are reflected in other comprehensive income.

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

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

The financial liabilities with variable interest rates are covered by investments with short-term fixed interest rates from available liquidity so that the LANXESS Group will incur slightly higher interest costs if interest rates increase. A general change of one percentage point in interest rates as of December 31, 2014 would have reduced Group net income by €1 million (2013: increased net income by €1 million).

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

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

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

The maximum risk of default on receivables, cash and cash equivalents, near-cash assets, derivatives and other financial assets is reflected in their carrying amounts in the statement of financial position (disregarding netting arrangements not reflected in the statement of financial position).

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

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

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

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

Liquidity risks Liquidity risks arise from potential financial shortfalls and the resulting increase in refinancing costs. The aim of liquidity management in the LANXESS Group is to ensure that the Group has sufficient liquidity and committed credit facilities available at all times to enable it to meet its payment commitments, and to optimize the liquidity balance within the Group.

The main liquidity reserve is a €1.25 billion syndicated credit facility. In February 2015, this was extended by one year to February 2020. There is a further material credit line of €150 million with the European Investment Bank. In addition to credit facilities, the Group has short-term liquidity reserves of €518 million (2013: €533 million) in the form of cash and cash equivalents and highly liquid AAA-rated money market funds. Accordingly, the LANXESS Group has a liquidity position based on a broad range of financing instruments.

The following table shows the contractually agreed (undiscounted) cash flows for primary financial liabilities, the interest components thereof and derivative financial instruments:

Dec. 31, 2013

€ million	2014	2015	2016	2017	2018	> 2018
Bonds	**(542)**	**(114)**	**(252)**	**(41)**	**(541)**	**(802)**
of which interest	(42)	(54)	(52)	(41)	(41)	(102)
Liabilities to banks	**(108)**	**(62)**	**(37)**	**(41)**	**(22)**	**0**
of which interest	(3)	(4)	(3)	(2)	0	0
Trade payables	**(690)**					
of which interest	0					
Liabilities under finance leases	**(11)**	**(8)**	**(8)**	**(6)**	**(5)**	**(22)**
of which interest	(2)	(2)	(2)	(1)	(1)	(3)
Other primary financial liabilities	**(57)**	**(3)**	**(1)**	**(2)**	**0**	**0**
of which interest	(54)	0	0	0	0	0
Derivative liabilities						
Hedging instruments that qualify for hedge accounting						
Disbursements	(136)	(48)				
Receipts	116	39				
Other hedging instruments						
Disbursements	(182)	(14)	(24)	(6)	(6)	
Receipts	180	13	23	5	5	
Derivative assets						
Hedging instruments that qualify for hedge accounting						
Disbursements	(415)	(131)	(3)			
Receipts	444	138	3			
Other hedging instruments						
Disbursements	(972)	(32)	(1)	(3)		
Receipts	1,002	38	5	4		

Dec. 31, 2014

€ million	2015	2016	2017	2018	2019	> 2019
Bonds	**(96)**	**(252)**	**(41)**	**(541)**	**(21)**	**(781)**
of which interest	(30)	(52)	(41)	(41)	(21)	(81)
Liabilities to banks	**(79)**	**(14)**	**(2)**	**(2)**	**(229)**	**0**
of which interest	(1)	(4)	(2)	(2)	(1)	0
Trade payables	**(799)**					
of which interest	0					
Liabilities under finance leases	**(12)**	**(12)**	**(10)**	**(8)**	**(8)**	**(44)**
of which interest	(4)	(3)	(3)	(2)	(2)	(8)
Other primary financial liabilities	**(30)**	**(2)**	**(2)**	**0**	**0**	**(2)**
of which interest	(26)	0	0	0	0	0
Derivative liabilities						
Hedging instruments that qualify for hedge accounting						
Disbursements	(618)	(227)				
Receipts	559	214				
Other hedging instruments						
Disbursements	(1,086)	(32)	(4)	(1)	(13)	
Receipts	1,041	28	4	0	10	
Derivative assets						
Hedging instruments that qualify for hedge accounting						
Disbursements	(21)	(9)	0			
Receipts	23	9	0			
Other hedging instruments						
Disbursements	(191)					
Receipts	203	4	0			

The contractually agreed payments for other primary financial liabilities due within one year from the reporting date included accrued interest of €26 million (2013: €53 million) that mainly related to the bonds.

Raw material price risks The LANXESS Group is exposed to changes in the market prices of energies and raw materials used for its business operations. Increases in energy and raw material procurement costs are generally passed on to customers. Where such risks cannot be passed on in their entirety, the related risks may be hedged on a case-by-case basis by forward commodity contracts in order to reduce the volatility of cash flows. Where cash flow hedges qualify for hedge accounting, changes in their fair values are recognized in other comprehensive income until the hedged transaction is realized.

LANXESS had no forward commodity contracts at year end 2014 or 2013.

Carrying amounts, measurement and fair value of financial instruments The following table shows the carrying amounts of the individual classes of financial assets and liabilities and their fair values. The basis of measurement is also shown:

Dec. 31, 2013

€ million	IAS 39 measurement category	Carrying amount Dec. 31, 2013
Financial assets		
Trade receivables	LaR	1,070
Receivables under finance leases	–	2
Other financial receivables	LaR	14
Cash and cash equivalents	LaR	427
Available-for-sale financial assets		
Near-cash assets	AfS	106
Other available-for-sale financial assets	AfS	14
Derivative assets		
Hedging instruments that qualify for hedge accounting	–	35
Other hedging instruments	FAHfT	43
Financial liabilities		
Bonds	FLAC	(1,948)
Liabilities to banks	FLAC	(258)
Trade payables	FLAC	(690)
Liabilities under finance leases	–	(49)
Other primary financial liabilities	FLAC	(62)
Derivative liabilities		
Hedging instruments that qualify for hedge accounting	–	(30)
Other hedging instruments	FLHfT	(4)

Dec. 31, 2014

€ million	IAS 39 measurement category	Carrying amount Dec. 31, 2014
Financial assets		
Trade receivables	LaR	1,015
Receivables under finance leases	–	–
Other financial receivables	LaR	15
Cash and cash equivalents	LaR	418
Available-for-sale financial assets		
Near-cash assets	AfS	100
Other available-for-sale financial assets	AfS	14
Derivative assets		
Hedging instruments that qualify for hedge accounting	–	3
Other hedging instruments	FAHfT	16
Financial liabilities		
Bonds	FLAC	(1,456)
Liabilities to banks	FLAC	(316)
Trade payables	FLAC	(799)
Liabilities under finance leases	–	(72)
Other primary financial liabilities	FLAC	(36)
Derivative liabilities		
Hedging instruments that qualify for hedge accounting	–	(73)
Other hedging instruments	FLHfT	(48)

LaR Loans and receivables
AfS Available-for-sale financial assets
FAHfT Financial assets held for trading
FLAC Financial liabilities measured at amortized cost
FLHfT Financial liabilities held for trading

Measurement according to IAS 39				Measurement according to IAS 17	Fair value Dec. 31, 2013
Amortized cost	Acquisition cost	Fair value (other comprehensive income)	Fair value (profit or loss)		
1,070					1,070
				2	2
14					14
427					427
		106			106
	9	5			5
		35			35
			43		43
(1,948)					(2,032)
(258)					(264)
(690)					(690)
				(49)	(51)
(62)					(62)
		(30)			(30)
			(4)		(4)

Measurement according to IAS 39				Measurement according to IAS 17	Fair value Dec. 31, 2014
Amortized cost	Acquisition cost	Fair value (other comprehensive income)	Fair value (profit or loss)		
1,015					1,015
				–	–
15					15
418					418
		100			100
	10	4			4
		3			3
			16		16
(1,456)					(1,630)
(316)					(316)
(799)					(799)
				(72)	(78)
(36)					(36)
		(73)			(73)
			(48)		(48)

Fair value measurement of the bonds is allocated to Level 1 of the hierarchy outlined in the section "Fair value measurement." However, three bonds with a fair value of €311 million are allocated to Level 2 as there is no liquid market for them. Fair value measurement of non-current liabilities to banks is also allocated to Level 2. In 2014, their carrying amounts were equal to their fair value. The fair value of liabilities allocated to Level 2 is calculated using discounted cash flows and taking account of observed market interest rates.

Carrying Amounts by IAS 39 Category

€ million	Dec. 31, 2013	Dec. 31, 2014
Loans and receivables	1,511	1,448
Available-for-sale financial assets	120	114
Financial assets held for trading	43	16
	1,674	**1,578**
Financial liabilities measured at amortized cost	(2,958)	(2,607)
Financial liabilities held for trading	(4)	(48)
	(2,962)	**(2,655)**

Fair value measurement The measurement of fair value is based on a hierarchy reflecting the significance of the measurement inputs. The fair value measurement hierarchy for an asset or liability comprises three levels:

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities on the measurement date
Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
Level 3 Unobservable inputs for the asset or liability

The following table shows the volumes of assets and liabilities that were measured at fair value on a recurring basis as of the end of the reporting period and the levels of the fair value hierarchy into which the measurement inputs were categorized. Reclassification between the levels is reviewed as of each reporting date. There were no reclassifications in 2013 or 2014.

Assets and Liabilities Measured at Fair Value

€ million	Dec. 31, 2013		
	Level 1	Level 2	Level 3
Non-current assets			
Investments in other affiliated companies	4	–	–
Non-current derivative assets	–	20	–
Other non-current financial assets	–	1	–
Current assets			
Near-cash assets	106	–	–
Current derivative assets	–	58	–
Other current financial assets	0	–	–
Non-current liabilities			
Non-current derivative liabilities	–	12	–
Current liabilities			
Current derivative liabilities	–	22	–

Assets and Liabilities Measured at Fair Value

€ million	Dec. 31, 2014		
	Level 1	Level 2	Level 3
Non-current assets			
Investments in other affiliated companies	3	–	–
Non-current derivative assets	–	5	–
Other non-current financial assets	–	1	–
Current assets			
Near-cash assets	100	–	–
Current derivative assets	–	14	–
Other current financial assets	0	–	–
Non-current liabilities			
Non-current derivative liabilities	–	20	–
Current liabilities			
Current derivative liabilities	–	101	–

The investments in other affiliated companies measured at fair value pertain to shares in the listed companies Gevo, Inc., Englewood, United States, and BioAmber Inc., Minneapolis, United States. The item "Investments in other affiliated companies" in the statement of financial position also includes €10 million in non-listed equity instruments, the fair values of which at the end of the reporting period could not be reliably measured and which are therefore recognized at cost. There are currently no plans to dispose of these investments.

Offsetting of financial assets and financial liabilities Offsetting was not used for the financial assets and financial liabilities recognized in the statement of financial position. The following table shows how legally enforceable master netting arrangements or similar agreements impact, or could impact, the Group's financial position:

Offsetting of Financial Assets and Financial Liabilities as of December 31, 2013

€ million	Carrying amount of financial instruments	Related amounts not offset in the statement of financial position		Net amount
		Financial instruments	Financial collateral	
Financial assets				
Trade receivables	1,070	(36)	(1)	1,033
Derivative assets	78	(7)	0	71
Financial liabilities				
Trade payables	(690)	36	0	(654)
Derivative liabilities	(34)	7	0	(27)

Offsetting of Financial Assets and Financial Liabilities as of December 31, 2014

€ million	Carrying amount of financial instruments	Related amounts not offset in the statement of financial position		Net amount
		Financial instruments	Financial collateral	
Financial assets				
Trade receivables	1,015	(30)	0	985
Derivative assets	19	(9)	0	10
Financial liabilities				
Trade payables	(799)	30	0	(769)
Derivative liabilities	(121)	9	0	(112)

Either contracting party may offset on a net basis the positive and negative fair values arising from past-due derivative asset or liability contracts with the same counterparty.

Net result by category The following table provides an overview of the net results based on the measurement categories defined in IAS 39:

Net Results by IAS 39 Category

€ million	2013	2014
Loans and receivables	(27)	64
Available-for-sale financial assets	(6)	0
Assets and liabilities held for trading	41	(120)
Financial liabilities measured at amortized cost	(121)	(39)
	(113)	**(95)**

Net gains and losses principally comprise interest income and expense and remeasurement effects.

In addition, fees of €14 million were incurred in 2014 (2013: €9 million) in connection with financial instruments.

Collateralization of financial liabilities Financial liabilities amounting to €0 million (2013: €0 million) were collateralized by mortgages or other property claims.

Mezzanine financing Mezzanine instruments such as profit participation rights, convertible bonds or warrant bonds have not been issued. Information on the possible issuance of such instruments is given in Note [12].

36 Notes to the Statement of Cash Flows

Explanation of the method used to calculate and present cash flows For a general explanation, please see the comments on the statement of cash flows in the section headed "Accounting policies and valuation principles."

Net cash flow provided by operating activities The net cash flow from operating activities is determined by deducting the financial result, depreciation, amortization and write-downs and non-cash items from income before income taxes. A further adjustment is then made for the change in other assets and liabilities. Income before income taxes, which is the starting point for the statement of cash flows, amounted to €80 million (2013: minus €239 million) after depreciation, amortization and write-downs of €426 million (2013: €717 million). Income taxes paid in 2014 amounted to €31 million (2013: €41 million). The change in net working capital resulted in a cash inflow of €147 million (2013: €110 million). Taking into account the increase in other assets and liabilities of €103 million (2013: decrease of €15 million), the cash inflow provided by operating activities amounted to €797 million in 2014 (2013: €641 million).

Net cash used in investing activities Purchases of intangible assets, property, plant and equipment led to a cash outflow of €614 million in 2014 (2013: €624 million). Cash inflows from investment subsidies reduced cash outflows for capital expenditures by €25 million (2013: €30 million). Cash inflows from financial assets mainly comprised proceeds from the sale of units in money market funds. The divestment of subsidiaries resulted in a cash inflow of €3 million (2013: €0 million) net of acquired cash and cash equivalents and retrospective purchase price adjustments. Included in interest and dividends received is a cash inflow of €2 million from a profit transfer from Currenta GmbH & Co. OHG, Leverkusen, Germany (2013: cash outflow of €17 million for loss assumption). The cash inflows comprised €4 million (2013: €2 million) in interest received and €4 million (2013: €0 million) from other affiliates. The net cash outflow for investing activities was €587 million (2013: €342 million).

Net cash used in financing activities The 10% increase in the capital stock in 2014 resulted in gross proceeds of €433 million (2013: €0 million). Outflows included €478 million (2013: €58 million) for the repayment of borrowings, €131 million (2013: €119 million) for interest paid and other financial disbursements, and €46 million (2013: €83 million) for the dividend, including €46 million (2013: €83 million) paid to the stockholders of LANXESS AG. A net cash outflow of €222 million (2013: €260 million) was recorded for financing activities. Details of unused credit facilities are given in Note [35].

Cash and cash equivalents Cash and cash equivalents, which comprise cash, checks and bank balances, amounted to €418 million (2013: €427 million). In accordance with IAS 7, this item also includes securities with maturities of up to three months from the date of acquisition.

37 Segment reporting

Key Data by Segment

€ million	Performance Polymers		Advanced Intermediates		Performance Chemicals		Reconciliation		LANXESS	
	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014
External sales	4,486	4,128	1,647	1,643	2,132	2,193	35	42	8,300	8,006
Inter-segment sales	1	0	51	46	8	9	(60)	(55)	0	0
Segment/Group sales	4,487	4,128	1,698	1,689	2,140	2,202	(25)	(13)	8,300	8,006
Segment result/EBITDA pre exceptionals	389	392	286	303	231	274	(171)	(161)	735	808
Exceptional items affecting EBITDA	(17)	(41)	1	(10)	(50)	(34)	(45)	(79)	(111)	(164)
Segment assets	3,294	3,647	1,026	1,023	1,392	1,455	161	158	5,873	6,283
Segment acquisitions					18				18	0
Segment capital expenditures	405	472	113	94	117	100	41	26	676	692
Depreciation and amortization	253	208	76	84	87	84	22	18	438	394
Write-downs	236	23	1	5	40	2	2	2	279	32
Segment liabilities	817	1,018	577	660	671	816	396	504	2,461	2,998
Employees (December 31)	5,379	5,176	2,854	2,809	5,837	5,613	3,273	2,986	17,343	16,584
Employees (average for the year)	5,419	5,220	2,857	2,813	5,928	5,693	3,226	3,081	17,430	16,807

Key Data by Region

€ million	EMEA (excluding Germany)		Germany		North America		Latin America		Asia-Pacific		LANXESS	
	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014
External sales by market	2,404	2,296	1,458	1,440	1,332	1,338	966	859	2,140	2,073	8,300	8,006
Non-current region assets	631	642	1,039	1,029	388	413	319	320	882	1,284	3,259	3,688
Acquisitions									18		18	0
Capital expenditures	135	117	229	158	46	46	50	34	216	337	676	692
Employees (December 31)	3,444	3,267	8,117	7,747	1,526	1,371	1,560	1,467	2,696	2,732	17,343	16,584

Notes to the segment reporting The valuation principles applied in segment reporting correspond to the uniform recognition and valuation principles used for the consolidated financial statements prepared in accordance with IFRS.

On December 31, 2014, the LANXESS Group comprised the following reporting segments:

Segment	Operations
Performance Polymers	Special-purpose rubbers for high-quality rubber products, e.g. for use in vehicles, tires, construction and footwear; engineering plastics; polyamide compounds
Advanced Intermediates	Intermediates for the agrochemicals and coatings industries; fine chemicals as precursors and intermediates for pharmaceuticals, agrochemicals and specialty chemicals; custom manufacturing
Performance Chemicals	Material protection products; inorganic pigments for the coloring of concrete, emulsion paints and other coatings; finishing agents for the leather industry; rubber chemicals; reverse osmosis membrane elements and ion exchange resins for water treatment; plastics additives such as flame retardants and plasticizers

The reconciliation eliminates inter-segment items and reflects assets and liabilities not directly allocable to the core segments including, in particular, those pertaining to the Corporate Center. The reconciliation also includes €0 million (2013: €12 million) relating to Currenta GmbH & Co. OHG, Leverkusen, Germany, which is accounted for using the equity method, and the income of €2 million (2013: €0 million) from this investment (see note [3]).

The transfer prices used for inter-segment business transactions are calculated using the OECD rules as if they had been agreed upon between independent third parties in comparable circumstances (arm's-length principle).

The majority of employees reflected in the reconciliation provide services for more than one segment. They include technical service staff.

The reporting regions are those into which LANXESS's activities are organized: EMEA (Europe [excluding Germany], Middle East, Africa), Germany, North America, Latin America and Asia-Pacific.

Regional sales are calculated according to the recipient's place of business. In fiscal 2014, no individual customer of the LANXESS Group accounted for more than 10% of Group sales.

The earnings indicator used for internal management purposes in the LANXESS Group is the operating result before depreciation and amortization (EBITDA) pre exceptionals (see the section headed "Value management and control system" in the combined management report for 2014). This is disclosed as the "segment result." The starting point for calculating EBITDA pre exceptionals is the operating result (EBIT), which comprises gross profit, selling expenses, general administration expenses, research and development expenses and other operating income and expenses. EBITDA pre exceptionals is calculated from EBIT by adding back depreciation and impairments of property, plant and equipment, amortization and impairments of intangible assets, disregarding exceptional items. The latter are effects of an unusual nature or magnitude. They may include write-downs, restructuring expenses, expenses for the design and implementation of IT projects and expenses for portfolio adjustments.

In view of the Group's central financial management, interest income and expense and income tax income and expense are not reported at segment level. The write-downs recognized in the Performance Polymers and Performance Chemicals segments in the previous fiscal year mainly comprised impairment charges resulting from the impairment tests carried out for the Keltan Elastomers, High Performance Elastomers and Rubber Chemicals cash-generating units. Further information is provided in the section headed "Estimation uncertainties and exercise of discretion." The write-downs in fiscal 2014 mainly related to a pilot facility of the Butyl Rubber business unit (Performance Polymers segment).

In 2014, the exceptional items that impacted EBITDA mainly related to measures associated with the "Let's LANXESS again" and "Advance" programs. The corresponding exceptional items in the previous year mainly resulted from reorganizational measures taken as part of the "Advance" program.

Reconciliation of Segment Sales

€ million	2013	2014
Total segment sales	**8,325**	**8,019**
Other/Consolidation	(25)	(13)
Group sales	**8,300**	**8,006**

Reconciliation of Segment Results

€ million	2013	2014
Total segment results	**906**	**969**
Depreciation and amortization	(717)	(426)
Exceptional items affecting EBITDA	(111)	(164)
Other financial income and expense	(40)	(71)
Net interest expense	(106)	(69)
Income from investments accounted for using the equity method	0	2
Other/Consolidation	(171)	(161)
Income (loss) before income taxes	**(239)**	**80**

Segment assets principally comprise intangible assets, property, plant and equipment, inventories and trade receivables. In particular, segment assets do not include cash and cash equivalents, income tax receivables, receivables from derivatives, or other financial assets.

Information on equity-method income is contained in Note [3]. This mainly arises from the provision of site services by Currenta GmbH & Co.OHG, Leverkusen, Germany, and is not allocated among the segments.

Reconciliation of Segment Assets

€ million	Dec. 31, 2013	Dec. 31, 2014
Total segment assets	**5,712**	**6,125**
Cash and cash equivalents	427	418
Deferred tax assets	254	380
Near-cash assets	106	100
Income tax receivables	56	34
Derivative assets	78	19
Other financial assets	17	16
Other/Consolidation	161	158
Group assets	**6,811**	**7,250**

Capital expenditures made by the segments mainly comprise additions to intangible assets, property, plant and equipment.

All depreciation, amortization and impairments in fiscal 2013 and 2014 were recognized directly in profit or loss.

Segment liabilities mainly comprise provisions, trade payables and other liabilities. In particular, segment liabilities do not include income tax liabilities, liabilities from derivatives, or other financial liabilities.

Reconciliation of Segment Liabilities

€ million	Dec. 31, 2013	Dec. 31, 2014
Total segment liabilities	**2,065**	**2,494**
Other financial liabilities	2,317	1,880
Derivative liabilities	34	121
Income tax liabilities	70	69
Deferred tax liabilities	29	21
Other/Consolidation	396	504
Group liabilities	**4,911**	**5,089**

38 Audit fees

In 2014, total audit fees of €2,731 thousand (2013: €2,151 thousand) for the auditor of the consolidated financial statements of the LANXESS Group were recognized as expenses. Of this amount, €1,322 thousand (2013: €1,333 thousand) related to the auditing of financial statements, €560 thousand (2013: €485 thousand) to other audit-related services and €849 thousand (2013: €333 thousand) to other services rendered to Group companies. The amount recognized for other services is influenced, among other things, by a purchase in the area of IT services made by the auditors of the financial statements. The fees for financial statements audit services comprise all fees, including incidental expenses, paid or to be paid for the audits of the consolidated financial statements of the LANXESS Group and the mandatory financial statements of LANXESS AG and its German subsidiaries.

39 Declaration of Compliance pursuant to Section 161 of the Stock Corporation Act

A Declaration of Compliance with the German Corporate Governance Code has been issued pursuant to Section 161 of the German Stock Corporation Act (AktG) and made available to stockholders on the LANXESS website.

40 Utilization of disclosure exemptions

In 2014, the following German subsidiaries utilized disclosure exemptions pursuant to Section 264, Paragraph 3 of the German Commercial Code (HGB):

- Aliseca GmbH, Leverkusen
- Bond-Laminates GmbH, Brilon
- IAB Ionenaustauscher GmbH Bitterfeld, Greppin
- LANXESS Accounting GmbH, Cologne
- LANXESS Buna GmbH, Marl
- LANXESS Deutschland GmbH, Cologne
- LANXESS Distribution GmbH, Leverkusen
- LANXESS International Holding GmbH, Cologne
- Rhein Chemie Rheinau GmbH, Mannheim
- Saltigo GmbH, Leverkusen
- Vierte LXS GmbH, Leverkusen

Outside of Germany, LANXESS Limited (registration no. 03498959), Newbury, United Kingdom, utilized the exemption from the auditing of its annual financial statements as permitted by Section 479A of the U.K. Companies Act 2006. As required by law, LANXESS AG, as the parent company, guaranteed all outstanding liabilities as of December 31, 2014, with respect to Section 479C of the U.K. Companies Act 2006.