Notes to the Consolidated Financial Statements

General information

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

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

The consolidated financial statements of the LANXESS Group for fiscal 2015 were prepared by the Board of Management of LANXESS AG and authorized for submission to the Supervisory Board on February 26, 2016. It is the responsibility of the Supervisory Board to examine the consolidated financial statements and declare whether or not it approves them.

Structure and components of the consolidated financial statements

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

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

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

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

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

Financial reporting standards and interpretations applied

The consolidated financial statements of the LANXESS Group as of December 31, 2015, were prepared in accordance with the International Financial Reporting Standards (IFRS) as endorsed by the European Union (E.U.) and the corresponding interpretations, together with the additional requirements of Section 315a, Paragraph 1 of the German Commercial Code (HGB).

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

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

Financial reporting standards and interpretations issued but not yet mandatory

In 2015, the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee issued financial reporting standards and interpretations, whose application was not yet mandatory for that year and which the LANXESS Group thus did not yet apply. The application of these standards and interpretations is in some cases contingent upon their endorsement by the E.U. It is therefore possible that the dates for mandatory application may ultimately be later than indicated below.

Financial instruments

In November 2009, the IASB published IFRS 9. The new requirements this standard introduced for classifying and measuring financial assets were supplemented in October 2010 by requirements for the measurement of financial liabilities and the derecognition of financial instruments. In November 2013, the IASB published amendments to IFRS 9 containing new rules on hedge accounting. These amendments created the option, if particular criteria are met, of presenting changes in the credit risk of financial liabilities that are measured at fair value in comprehensive income rather than in profit or loss. It was possible to apply this principle at an earlier date, i.e. without implementing the other provisions of IFRS 9. In July 2014, the IASB issued the final version of IFRS 9. This contains revised regulations for classifying and measuring financial assets and, for the first time, rules on impairment charges for financial instruments. The expected loss model is now used to anticipate and recognize future losses as well as losses that have already been incurred. The new standard is to be applied for annual periods beginning on or after January 1, 2018. Earlier application is permitted. It has not yet been endorsed by the E.U. The LANXESS Group is currently evaluating the impact that the application of this standard will have on its earnings, asset and financial position.

Revenue from contracts with customers

The IASB published the new standard IFRS 15 on May 28, 2014. It supersedes IAS 11 and IAS 18 and introduces a five-step model containing basic principles for revenue recognition. These basic principles relate, in particular, to the identification of the services performed and the associated revenues and rules on the timing of revenue recognition. The standard also contains further rules on specific issues and requires additional disclosures in the notes on the type, level, timing and uncertainties relating to revenues from contracts with customers. As a result of the amendment to IFRS 15 published in September 2015, the date of initial application has been postponed from January 1, 2017, to annual periods beginning on or after January 1, 2018. The amendment has not yet been endorsed by the E.U. The LANXESS Group will only be able to evaluate the impact that the application of this standard will have on its earnings, asset and financial position once the present examination of the substance and contractual basis has been completed.

Leasing

On January 13, 2016, the IASB published the new standard IFRS 16, which supersedes IAS 17. Under IFRS 16, lessees will recognize all leases as a right-of-use asset and a lease liability in the statement of financial position on the basis of the present value of the lease payments. Depreciation and amortization on the capitalized right-of-use asset and interest expense for compounding the lease liabilities are recorded in the income statement. For lessees, therefore the distinction between operating and finance leases is abolished. The new standard also contains options for the treatment of short-term leases and leases of low value. If these options are applied, the costs of these leases are recognized as current expenses. There are no significant changes for lessors. The new standard is to be applied for annual periods beginning on or after January 1, 2019. Earlier application is permitted if IFRS 15 is applied. It has not yet been endorsed by the E.U. The LANXESS Group will evaluate the impact that application of this standard will have on its earnings, asset and financial position.

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

Standard/Interpretation		Date of publication	Mandatory for LANXESS as of fiscal year	Endorsed by the E.U.
IAS 19	Defined Benefit Plans: Employee Contributions – Amendments to IAS 19	Nov. 21, 2013	2016	yes
Various IAS and IFRS	Annual Improvements to the International Financial Reporting Standards, 2010–2012 Cycle	Dec. 12, 2013	2016	yes
IFRS 14	Regulatory Deferral Accounts	Jan. 30, 2014	–	no
IFRS 11	Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11	May 6, 2014	2016	yes
IAS 16, IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38	May 12, 2014	2016	yes
IAS 16, IAS 41	Agriculture: Bearer Plants – Amendments to IAS 16 and IAS 41	June 30, 2014	2016	yes
IAS 27	Equity Method in Separate Financial Statements – Amendments to IAS 27	Aug 12, 2014	2016	yes
IFRS 10, IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28	Sept. 11, 2014	–	no
Various IAS and IFRS	Annual Improvements to the International Financial Reporting Standards, 2012–2014 Cycle	Sept. 25, 2014	2016	yes
IFRS 10, IFRS 12, IAS 28	Investment Entities – Applying the Consolidation Exception – Amendments to IFRS 10, IFRS 12 and IAS 28	Dec. 18, 2014	2016	no
IAS 1	Disclosure Initiative – Amendments to IAS 1	Dec. 18, 2014	2016	yes
IAS 12	Income Taxes – Amendments to IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses	Jan. 19, 2016	2017	no
IAS 7	Statement of Cash Flows – Disclosure Initiative	Jan. 29, 2016	2017	no

Consolidation

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

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

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

Scope of consolidation

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

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

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

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

Fully consolidated companies

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

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

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

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

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

Investments accounted for using the equity method

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

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

Joint operations

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

Currency translation

In the financial statements of the individual consolidated companies that form the basis for the consolidated financial statements of the LANXESS Group, all foreign-currency assets and liabilities are translated at closing rates, irrespective of whether they are hedged. Forward contracts serving as economic hedges against fluctuations in exchange rates are reflected at fair value. Exchange differences resulting from currency translation are reflected in profit or loss in the net exchange result within other financial income and expense.

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

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

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

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

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

Exchange Rates

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

Accounting policies and valuation principles

The accounting policies and valuation principles are the same as those used in the previous fiscal year and have been consistently applied. However, certain changes have resulted from the mandatory first-time application in 2015 of new or amended financial reporting standards and interpretations. These changes are explained in the section headed “Financial reporting standards and interpretations applied.”

Intangible assets

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

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

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

Property, plant and equipment

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

The cost of self-constructed property, plant and equipment comprises the direct costs, as well as an appropriate share of the necessary material and manufacturing overheads. It also includes the shares of depreciation, of expenses for company pension plans and discretionary employee benefits that are attributable to production.

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

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

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

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

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

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

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

Useful Lives

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

Leasing

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

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

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

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

Financial instruments

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

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

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

Trade receivables and other financial receivables are initially recognized at fair value and subsequently accounted for at amortized cost using the effective interest method. Where write-downs are necessary as a result of impairment testing, they are recognized using separate accounts.

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

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

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

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

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

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

Derivative financial instruments and hedging transactions

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

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

Determination of fair value

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

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

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

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

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

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

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

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

Inventories

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

The cost of production comprises the direct cost of materials, direct manufacturing expenses and appropriate allocations of fixed and variable material and manufacturing overheads at normal capacity utilization, where these are attributable to production. It also includes expenses for company pension plans, corporate welfare facilities and discretionary employee benefits that can be allocated to production. Administrative costs are included where they are attributable to production.

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

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

Cash and cash equivalents

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

Non-current assets and liabilities held for sale

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

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

Provisions

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

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

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

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

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

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

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

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

Contingent liabilities

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

Liabilities

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

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

Sales and other revenues

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

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

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

Research and development expenses

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

Income taxes

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

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

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

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

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

Statement of cash flows

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

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

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

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

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

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

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

Global impairment testing procedure and impact

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

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

Cash-generating units to which goodwill is allocated are tested annually for impairment – or more frequently if events or changes in circumstances indicate a possible impairment. The residual carrying amount of each cash-generating unit, including the goodwill allocated to it, is compared with its recoverable amount. For the impairment test on goodwill in the Tire & Specialty Rubbers business unit in 2015, the Butyl Rubber and Performance Butadiene Rubbers cash-generating units were tested as a group of cash-generating units. In 2014, goodwill was tested at the level of the Performance Butadiene Rubbers cash-generating unit. Moreover, the Advanced Industrial Intermediates and Antioxidants & Accelerators cash-generating units form a group for the purpose of the impairment test on goodwill in the Advanced Industrial Intermediates Business Unit. In the prior year, the goodwill of the Rhein Chemie Additives business unit, which since January 1, 2015, has comprised the former specialty chemicals product line of the Rubber Chemicals business unit as well as the Functional Chemicals and Rhein Chemie business units, was tested at the level of the Functional Chemicals and Rhein Chemie business units.

The recoverable amount is the higher of the asset's fair value less costs of disposal and the value in use. If the carrying amount of a cash-generating unit exceeds the recoverable amount, an impairment charge is recognized in certain circumstances. The fair value less costs of disposal – which represents the best estimate of the potential sale proceeds at the time of the respective impairment test – is the amount obtainable from the sale of a cash-generating unit in an arm's-length transaction between knowledgeable, willing parties, less the costs of disposal. The value in use is defined as the present value of future cash flows based on the continuing use of the asset and its retirement at the end of its useful life. The first step in an impairment test is to determine the fair value less costs of disposal. If this is less than the carrying amount of the cash-generating unit, the value in use is then determined. The fair value less costs of disposal is generally calculated using a capital value method which is allocated to Level 3 of the fair value hierarchy (see under "Fair value measurement" in Note [36]).

Determination of the recoverable amount based on the fair value less costs of disposal generally relies on a forecast of future net cash flows. This is based on the planning approved by the management of LANXESS AG, which contains estimates of expected market conditions and other factors such as future raw material prices, energy costs, functional costs, exchange rates and capital expenditures. The interactions between these factors are reflected in the expected net cash flows. The estimates are based on management's past experience, taking account of internal and external economic and industry-specific sources of information. Capacity expansions, reorganization projects and the resulting synergies, provided these can also be used by a third party, are reflected in future net cash flows through estimates. Determination of the value in use is based on a corresponding forecast of future net cash flows. However, cash inflows and outflows relating to expansion projects that have not yet commenced, restructuring that is planned but has not yet been approved, and the associated synergies are not taken into account. The forecasts used to calculate the fair value less costs of disposal and to determine the value in use cover a five-year period. The perpetual annuity calculation is generally based on the last year in the planning period and does not reflect growth rates. Where necessary, adjustments are made to reflect the so-called steady state of the perpetual annuity. Future net cash flows are discounted using the weighted average cost of capital, which is derived according to IAS 36 from capital market models, taking into account the capital structure and business risks specific to the chemical industry, and is extrapolated from external market information.

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

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

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

The results of the global impairment tests in fiscal 2014 and 2015 are outlined in the following section.

Estimation uncertainties and the exercise of discretion

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

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

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

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

The assumptions and estimates used for the **impairment test conducted on assets** in fiscal 2015 could differ from the actual values in subsequent periods, necessitating subsequent valuation adjustments. The annual impairment tests are based on a discount rate after taxes of 6.6% (2014: 7.4%). Calculation of the perpetual annuity is generally based on the final year in the planning period. Adjustments are made if the final year in the planning period does not represent the so-called steady state. Growth rates are not reflected in the perpetual annuity calculation. The calculation is generally based on a capital value method which is allocated to Level 3 of the fair value hierarchy in accordance with IFRS 13. The testing of the cash-generating units showed no need for the recognition of impairment charges in fiscal 2014 and 2015. In 2015, reversals of impairment charges recognized for assets in previous years comprised €37 million for the High Performance Elastomers cash-generating unit (the former High Performance Elastomers business unit prior to merging with the Keltan Elastomers business unit) and €19 million for the Antioxidants & Accelerators cash-generating unit (formerly part of the Rubber Chemicals cash-generating unit). No need to reverse impairment charges was identified in 2014.

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

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

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

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

The annual **impairment test for the principal goodwill items** is performed on the basis of fair value less costs of disposal. The calculation is generally based on a capital value method which is allocated to Level 3 of the fair value hierarchy in accordance with IFRS 13. Impairment tests are performed on goodwill items in local currency if triggering events occur and at least once yearly on the regular impairment testing date. Significant goodwill of €62 million relates to the Tire & Specialty Rubbers business unit, which was formed on January 1, 2015, by combining the former Butyl Rubber and Performance Butadiene Rubbers business units. In 2014, this goodwill amounted to €80 million and was carried by the Performance Butadiene Rubbers business unit. Goodwill of €28 million was allocated to the Material Protection Products business unit in 2015 (2014: €27 million). Goodwill of €21 million pertained to the Rhein Chemie Additives business unit, which was formed in 2015 by combining the specialty chemicals product line of the former Rubber Chemicals business unit, the Functional Chemicals business unit and the Rhein Chemie business unit. In 2014, the combined goodwill of the Rhein Chemie and Functional Chemicals business units totaled €19 million. The High Performance Materials business unit carries goodwill of €18 million (2014: €18 million). Information on calculating the net cash flows can be found in this chapter and the previous chapter. All changes in goodwill compared with the previous year are attributable to currency effects. The Tire & Specialty Rubbers business unit (2014: Butyl Rubber and Performance Butadiene Rubbers business units) is dependent in large part on market developments in the tire and automotive industries, the Material Protection Products business unit on the performance of various industries and the Rhein Chemie Additives business unit primarily on development in various processing industries. The High Performance Materials business unit is mainly dependent on market development in the automotive industry. The estimates of future market developments on which detailed planning is based are dependent on the respective customer industries and draw on management's past experience, taking account of internal and external economic and industry-specific sources of information. The five-year planning period for the group of cash-generating units that comprises the Tire & Specialty Rubber business unit assumes average annual business growth of 2% (2014: 5% for Butyl Rubber and Performance Butadiene Rubbers together). Average annual business growth of 4% (2014: 5%) is assumed for the Material Protection Products cash-generating unit, 4% for the Rhein Chemie Additives cash-generating unit (2014: 4% for the specialty chemicals product line of the former Rubber Chemicals business unit, the Functional Chemicals business unit and the Rhein Chemie business unit together) and 1% (2014: 4%) for the High Performance Materials cash-generating unit. No growth rates were reflected in the perpetual annuity calculation. In the Tire & Specialty Rubbers business unit, in view of the overcapacities for synthetic rubbers in the detailed planning period, it is assumed that higher EBITDA will be achieved for the perpetual annuity in the long term than in the last planning year on account of the anticipated increase in demand, especially for higher-quality rubber products. This is factored in accordingly.

The impairment test performed on goodwill items in 2014 and 2015 did not indicate any need for recognition of impairment charges. Neither a one-percentage-point increase in the discount rate nor a 10% reduction in expected future net cash flows would have led to the recognition of an impairment charge on goodwill items.

The recognition and measurement of provisions are also affected by assumptions as to the probability of utilization, timing, the underlying discount rate and the absolute level of risk. The LANXESS Group performed sensitivity analyses on all provisions existing as of December 31, 2015 as required by the IFRS. These involved calculating the impact of isolated variations in the parameters used, especially the probability of occurrence, discount rate and absolute level of risk. The outcome of these sensitivity analyses shows that variations in the assumptions described above would not have a material impact on the level of other provisions reported in the consolidated financial statements of the LANXESS Group. For further information on the sensitivity analyses relating to provisions for pension and other post-employment benefits, see Note [14].

Defined benefit pension plans also necessitate actuarial computations and measurements. The section on provisions for pensions and other post-employment benefits contains information on the assumptions on which the actuarial calculations and estimates were based (see Note [14]).

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

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

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

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

Companies consolidated

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

	EMEA (excl. Germany)	Germany	North America	Latin America	Asia-Pacific	**Total**
Fully consolidated companies (incl. parent company)						
Jan. 1, 2015	23	11	5	5	18	62
Additions						0
Retirements						0
Mergers	(2)	(2)	(1)		(1)	(6)
Changes		1				1
Dec. 31, 2015	**21**	**10**	**4**	**5**	**17**	**57**
Consolidated associates and jointly controlled entities						
Jan. 1, 2015		2				2
Additions						0
Retirements						0
Mergers						0
Changes						0
Dec. 31, 2015	**0**	**2**	**0**	**0**	**0**	**2**
Non-consolidated companies						
Jan. 1, 2015	2	2	1	3	1	9
Additions	1					1
Retirements						0
Mergers						0
Changes		(1)				(1)
Dec. 31, 2015	**3**	**1**	**1**	**3**	**1**	**9**
Total						
Jan. 1, 2015	25	15	6	8	19	73
Additions	1					1
Retirements						0
Mergers	(2)	(2)	(1)		(1)	(6)
Changes						0
Dec. 31, 2015	**24**	**13**	**5**	**8**	**18**	**68**

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

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

Further, Currenta GmbH & Co. OHG, Leverkusen, Germany, is an associate accounted for in the consolidated financial statements using the equity method (see Note [3]). LANXESS's share in its capital is 40%. Given its ability to contribute to material aspects of financial and business policy decisions, LANXESS is able to exert a significant influence. Currenta GmbH & Co. OHG principally provides site services in the areas of energy, infrastructure and logistics for LANXESS's production sites in Germany. In view of its status as a personally liable partner, LANXESS may be required to inject further capital in the future. Transactions with this company are outlined in Note [34].

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

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

Cash transfers from companies in China, Brazil, India, South Africa, South Korea, Argentina and Russia are subject to restrictions as a result of regulated capital markets. These affect approximately 10% (2014: 14%) of the LANXESS Group's cash, cash equivalents and near-cash assets.

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

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

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Vierte LXS GmbH, Leverkusen, Germany, was consolidated for the first time. These changes had no material impact on the LANXESS Group's earnings, asset and financial position.

Other information on companies consolidated

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

Company Name and Domicile

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

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

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

Notes to the statement of financial position

1 | Intangible assets

Changes in intangible assets were as follows:

Changes in Intangible Assets in 2014

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

Changes in Intangible Assets in 2015

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

Reversals of impairments of other intangible assets in fiscal 2015 relate to impairment charges recognized on assets of the cash-generating units in previous years. Further information is provided in the section headed “Estimation uncertainties and exercise of discretion.”

2 | Property, plant and equipment

Changes in property, plant and equipment were as follows:

Changes in Property, Plant and Equipment in 2014

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

Changes in Property, Plant and Equipment in 2015

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

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

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

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

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

Assets Held Under Finance Leases

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

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

3 | Investments accounted for using the equity method

As in the previous year, Currenta GmbH & Co. OHG, Leverkusen, Germany, was accounted for using the equity method.

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

Data from the Income Statement and Statement of Comprehensive Income

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

Data from the Statement of Financial Position

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

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

4 | Investments in other affiliated companies

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

As of December 31, 2015, all the other investments classified as available-for-sale financial assets – apart from the shares in Gevo Inc., Englewood, United States, and BioAmber Inc., Minneapolis, United States – comprised unlisted equity instruments. Since the fair values of these instruments at the closing date could not be reliably determined, they were recognized at cost. There are currently no plans to dispose of these investments.

5 | Derivative financial instruments

The derivative financial instruments held by the LANXESS Group comprise forward exchange contracts and are capitalized in the consolidated financial statements for fiscal 2015 at a total fair value of €15 million (2014: €19 million). Instruments with a negative fair value totaling €119 million (2014: €121 million) are recognized as liabilities.

Derivative Financial Instruments

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

Derivative Financial Instruments

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

Cash flow hedges

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

The LANXESS Group expects that, of the unrealized losses on currency hedges recognized in other comprehensive income in 2015, €54 million will be reclassified from equity to profit or loss in 2016 and €8 million in 2017 (2014: €42 million in 2015 and €8 million in 2016).

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

6 | Other non-current and current financial assets

Other Financial Assets

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

Other Financial Assets

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

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

Write-downs of other financial assets amounted to €0 million (2014: €7 million) and related to other financial receivables which have been written down entirely.

7 | Non-current and current income tax receivables

The non-current income tax receivables amounting to €11 million (2014: €6 million) mainly comprise receivables relating to disputed tax issues where reimbursement is considered probable.

The increase in current income tax receivables to €44 million (2014: €28 million) is mainly due to changes in tax law and tax relief in the United States and Brazil.

8 | Other non-current assets

Other non-current assets are carried at amortized cost less any write-downs. No write-downs were made in 2014 or 2015.

The other non-current assets amounting to €27 million (2014: €33 million) mainly include periodic accruals and other reimbursement claims.

9 | Inventories

The inventories of the LANXESS Group comprised:

Inventories

€ million	Dec. 31, 2014	Dec. 31, 2015
Raw materials and supplies	260	257
Work in process, finished goods and merchandise	1,124	1,092
	1,384	**1,349**

Inventories of €216 million (2014: €227 million) are reflected at net realizable value.

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

Write-Downs of Inventories

€ million	2014	2015
Balance at beginning of year	(92)	(127)
Additions charged as expenses	(65)	(70)
Reversals/utilization	33	92
Changes in scope of consolidation	1	0
Exchange differences	(4)	(2)
Balance at end of year	**(127)**	**(107)**

10 | Trade receivables

All trade receivables – totaling €956 million (2014: €1,015 million) – are due within one year. Of the trade receivables, €8 million (2014: €3 million) pertained to investments accounted for using the equity method and €948 million (2014: €1,012 million) pertained to other customers.

Trade receivables as of December 31, 2015 are stated after write-downs of €16 million (2014: €17 million) on gross receivables of €17 million (2014: €17 million).

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

Write-Downs of Trade Receivables

€ million	2014	2015
Balance at beginning of year	(18)	(17)
Additions charged as expenses	(4)	(4)
Reversals/utilization	6	4
Exchange differences	(1)	1
Balance at end of year	**(17)**	**(16)**

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

Maturity Structure of Past-Due Trade Receivables

€ million	Dec. 31, 2014	Dec. 31, 2015
Carrying amount	1,015	956
of which neither impaired nor past due	896	858
of which unimpaired but past due by		
up to 30 days	94	76
between 31 and 60 days	15	11
between 61 and 90 days	3	2
more than 90 days	7	8

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

11 | Near-cash assets

The near-cash assets of €100 million (2014: €100 million) comprise units of money market funds that can be sold at any time and are expected to be realized within twelve months after the closing date.

12 | Other current assets

Other receivables and other assets totaling €206 million (2014: €185 million) are stated at amortized cost less any write-downs. No write-downs were recognized in 2015. They principally comprise miscellaneous claims for tax refunds amounting to €137 million (2014: €144 million), mainly pertaining to sales taxes, and other reimbursement claims from goods and service transactions totaling €50 million (2014: €27 million). The year-on-year increase is mainly attributable to a receivable relating to site services in Germany.

13 | Equity

Capital stock

The capital stock of LANXESS AG amounted to €91,522,936 as of December 31, 2015 and is composed of 91,522,936 no-par bearer shares. All shares carry the same rights and obligations. One vote is granted per share, and profit is distributed per share.

Authorized capital

As of December 31, 2015, the company's authorized capital comprised the following:

Authorized Capital I and II

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

In addition, pursuant to Section 4, Paragraph 3 of LANXESS AG's articles of association, the Annual Stockholders' Meeting on May 13, 2015, authorized the Board of Management until May 22, 2018, with the approval of the Supervisory Board, to increase the company's capital stock on one or more occasions by issuing new no-par shares against cash or contributions in kind up to a total amount of €18,304,587 (Authorized Capital II). Stockholders are generally entitled to subscription rights when Authorized Capital is utilized. With the approval of the Supervisory Board, subscription rights can be excluded for residual amounts and in order to grant holders of warrants or convertible bonds issued by the company and its affiliates subscription rights to the number of new shares for which such parties would be entitled to subscribe upon exercise of their warrants or conversion rights. Moreover, subscription rights can be excluded with the approval of the Supervisory Board when the company's capital stock is increased against contributions in kind, particularly for the acquisition of companies. Subscription rights can also be excluded with the approval of the Supervisory Board in order to grant holders of convertible and/or warrant bonds issued by the company or its affiliates new shares upon exercise of their rights. Finally, subscription rights can also be excluded with the approval of the Supervisory Board if the issue price of the new shares is not significantly lower than the stock market price at the time the issue price is fixed and the issued shares do not exceed 10% of the company's capital stock. The upper limit of 10% of the capital stock is reduced by the proportionate interest in the capital stock attributable to those shares issued or sold during the term of this authorization while excluding stockholders' rights in direct or analogous application of Section 186, Paragraph 3, Sentence 4 of the German Stock Corporation Act. Further details are given in Section 4, Paragraph 3 of the articles of association.

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

Conditional capital

As of December 31, 2015, the company's conditional capital comprised the following:

Conditional capital

The Annual Stockholders' Meeting of LANXESS AG on May 13, 2015, authorized the Board of Management until May 22, 2018, with the approval of the Supervisory Board, to issue – in one or more installments – warrant bonds and/or convertible bonds, profit-participation rights and/or income bonds or a combination of these instruments (collectively referred to as "bonds") – as either registered or bearer bonds – with a total nominal value of up to €1,000,000,000, with or without limited maturity, and to grant option rights to, or impose option obligations on, the holders or creditors of warrant bonds, profit-participation rights with warrants or income bonds with warrants, and/or to grant conversion rights to, or impose conversion obligations on, the holders or creditors of convertible bonds, convertible profit-participation rights or convertible income bonds in respect of bearer shares of the company representing a total pro rata increase of up to €18,304,587 in the company's capital stock on the terms to be defined for these bonds. Pursuant to Section 4, Paragraph 4 of the articles of association, the capital stock of LANXESS AG is thus conditionally increased by up to €18,304,587 (Conditional Capital).

The conditional capital increase shall only be implemented to the extent that the holders or creditors of, or persons obligated to exercise, warrants or conversion rights pertaining to bonds issued by the company or a dependent company against cash contributions, or issued against cash contributions and guaranteed by the company or a dependent company, on or before May 22, 2018, on the basis of the authorization granted to the Board of Management by the Annual Stockholders' Meeting on May 13, 2015, exercise their warrants or conversion rights or, where they are obligated to do so, fulfill such obligation, or to the extent that the company elects to grant shares in the company in place of all or part of the cash amount due for payment. The conditional capital increase shall not be implemented if cash compensation is granted or if the company's own shares, shares issued out of authorized capital or shares in another listed company are used to service the warrant or conversion rights.

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

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

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

Share buyback and retirement

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

Capital reserves

The capital reserves of LANXESS AG are unchanged from the previous year at €1,225,652,280.

Other reserves

The €60 million increase in other reserves to €1,313 million was principally attributable to the increase in retained earnings from €1,094 million to €1,154 million.

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

Other equity components

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

Non-controlling interests

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

Capital management

The main purpose of capital management in the LANXESS Group is to maintain the long-term viability of the business operations and achieve an attractive return on capital compared to the chemical industry average. LANXESS's financial policy defines an additional condition for capital management, which is to maintain an investment-grade rating. To achieve this goal, the Group has to meet indicators set by the rating agencies. Most of these are derived from the statement of financial position, the income statement or the statement of cash flows. Details can be found in the section headed "Value management and control system" in the combined management report for fiscal 2015. Capital management in the LANXESS Group entails decisions by the relevant internal bodies on the capital structure shown on the statement of financial position, the appropriateness of the company's equity, the use of the distributable profit, the amount of the dividend, the financing of capital expenditures, and thus on issuances or repayments of debt. The articles of association of LANXESS AG do not contain any specific capital requirements.

14 | Provisions for pensions and other post-employment benefits

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

Defined contribution plans

In the case of defined contribution plans, the company pays contributions into separate pension funds. These contributions are included in the functional cost items as expenses for the respective year, and thus in the operating result. Once the contributions have been paid, the company has no further payment obligations. Payments to defined contribution plans in 2015 totaled €48 million (2014: €49 million).

Multi-employer plans

The pension plan in Germany financed through Bayer-Pensionskasse is also accounted for in the consolidated financial statements as a defined contribution plan. The above amounts include contributions of €26 million (2014: €28 million) to Bayer-Pensionskasse. Contributions of about the same amount are expected for the following fiscal year.

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

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

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

LANXESS's share of the total contributions to Bayer-Pensionskasse was slightly lower than in the previous year at approximately 16% (2014: 17%). Bayer-Pensionskasse has been closed to new members since January 1, 2005.

Defined benefit plans

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

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

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

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

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

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

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

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

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

In 2015, total expenses of €76 million (2014: €120 million) for defined benefit plans were recognized in profit or loss and are split between the operating result and the financial result as follows:

Expenses for Defined Benefit Plans

	Pension plans		Other post-employment benefit plans	
€ million	**2014**	**2015**	**2014**	**2015**
Operating result				
Current service cost	37	39	38	1
Past service cost	10	0	0	0
Gains/losses from settlements	0	0	–	–
Administration expenses/taxes	1	1	0	0
Actuarial gains/losses from changes in financial assumptions	–	–	2	0
Financial result				
Net interest	27	31	5	4
Amounts recognized in profit or loss	**75**	**71**	**45**	**5**

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

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

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

The table shows the amounts recognized in other comprehensive income rather than profit or loss in 2015.

Amounts Recognized in Other Comprehensive Income

	Pension plans		Other post-employment benefit plans	
€ million	**2014**	**2015**	**2014**	**2015**
Return on plan assets excluding amounts included in interest	21	(56)	0	0
Actuarial gains/losses from changes in demographic assumptions	(17)	0	0	0
Actuarial gains/losses from changes in financial assumptions	(282)	81	(7)	9
Actuarial gains/losses from experience adjustments	(12)	17	2	5
Changes in effects of the asset ceiling	2	20	–	–
Changes in effects of minimum funding requirements	(15)	7	–	–
Amounts recognized in other comprehensive income	**(303)**	**69**	**(5)**	**14**

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

Changes in Net Defined Benefit Liability

	Pension plans		Other post-employment benefit plans	
€ million	**2014**	**2015**	**2014**	**2015**
Net defined benefit liability, January 1	**797**	**1,130**	**124**	**160**
Amounts recognized in profit or loss	75	71	45	5
Amounts recognized in other comprehensive income	303	(69)	5	(14)
Employer contributions	(21)	(14)	(1)	(1)
Benefits paid	(22)	(24)	(17)	(23)
Business combinations and disposals	(5)	0	0	0
Exchange differences	3	(3)	4	(3)
Net defined benefit liability, December 31	**1,130**	**1,091**	**160**	**124**
Amounts recognized in the statement of financial position				
Receivables from pension obligations	0	0	–	–
Provisions for pensions and other post-employment benefits	1,130	1,091	160	124
Net defined benefit liability, December 31	**1,130**	**1,091**	**160**	**124**

The expected cash outflows for employer contributions and benefit payments in 2016 are €15 million and €48 million, respectively, based on year-end 2015 exchange rates. In the previous year, the expected cash outflows for employer contributions and benefit payments in 2015 were €14 million and €28 million, respectively, based on exchange rates at year end 2014.

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

The defined benefit obligation developed as follows:

Changes in Defined Benefit Obligation

	Pension plans		Other post-employment benefit plans	
€ million	**2014**	**2015**	**2014**	**2015**
Defined benefit obligation				
Defined benefit obligation, January 1	1,787	2,178	128	166
Current service cost	37	39	38	1
Interest expense	93	88	5	4
Actuarial gains/losses from changes in demographic assumptions	17	0	0	0
Actuarial gains/losses from changes in financial assumptions	282	(81)	9	(9)
Actuarial gains/losses from experience adjustments	12	(17)	(2)	(5)
Past service cost	10	0	0	0
Gains/losses from settlements	0	(1)	–	–
Employee contributions	2	2	–	–
Benefits paid	(78)	(85)	(17)	(23)
Disbursements for settlements	0	–	–	0
Business combinations and disposals	(6)	0	0	0
Other additions	0	1	–	–
Administration expenses/taxes	0	(1)	0	0
Exchange differences	22	(106)	5	(3)
Defined benefit obligation, December 31	**2,178**	**2,017**	**166**	**131**

Of the defined benefit obligation for pensions, Germany accounts for 61% (2014: 58%), Canada for 22% (2014: 22%) and Brazil for 11% (2014: 15%).

The other post-employment benefit obligations comprise €58 million (2014: €74 million) for the reimbursement of health care costs and €73 million (2014: €92 million) for miscellaneous other benefit commitments. The actuarial gains and losses from changes in demographic assumptions in 2014 mainly resulted from the application of new mortality tables in Canada.

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

In 2014, the past service cost for pension obligations and the current service cost for the other post-employment benefit obligations resulted mainly from the “Advance” and “Let’s LANXESS again” programs in Germany and related to early-retirement agreements, to improvements to existing benefit entitlements for employees taking early retirement, and to severance agreements.

Gains from settlements result from the closure of defined benefit pension plans in Spain as a result of their conversion into defined contribution plans.

The business combinations and disposals in the prior year related to the divestment of Perlon-Monofil GmbH, Dormagen, Germany.

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

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

Changes in External Plan Assets

	Pension plans		Other post-employment benefit plans	
€ million	**2014**	**2015**	**2014**	**2015**
Plan assets at fair value				
Plan assets, January 1	1,046	1,125	4	6
Interest income	73	64	0	0
Return on plan assets excluding amounts included in interest	21	(56)	0	0
Gains/losses from settlements	–	(1)	–	–
Employer contributions	21	14	1	1
Employee contributions	2	2	–	–
Benefits paid	(56)	(61)	0	0
Disbursements for settlements	–	–	–	–
Business combinations and disposals	(1)	0	–	0
Other additions	–	1	–	–
Costs of managing plan assets/ taxes	(1)	(2)	0	0
Exchange differences	20	(116)	1	0
Plan assets, December 31	**1,125**	**970**	**6**	**7**

Of the plan assets, Canada accounts for 42% (2014: 40%), Brazil for 27% (2014: 34%) and Germany for 23% (2014: 19%).

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

The latter type of obligations exists mainly outside Germany and totaled €14 million in 2015 (2014: €21 million). External funding where LANXESS can assert reimbursement claims mainly pertains to LANXESS Pension Trust e.V. No additional funding was provided to LANXESS Pension Trust e.V in 2015 or 2014.

The business combinations and disposals in the prior year related to the divestment of Perlon-Monofil GmbH, Dormagen, Germany.

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

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

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

	Effects of the asset ceiling		Minimum funding requirements	
€ million	**2014**	**2015**	**2014**	**2015**
January 1	54	59	2	18
Interest expense	7	6	0	1
Additions (deductions)	(2)	(20)	15	(7)
Exchange differences	0	(12)	1	(1)
December 31	**59**	**33**	**18**	**11**

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

The fair value of plan assets comprises:

Breakdown of Plan Assets as of December 31

€ million	2014	2015
Cash and cash equivalents	25	8
of which quoted in an active market	25	8
Equity instruments	215	156
of which quoted in an active market	110	105
Government bonds	393	370
of which quoted in an active market	393	370
Corporate bonds	268	230
of which quoted in an active market	204	186
Investment funds	132	122
of which quoted in an active market	102	101
Real estate	23	26
of which quoted in an active market	0	0
Insurance contracts	60	61
of which quoted in an active market	1	2
Other	15	4
of which quoted in an active market	3	3
	1,131	**977**

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

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

Weighted Discount Rates as of December 31

	Pension plans		Other post-employment benefit plans	
%	2014	2015	2014	2015
Discount rate	4.38	4.40	2.87	3.09
Germany	2.75	3.00	0.59	0.41
Canada	3.75	3.75	3.75	4.00
Brazil	12.50	14.25	12.50	14.25

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

Weighted Valuation Assumptions as of December 31

	Pension plans		Other post-employment benefit plans	
%	2014	2015	2014	2015
Expected salary increases	3.3	3.2	3.1	4.5
Expected benefit increases	2.3	2.2	–	–
Expected increases in medical costs	–	–	7.0	6.6
Expected long-term increases in medical costs	–	–	5.1	5.1

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

The long-term cost increase for medical care is expected to take place within 16 years (2014: 13 years).

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

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

Sensitivities of Defined Benefit Obligations as of December 31

	Pension plans		Other post-employment benefit plans	
%	**2014**	**2015**	**2014**	**2015**
Discount rate				
+0.5%-pt.	(7.8)	(6.4)	(2.9)	(2.9)
–0.5%-pt.	8.9	7.3	3.2	3.1
Expected salary increases				
+0.25%-pt.	0.5	0.4	0.2	0.2
–0.25%-pt.	(0.5)	(0.4)	(0.2)	(0.2)
Expected benefit increases				
+0.25%-pt.	3.9	3.7	–	–
–0.25%-pt.	(3.7)	(3.5)	–	–
Mortality				
–10%	2.7	2.0	1.1	0.6
Expected increases in medical costs				
+1%-pt.	–	–	3.6	2.9
–1%-pt.	–	–	(3.3)	(2.7)

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

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

The weighted average duration of defined benefit pension obligations was 17 years (2014: 17 years). This figure was based on weighted average durations of 20 years (2014: 21 years) for Germany, 13 years (2014: 13 years) for Canada and 9 years (2014: 10 years) for Brazil. The weighted average duration of the defined benefit obligations for other post-employment benefits was 7 years (2014: 7 years).

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

Funded Status as of December 31

	Pension plans		Other post-employment benefit plans	
€ million	**2014**	**2015**	**2014**	**2015**
Funded status				
Defined benefit obligation for funded plans	1,790	1,643	14	12
External plan assets	(1,125)	(970)	(6)	(7)
Underfunding of funded plans	**665**	**673**	**8**	**5**
Defined benefit obligation for unfunded plans	388	374	152	119
Funded status, December 31	**1,053**	**1,047**	**160**	**124**

15 | Other non-current and current provisions

On the closing date, the LANXESS Group had other current provisions of €411 million (2014: €350 million) and other non-current provisions of €271 million (2014: €275 million). The maturity structure of other provisions is shown in the following table:

Other Provisions

	Dec. 31, 2014				Dec. 31, 2015			
€ million	Up to 1 year	1–5 years	Over 5 years	**Total**	Up to 1 year	1–5 years	Over 5 years	**Total**
Personnel	142	43	34	219	177	48	36	261
Environmental protection	15	27	74	116	18	29	66	113
Trade-related commitments	68	8	–	76	83	7	–	90
Restructuring	30	12	5	47	42	13	9	64
Miscellaneous	95	55	17	167	91	45	18	154
	350	**145**	**130**	**625**	**411**	**142**	**129**	**682**

The total of other provisions increased from €625 million to €682 million in 2015. The changes in other provisions were as follows:

Changes in Other Provisions in 2015

€ million	**Jan. 1, 2015**	**Additions**	**Interest effect**	**Utilization**	**Reversals**	**Exchange differences**	**Dec. 31, 2015**
Personnel	219	191	2	(131)	(11)	(9)	261
Environmental protection	116	10	4	(8)	(2)	(7)	113
Trade-related commitments	76	46	1	(24)	(7)	(2)	90
Restructuring	47	39	0	(17)	(4)	(1)	64
Miscellaneous	167	57	4	(34)	(27)	(13)	154
	625	**343**	**11**	**(214)**	**(51)**	**(32)**	**682**

Personnel-related provisions

Personnel-related provisions include particularly provisions established for annual performance-related compensation and multi-year compensation programs.

Multi-year compensation programs

Stock-based compensation

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

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

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

Principal Parameters as of December 31

%	2014	2015
Expected share price volatility	34.0	31.0
Expected dividend payment	2.0	2.0
Expected volatility of Dow Jones STOXX 600 Chemicals[SM]	19.0	18.0
Correlation between LANXESS stock and Dow Jones STOXX 600 Chemicals[SM]	73.0	64.0
Expected volatility of MSCI World Chemicals Index	16.0	13.0
Correlation between LANXESS stock and MSCI World Chemicals Index	66.0	56.0

The relevant risk-free interest rate in 2015 was 0.01% (2014: 0.01%).

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

The following table provides information on the tranches outstanding as of December 31, 2015:

Long-Term Stock Performance Plan

	LTSP 2010–2013				LTSP 2014–2017	
	Tranche 2010	Tranche 2011	Tranche 2012	Tranche 2013	Tranche 2014	**Tranche 2015**
Duration	7 years	7 years	7 years	7 years	7 years	7 years
Vesting period	4 years	4 years	4 years	4 years	4 years	4 years
Lock-up period for personal investment shares	Jan. 31, 2017	Jan. 31, 2017	Jan. 31, 2017	Jan. 31, 2017	Jan. 31, 2018	Jan. 31, 2019
Initial LANXESS share price	€27.28	€55.60	€44.54	€63.25	€47.41	€35.04
Initial Dow Jones STOXX 600 Chemicals[SM] price	432.44 points	564.17 points	533.45 points	665.98 points	–	–
Initial MSCI World Chemicals Index price	–	–	–	–	238.07 points	254.06 points
Fair value per right as of December 31, 2014	€0.25	€0.05	€0.10	€0.07	€0.54	–
Fair value per right as of December 31, 2015	€0.27	€0.03	€0.12	€0.10	€0.80	€1.29
Change in number of outstanding rights						
Outstanding rights as of January 1, 2015	10,979	7,555,332	8,416,968	9,525,633	11,648,795	–
Rights granted	–	12,290	12,693	13,010	13,206	11,709,840
Rights exercised	–	–	–	–	–	–
Rights compensated	–	997,070	982,973	1,003,444	1,153,044	309,645
Rights forfeited	–	211,736	352,689	509,294	583,124	507,660
Outstanding rights as of December 31, 2015	**10,979**	**6,358,816**	**7,093,999**	**8,025,905**	**9,925,833**	**10,892,535**

LANXESS shares were trading at €42.68 at year end 2015. The Dow Jones STOXX 600 Chemicals[SM] benchmark index stood at 825.49 points, while the MSCI World Chemicals Index was 250.34 points.

Due to the granting of rights and the settlement of rights in connection with the Group realignment program, net expense of €9 million was recorded in 2015 (2014: €16 million). The net expense in the prior year was due to the exercise of the rights from the 2010 tranche of the LTSP 2010–2013 at maximum value and the settlement of rights in connection with the realignment program. A provision of €8 million existed as of December 31, 2015 (2014: €3 million). In 2015 and 2014, the rights exercisable as of the closing date had no intrinsic value.

Environmental provisions

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

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

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

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

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

Trade-related commitments

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

Provisions for restructuring

Provisions for restructuring totaled €64 million on December 31, 2015 (2014: €47 million), comprising €29 million (2014: €25 million) for human resources measures, €17 million (2014: €6 million) for environmental protection measures and €18 million (2014: €16 million) for other expenses.

Sundry provisions

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

16 | Other non-current and current financial liabilities

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

Other Financial Liabilities as of December 31, 2014

€ million	Current	Non-current					
	2015	**2016**	**2017**	**2018**	**2019**	**>2019**	**Total**
Bonds	66	199	–	498	–	693	1,390
Liabilities to banks	78	10	–	–	228	–	238
Liabilities under finance leases	8	9	7	6	6	36	64
Other primary financial liabilities	30	2	2	0	0	2	6
	182	**220**	**9**	**504**	**234**	**731**	**1,698**

Other Financial Liabilities as of December 31, 2015

€ million	Current	Non-current					
	2016	**2017**	**2018**	**2019**	**2020**	**>2020**	**Total**
Bonds	200	–	499	–	–	693	1,192
Liabilities to banks	208	–	–	–	–	–	0
Liabilities under finance leases	10	8	7	6	6	34	61
Other primary financial liabilities	25	3	0	0	0	2	5
	443	**11**	**506**	**6**	**6**	**729**	**1,258**

The following bonds were outstanding on December 31, 2015:

Bonds

Issuance	Nominal amount € million	Carrying amount € million	Interest rate %	Maturity
September 2009	200	200	5.500	September 2016
May 2011	500	499	4.125	May 2018
April 2012	100	100	3.500	April 2022
April 2012	100	99	3.950	April 2027
November 2012	500	494	2.625	November 2022

The weighted average interest rate for all of the LANXESS Group's financial liabilities denominated in euros and other currencies at year end was 3.8% (2014: 3.8%).

Liabilities under lease agreements are recognized if the leased assets are capitalized under property, plant and equipment as the economic property of the Group (finance leases). Lease payments totaling €95 million (2014: €94 million), including €24 million (2014: €22 million) in interest are to be made to the respective lessors in future years.

Other primary financial liabilities include accrued interest of €24 million (2014: €26 million) on financial liabilities. Of this amount, €22 million (2014: €24 million) relates to the above-mentioned bonds.

Information on the fair values of financial liabilities and the contractually agreed payments, especially interest payments, is given in Note [36].

17 | Non-current and current income tax liabilities

The non-current and current income tax liabilities comprised:

Income Tax Liabilities

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

Income Tax Liabilities

€ million	Dec. 31, 2015		
	Non-current	Current	Total
Provisions	19	72	91
Payables	–	13	13
	19	**85**	**104**

The increase in provisions for income tax liabilities was mainly due to provisions for taxes for fiscal 2015 that have not yet been assessed and for prior-year tax audits. The income tax liabilities increased to €13 million (2014: €2 million), mainly due to improved pre-tax earnings.

18 | Other non-current and current liabilities

At year end the other non-current liabilities comprised:

Other Non-Current Liabilities

€ million	Dec. 31, 2014	Dec. 31, 2015
Social security liabilities	5	5
Payroll liabilities	14	3
Miscellaneous liabilities	99	100
	118	**108**

The miscellaneous non-current liabilities mainly included asset subsidies of €96 million (2014: €97 million) granted by third parties. They include, to a small extent, government grants that are contingent upon the maintenance of employment or the use of assets for the company's own production purposes over defined periods of time.

Other Current Liabilities

€ million	Dec. 31, 2014	Dec. 31, 2015
Other tax liabilities	47	42
Payroll liabilities	53	25
Social security liabilities	21	21
Miscellaneous liabilities	45	54
	166	**142**

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

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

The miscellaneous liabilities principally comprise accruals for outstanding invoices relating to the reporting period. As of December 31, 2015, there were no such liabilities to Currenta GmbH & Co. OHG, Leverkusen, Germany. In the prior year, there were liabilities of less than €1 million to this company.

19 | Trade payables

Trade accounts are payable mainly to third parties. As in the previous year, the entire amount totaling €779 million (2014: €799 million) is due within one year.

Trade payables of €120 million (2014: €109 million) relate to Currenta GmbH & Co. OHG, Leverkusen, Germany, which is accounted for using the equity method, and its affiliated companies, while trade payables of €659 million (2014: €690 million) related to other suppliers.

20 | Further information on liabilities

Of the total liabilities, €733 million (2014: €738 million) have maturities of more than five years.

Notes to the income statement

21 | Sales

Sales, which amounted to €7,902 million (2014: €8,006 million), mainly comprise goods sold less discounts and rebates.

A breakdown of sales and the change in sales by segment and region is given in the segment information (see Note [38]).

22 | Cost of sales

Cost of Sales

€ million	2014	2015
Expenses for raw materials and merchandise	4,000	3,451
Direct manufacturing and other production costs	2,418	2,703
	6,418	**6,154**

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

23 | Selling expenses

Selling Expenses

€ million	2014	2015
Marketing costs	459	459
Outward freight charges and other selling expenses	283	300
	742	**759**

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

24 | Research and development expenses

The research and development expenses of €130 million (2014: €160 million) mainly include the costs incurred to gain new scientific and technical knowledge, expenses relating to the search for alternative products and production processes, and costs for applying the results of research.

25 | General administration expenses

The general administration expenses, amounting to €284 million (2014: €278 million), comprise costs not directly related to operational business processes and the costs for the country organizations.

26 | Other operating income

Other Operating Income

€ million	2014	2015
Exceptional items	0	99
Income from non-core business	84	78
Income from the reversal of provisions	8	3
Income from reversals of write-downs of receivables and other assets	1	3
Gains from the disposal of non-current assets	1	1
Miscellaneous operating income	24	23
	118	**207**

The exceptional items contain income of €56 million (2014: €0 million) from the reversal of impairment charges recognized on cash-generating units in previous years and relate to the Performance Polymers and Advanced Intermediates segments. They are principally allocable to the cost of sales. Further information is provided in the section headed "Estimation uncertainties and exercise of discretion." In addition, the exceptional items include gains from the disposal of assets totaling €43 million (2014: €0 million). These are allocated in line with their economic relevance to other operating income.

27 | Other operating expenses

Other Operating Expenses

€ million	2014	2015
Expenses for hedging with derivative financial instruments	3	143
Exceptional items	184	106
Expenses for non-core business	74	70
Write-downs of trade receivables and other current assets	4	4
Losses from the disposal of non-current assets	0	0
Miscellaneous operating expenses	43	44
	308	**367**

The expenses for hedging with derivative financial instruments result from exchange rate movements, especially in respect of the U.S. dollar.

Of the exceptional items of €106 million (2014: €184 million), €65 million (2014: €70 million) was allocable to the cost of sales in line with its economic relevance, while €7 million (2014: €23 million) was allocable to selling expenses, €2 million (2014: €39 million) to research and development expenses, €10 million (2014: €32 million) to general administration expenses and €22 million (2014: €20 million) to miscellaneous operating expenses.

The exceptional items for fiscal 2015 mainly comprise the costs of the “Let’s LANXESS again” program for the global realignment of the Group, which was initiated the previous year, and include, among other things, expenses in connection with the closure of the site in Marl, Germany. In 2014, the exceptional items mainly comprised the costs of the “Let’s LANXESS again” and “Advance” programs. They also included write-downs of €19 million on a pilot facility in the Butyl Rubber business unit (Performance Polymers segment).

28 | Financial result

The financial result is comprised as follows:

Financial Result

€ million	2014	2015
Income from investments accounted for using the equity method	**2**	**0**
Interest income	3	4
Interest expense	(72)	(70)
Net interest expense	**(69)**	**(66)**
Interest expense from compounding interest-bearing provisions	(41)	(46)
Net exchange loss	(23)	(16)
Miscellaneous financial expense and income	(7)	0
Dividends and income from other affiliated companies	0	1
Other financial income and expense	**(71)**	**(61)**
Financial result	**(138)**	**(127)**

Interest expense mainly includes payments of bond interest. The amount recognized has been adjusted for capitalized borrowing costs of €6 million (2014: €17 million). The interest portion of the lease payments under finance leases, amounting to €4 million (2014: €3 million), is included in interest expense.

29 | Income taxes

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

The breakdown of income taxes by origin is as follows:

Income Taxes by Origin

€ million	2014	2015
Current taxes	(59)	(109)
Deferred taxes resulting from		
temporary differences	(1)	21
statutory changes in tax rates	0	0
loss carryforwards	24	(33)
Income taxes	**(36)**	**(121)**

The actual tax expense for 2015 was €121 million (2014: €36 million). This was €29 million (2014: €11 million) more than the expected tax expense of €92 million (2014: €25 million).

In calculating the expected tax expense for the LANXESS Group, the aggregated income tax rate of 32.1% (2014: 31.8%) for the German tax entity was applied. This comprises a corporation tax rate of 15.0%, plus a solidarity surcharge (5.5% of corporation tax) and trade tax. The increase in the aggregated income tax rate was mainly due to a trade tax multiplier.

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

Reconciliation to Reported Tax Result

€ million	2014	2015
Income before income taxes	80	288
Aggregated income tax rate of LANXESS AG	31.8%	32.1%
Expected tax result	(25)	(92)
Tax difference due to differences between local tax rates and the hypothetical tax rate	(14)	8
Reduction in taxes due to		
tax-free income and reduction of tax bases	3	4
utilization of unrecognized loss carryforwards	3	1
Increase in taxes due to non-tax-deductible expenses	(15)	(5)
Other tax effects	12	(37)
Reported tax result	**(36)**	**(121)**
Effective tax rate	45.0%	42.0%

The other tax effects of minus €37 million mainly comprise income taxes for previous years and unrecognized deferred taxes on tax losses for 2015. In the previous year the other tax effects of €12 million mainly resulted from the write-up of deferred tax assets.

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

Deferred Taxes

€ million	Dec. 31, 2014 Deferred tax assets	Dec. 31, 2014 Deferred tax liabilities	Dec. 31, 2015 Deferred tax assets	Dec. 31, 2015 Deferred tax liabilities
Intangible assets	9	52	15	37
Property, plant and equipment	29	130	18	139
Inventories	31	1	35	5
Receivables and other assets	8	29	9	21
Pension provisions	243	–	220	0
Other provisions	93	11	105	11
Liabilities	58	0	58	0
Loss carryforwards	111	–	68	–
	582	**223**	**528**	**213**
of which non-current	392	182	321	176
Set-off	(202)	(202)	(167)	(167)
	380	**21**	**361**	**46**

The change in deferred taxes is calculated as follows:

Changes in Deferred Taxes

€ million	2014	2015
Deferred taxes as of January 1	225	359
Tax income/expense recognized in the income statement	23	(12)
Changes in scope of consolidation	(1)	–
Deferred taxes recognized in other comprehensive income	111	(18)
Exchange differences	1	(14)
Deferred taxes as of December 31	**359**	**315**

The deferred taxes recognized in other comprehensive income comprised minus €23 million (2014: €91 million) relating to remeasurements of the net defined benefit liability for post-employment benefit plans and €5 million (2014: €20 million) relating to financial instruments. In addition, other comprehensive income contains current taxes of minus €1 million (2014: €4 million).

Deferred tax assets of €324 million (2014: €337 million), which exceed the reversal of taxable temporary differences, relate to tax jurisdictions in which losses were recorded in 2015 or 2014. They include deferred tax assets of €224 million (2014: €231 million) for the German tax entity, which reported a loss in the previous year, primarily due to the exceptional items in connection with the "Advance" and "Let's LANXESS again" realignment programs. The deferred tax assets for the German tax entity mainly relate to differences in the valuations of pension provisions for tax purposes. LANXESS assumes that it will generate sufficient taxable income in the future to realize the deferred tax assets.

Based on tax planning calculations and strategies, deferred tax assets of €68 million (2014: €111 million) were recognized on the €231 million (2014: €380 million) in tax loss carryforwards that represent income likely to be realized in the future. This amount included deferred taxes of €45 million (2014: 82 million) on loss carryforwards with an unlimited carryforward period.

Deferred taxes were not recognized for €226 million (2014: €158 million) of tax loss carryforwards. Of this amount, €105 million (2014: €100 million) can theoretically be used over more than five years. Further, deferred tax assets were not recognized in 2015 for tax-deductible temporary differences of €49 million (2014: €43 million). Accordingly, deferred taxes on loss carryforwards of €57 million (2014: €39 million) and deferred tax assets on tax-deductible temporary differences of €18 million (2014: €15 million) were not recognized.

30 | Earnings and dividend per share

The calculation of earnings per share for 2015 includes only earnings from continuing operations and is based on the weighted average number of shares outstanding during the reporting period. As of December 31, 2015, 91,522,936 shares were outstanding. Since there are currently no equity instruments in issue that could dilute earnings per share, basic and diluted earnings per share are identical. Further information on equity instruments that could dilute earnings per share in the future is contained in Note [13].

Earnings per Share

	2014	2015	Change %
Net income (€ million)	47	165	> 100
Number of shares outstanding	88,472,172	91,522,936	3.4
Earnings per share in € (undiluted/diluted)	**0.53**	**1.80**	> 100

LANXESS AG reported a distributable profit of €98 million for fiscal 2015 (2014: €53 million). The dividend payment made to stockholders of LANXESS AG during fiscal 2015 amounted to €0.50 per share (2014: €0.50 per share).

31 | Personnel expenses

The breakdown of personnel expenses is as follows:

Personnel Expenses

€ million	2014	2015
Wages and salaries	1,106	1,124
Social security contributions	202	198
Retirement benefit expenses	136	97
Social assistance benefits	13	13
	1,457	**1,432**

Total personnel expenses decreased slightly in 2015, mainly as a result of lower expenses for pension provisions. The higher figure for the previous year mainly related to expenses in connection with the "Let's LANXESS again" program. The personnel expenses shown here do not contain the interest expenses for compounding personnel-related provisions, especially pension provisions, which is reflected in the financial result (see Note [28]).

Other information

32 | Employees

The average number of employees in the LANXESS Group in 2015 was 16,310 (2014: 16,807). The decline compared with the previous year was mainly due to employees who left the company as a result of the “Let’s LANXESS again” program. It was countered by effects relating to the start-up of new facilities in Asia.

Employees by Function

	2014	2015
Production	12,163	12,123
Marketing	1,987	1,814
Administration	1,878	1,770
Research	779	603
	16,807	**16,310**

33 | Contingent liabilities and other financial commitments

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

Contingent liabilities as of December 31, 2015, amounted to €1 million (2014: €7 million). There are no contingent liabilities relating to Currenta GmbH & Co. OHG, Leverkusen, Germany, which is accounted for using the equity method. As a personally liable partner in Currenta GmbH & Co. OHG, LANXESS may be required to inject further capital into this company in the future.

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

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

The minimum non-discounted future lease and rental payments relating to operating leases totaled €341 million (2014: €390 million).

The respective payment obligations mature as follows:

Maturity Structure of Lease and Rental Payments

€ million	Dec. 31, 2014	Dec. 31, 2015
Up to 1 year	56	56
1 to 2 years	48	47
2 to 3 years	41	41
3 to 4 years	36	37
4 to 5 years	35	33
More than 5 years	174	127
	390	**341**

Payments under operating leases in 2015 amounted to €65 million (2014: €67 million). Future lease and rental payments include agreements relating to the Group’s headquarters in Cologne, to which it relocated in 2013, and to the production site in Singapore.

Financial commitments resulting from orders already placed under purchase agreements relating to planned or ongoing capital expenditure projects in the area of property, plant and equipment and intangible assets totaled €90 million (2014: €171 million). All of these payments are due in fiscal 2016. The decline was principally due to the completion of major capital expenditure projects in China and Singapore.

Description of the master agreement

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

34 | Related parties

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

Transactions with Currenta GmbH & Co. OHG, Leverkusen, Germany, which is accounted for in the consolidated financial statements using the equity method, and its subsidiaries mainly comprised the purchase of site services in the fields of utilities, infrastructure and logistics totaling €436 million (2014: €423 million). As of December 31, 2015, payables of €120 million (2014: €109 million) and receivables of €38 million (2014: €3 million) existed as a result of these transactions. In the previous year, a provision of €5 million was also recorded as of the reporting date in respect of the claim by Currenta GmbH & Co. OHG to offset the loss for 2014. There were also payment obligations to Currenta GmbH & Co. OHG amounting to €9 million (2014: €1 million) under operating leases and obligations of €4 million (2014: €4 million) under purchase agreements. Contingent liabilities relating to Currenta GmbH & Co. OHG are outlined in the previous section.

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

35 | Compensation of the Board of Management and the Supervisory Board

For fiscal 2015, total compensation of €9,360 thousand (2014: €9,982 thousand) was paid to the members of the Board of Management of LANXESS AG, comprising €6,728 thousand (2014: €7,649 thousand) in short-term compensation (fixed compensation, annual bonus, benefits in kind and other), minus €62 thousand (2014: €0 thousand) in adjustments for previous years, and other long-term compensation components totaling €1,626 thousand (2014: €932 thousand) as part of the Long-Term Performance Bonus (LTPB). The total also includes compensation paid under the stock-based Long-Term Stock Performance Plan (LTSP), under which 1,200,000 compensation rights were granted in 2015 (2014: 1,648,500 rights). The fair value of these rights at the grant date was €1,068 thousand (2014: €1,401 thousand). Personnel expenses for the stock-based compensation programs amounted to €1,450 thousand in fiscal 2015 (2014: €2,168 thousand).

Details of the compensation system for members of the Board of Management and an individual breakdown of the compensation are given in the "Compensation report" section of the combined management report for fiscal 2015.

In addition, service costs of €1,640 thousand (2014: €2,496 thousand) relating to defined benefit pension plans were incurred in 2015 for members of the Board of Management as part of their compensation package. The present value of the defined benefit obligation as of December 31, 2015 was €11,903 thousand (2014: €9,994 thousand).

The total net expense for the compensation of the members of the Board of Management in 2015 was €14,762 thousand (2014: €14,935 thousand). This amount included expense of €3,380 thousand for the severance payment made to Dr. Düttmann. Together with settlement of his LTSP rights amounting to €857 thousand, benefits granted to a former member of the Board of Management who stepped down during the fiscal year totaled €4,237 thousand and were paid during the fiscal year. In the previous year, this item included expense of €1,690 thousand for the severance payment made to Dr. Breuers. Together with settlement of his LTSP rights amounting to €729 thousand, benefits granted in 2014 to a former member of the Board of Management who stepped down during the fiscal year totaled €2,419 thousand and were paid during fiscal 2014.

The balances outstanding to members of the Board of Management as of December 31, 2015 totaled €6,477 thousand (2014: €2,336 thousand), comprising provisions of €3,900 thousand (2014: €1,346 thousand) for annual bonuses, €1,680 thousand (2014: €687 thousand) for the LTPB and €897 thousand (2014: €303 thousand) for the LTSP.

Pension benefits of €293 thousand (2014: €293 thousand) were paid to former members of the Board of Management. The total obligation toward former members of the Board of Management as of December 31, 2015 was €30,318 thousand (2014: €27,921 thousand). Payments totaling €3,673 thousand were made to former members of the Board of Management in fiscal 2015 (2014: €1,983 thousand).

The members of the Supervisory Board received total compensation of €3,122 thousand in 2015 (2014: €1,936 thousand). This compensation is generally paid at the start of the following year. The provisions established for stock-based compensation for Supervisory Board members as of December 31, 2015 amounted to €1,200 thousand (2014: €0 thousand).

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

Details of the compensation system for members of the Supervisory Board and an individual breakdown of the amounts paid are contained in the section headed "Compensation report" in the combined management report for fiscal 2015.

No loans were granted to members of the Board of Management or the Supervisory Board in fiscal 2015 or 2014.

36 | Financial instruments

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

Risks and risk management

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

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

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

Currency risks

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

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

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

If the exchange rate for the euro had been 5% higher against the hedged currencies on the reporting date, this would have had a €33 million (2014: €23 million) effect, mainly on other comprehensive income, which would have reduced the reported loss. This effect mainly relates to the U.S. dollar. A correspondingly lower rate for the euro would have had basically the opposite effect.

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

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

Interest rate risks

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

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

The financial liabilities with variable interest rates are covered by investments with short-term fixed interest rates from available liquidity so that the LANXESS Group will incur slightly higher interest costs if interest rates rise. A general change of one percentage point in interest rates as of December 31, 2015 would have altered Group net income by €0 million (2014: reduced net income by €1 million).

Counterparty risks

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

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

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

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

Material credit risk relating to receivables from customers is covered by obtaining letters of credit in favor of the LANXESS Group for certain customers and by agreeing prepayment with contractual partners.

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

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

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

Liquidity risks

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

Our main liquidity reserve is a €1.25 billion syndicated credit facility, which remained largely undrawn on the reporting date. In February 2015, its term was extended by one year to February 2020. There is a further material credit line of €150 million with the European Investment Bank. In addition to credit facilities, the Group has short-term liquidity reserves of €466 million (2014: €518 million) in the form of cash and cash equivalents and highly liquid AAA-rated money market funds. Accordingly, the LANXESS Group has a liquidity position based on a broad range of financing instruments.

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

December 31, 2014

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

December 31, 2015

€ million	2016	2017	2018	2019	2020	>2020
Bonds	**(230)**	**(41)**	**(541)**	**(21)**	**(21)**	**(761)**
of which interest	(30)	(41)	(41)	(21)	(21)	(61)
Liabilities to banks	**(208)**	**–**	**–**	**–**	**–**	**–**
of which interest	0	–	–	–	–	–
Trade payables	**(779)**	**–**	**–**	**–**	**–**	**–**
of which interest	–	–	–	–	–	–
Liabilities under finance leases	**(14)**	**(12)**	**(10)**	**(9)**	**(8)**	**(42)**
of which interest	(4)	(4)	(3)	(3)	(2)	(8)
Other primary financial liabilities	**(25)**	**(3)**	**0**	**0**	**0**	**(2)**
of which interest	(24)	0	–	–	–	–
Derivative liabilities						
Hedging instruments that qualify for hedge accounting						
Disbursements	(667)	(203)	–	–	–	–
Receipts	586	187	–	–	–	–
Other hedging instruments						
Disbursements	(918)	(53)	0	(13)	–	–
Receipts	896	49	0	10	–	–
Derivative assets						
Hedging instruments that qualify for hedge accounting						
Disbursements	(163)	(135)	(44)	–	–	–
Receipts	166	133	43	–	–	–
Other hedging instruments						
Disbursements	(436)	(1)	–	–	–	–
Receipts	446	1	–	–	–	–

The contractually agreed payments for other primary financial liabilities due within one year from the reporting date included accrued interest of €24 million (2014: €26 million) that mainly related to the bonds.

Raw material price risks

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

LANXESS had no forward commodity contracts at year end 2015 or 2014.

Carrying amounts, measurement and fair value of financial instruments

The tables on the following two pages show the carrying amounts of the individual classes of financial assets and liabilities and their fair values. The basis of measurement is also shown.

Carrying Amounts, Measurement and Fair Values of Financial Instruments as of December 31, 2014

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

Carrying Amounts, Measurement and Fair Values of Financial Instruments as of December 31, 2015

€ million	IAS 39 measurement category	Carrying amount Dec. 31, 2015
Financial assets		
Trade receivables	LaR	956
Other financial receivables	LaR	24
Cash and cash equivalents	LaR	366
Available-for-sale financial assets		
Near-cash assets	AfS	100
Other available-for-sale financial assets	AfS	13
Derivative assets		
Hedging instruments that qualify for hedge accounting	–	4
Other hedging instruments	FAHfT	11
Financial liabilities		
Bonds	FLAC	(1,392)
Liabilities to banks	FLAC	(208)
Trade payables	FLAC	(779)
Liabilities under finance leases	–	(71)
Other primary financial liabilities	FLAC	(30)
Derivative liabilities		
Hedging instruments that qualify for hedge accounting	–	(91)
Other hedging instruments	FLHfT	(28)

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

Measurement according to IAS 39				Measurement according to IAS 17	Fair value Dec. 31, 2014
Amortized cost	Acquisition cost	Fair value (other comprehensive income)	Fair value (profit or loss)		
1,015					1,015
15					15
418					418
		100			100
	10	4			14
		3			3
			16		16
(1,456)					(1,630)
(316)					(316)
(799)					(799)
				(72)	(78)
(36)					(36)
		(73)			(73)
			(48)		(48)

Measurement according to IAS 39				Measurement according to IAS 17	Fair value Dec. 31, 2015
Amortized cost	Acquisition cost	Fair value (other comprehensive income)	Fair value (profit or loss)		
956					956
24					24
366					366
		100			100
	10	3			13
		4			4
			11		11
(1,392)					(1,531)
(208)					(208)
(779)					(779)
				(71)	(76)
(30)					(30)
		(91)			(91)
			(28)		(28)

Fair value measurement of the bonds is allocated to Level 1 of the hierarchy outlined in the section “Fair value measurement.” However, two bonds with a fair value of €240 million are allocated to Level 2 as there is no liquid market for them. As of December 31, 2014, three bonds with a fair value of €311 million were allocated to Level 2 of the hierarchy. The fair value of liabilities allocated to Level 2 is calculated using discounted cash flows and taking account of observed market interest rates.

Carrying Amounts by IAS 39 Category

€ million	Dec. 31, 2014	Dec. 31, 2015
Loans and receivables	1,448	1,346
Available-for-sale financial assets	114	113
Financial assets held for trading	16	11
	1,578	**1,470**
Financial liabilities measured at amortized cost	(2,607)	(2,409)
Financial liabilities held for trading	(48)	(28)
	(2,655)	**(2,437)**

Fair value measurement

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

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities on the measurement date

Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3 Unobservable inputs for the asset or liability

The following table shows the volumes of assets and liabilities that were measured at fair value on a recurring basis as of the end of the reporting period and the levels of the fair value hierarchy into which the measurement inputs were categorized. Reclassification between the levels is reviewed as of each reporting date. There were no reclassifications in fiscal 2014 or 2015.

Assets and Liabilities Measured at Fair Value

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

Assets and Liabilities Measured at Fair Value

€ million	Dec. 31, 2015		
	Level 1	Level 2	Level 3
Non-current assets			
Investments in other affiliated companies	2	–	–
Non-current derivative assets	–	1	–
Other non-current financial assets	–	1	–
Current assets			
Near-cash assets	100	–	–
Current derivative assets	–	14	–
Other current financial assets	0	–	–
Non-current liabilities			
Non-current derivative liabilities	–	19	–
Current liabilities			
Current derivative liabilities	–	100	–

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

Offsetting of financial assets and financial liabilities

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

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

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

Offsetting of Financial Assets and Financial Liabilities as of December 31, 2015

€ million	Carrying amount of financial instruments	Related amounts not offset in the statement of financial position		Net amount
		Financial instruments	Financial collateral	
Financial assets				
Trade receivables	956	(11)	0	945
Derivative assets	15	(11)	0	4
Financial liabilities				
Trade payables	(779)	11	0	(768)
Derivative liabilities	(119)	11	0	(108)

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

Net result by category

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

Net Results by IAS 39 Category

€ million	2014	2015
Loans and receivables	64	19
Available-for-sale financial assets	0	1
Assets and liabilities held for trading	(120)	(111)
Financial liabilities measured at amortized cost	(39)	17
	(95)	**(74)**

Net gains and losses principally comprise interest income and expense and realized and unrealized exchange gains and losses.

In addition, fees of €8 million were incurred in fiscal 2015 (2014: €14 million) in connection with financial instruments.

Collateralization of financial liabilities

There were no financial liabilities collateralized by mortgages or other property claims in fiscal 2015 or 2014.

Mezzanine financing

Mezzanine instruments such as profit participation rights, convertible bonds or warrant bonds have not been issued. Information on the possible issuance of such instruments is given in Note [13].

37 | Notes to the Statement of Cash Flows

Explanation of the method used to calculate and present cash flows

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

Net cash flow provided by operating activities

The net cash flow from operating activities is determined by deducting the financial result, depreciation, amortization, write-downs, reversals of impairment charges and non-cash items from income before income taxes. A further adjustment is then made for the change in other assets and liabilities. Income before income taxes, which is the starting point for the statement of cash flows, amounted to €288 million (2014: €80 million) after depreciation, amortization and write-downs of €418 million (2014: €426 million), including reversals of impairment charges recognized in previous years on the assets of cash-generating units amounting to €56 million (2014: €0 million). Income taxes paid in 2015 amounted to €98 million (2014: €31 million). The change in net working capital resulted in a cash inflow of €93 million (2014: €147 million). Taking into account the reduction in other assets and liabilities of €33 million (2014: increase of €103 million), the cash inflow provided by operating activities amounted to €692 million in 2015 (2014: €797 million).

Net cash used in investing activities

Purchases of intangible assets, property, plant and equipment led to a cash outflow of €434 million in 2015 (2014: €614 million). Cash inflows from investment subsidies reduced cash outflows for capital expenditures by €8 million (2014: €25 million). The cash inflow from and outflow for financial assets in 2015 comprised an outflow of €11 million for loans to a site service provider in the Netherlands. By contrast, the cash inflow of €8 million in 2014 mainly comprised proceeds from the sale of units in money market funds. Cash inflows from interest and dividends received amounted to €5 million (2014: €6 million). In addition, in fiscal 2015 there was a cash outflow of €5 million for the assumption of a loss at Currenta GmbH & Co. OHG, Leverkusen, Germany, which is recognized at equity, compared with a profit transfer of €2 million in 2014. The net cash outflow for investing activities was €400 million (2014: €587 million).

Net cash used in financing activities

The capital increase at the subsidiary LANXESS-TSRC (Nantong) Chemical Industrial Co., Ltd., Nantong, China, in which LANXESS has a 50% interest, resulted in a cash inflow of €9 million (2014: €433 million from an increase in the capital stock of LANXESS AG). Outflows included €220 million (2014: €478 million) for the repayment of borrowings, particularly €70 million for the redemption of the CNY bond and €114 million for partial repayments of the U.S. dollar loan from the European Investment Bank. Interest payments and other financial disbursements accounted for cash outflows of €76 million (2014: €131 million). In 2015, as in 2014, outflows for dividend payments amounted to €46 million, comprising €46 million (2014: €46 million) paid to the stockholders of LANXESS AG. A net cash outflow of €333 million (2014: €222 million) was recorded for financing activities. Details of unused credit facilities are given in Note [36].

Cash and cash equivalents

Cash and cash equivalents, which comprise cash, checks and bank balances, amounted to €366 million (2014: €418 million). In accordance with IAS 7, this item also includes securities with maturities of up to three months from the date of acquisition.

38 | Segment reporting

Key Data by Segment

€ million	Performance Polymers 2014	Performance Polymers 2015	Advanced Intermediates 2014	Advanced Intermediates 2015	Performance Chemicals 2014	Performance Chemicals 2015	Reconciliation 2014	Reconciliation 2015	LANXESS 2014	LANXESS 2015
External sales	4,128	3,944	1,847	1,826	1,989	2,085	42	47	8,006	7,902
Inter-segment sales	0	2	46	51	9	11	(55)	(64)	0	0
Segment/Group sales	4,128	3,946	1,893	1,877	1,998	2,096	(13)	(17)	8,006	7,902
Segment result/EBITDA pre exceptionals	392	502	308	339	269	326	(161)	(282)	808	885
Exceptional items affecting EBITDA	(41)	5	(13)	(1)	(31)	(13)	(79)	(43)	(164)	(52)
Segment assets	3,647	3,604	1,121	1,120	1,357	1,427	158	146	6,283	6,297
Segment acquisitions	–	–	–	–	–	–	–	–	–	–
Segment capital expenditures	472	190	100	99	94	144	26	24	692	457
Depreciation and amortization	208	247	88	94	80	85	18	23	394	449
Write-downs	23	17	5	5	2	3	2	–	32	25
Reversals of impairment charges	–	37	–	19	–	–	–	–	–	56
Segment liabilities	1,018	956	731	555	745	770	504	645	2,998	2,926
Employees (December 31)	5,240	5,088	3,312	3,264	5,318	5,260	2,714	2,613	16,584	16,225
Employees (average for the year)	5,285	5,125	3,328	3,287	5,388	5,263	2,806	2,635	16,807	16,310

2014 figures restated

Key Data by Region

€ million	EMEA (excluding Germany) 2014	EMEA (excluding Germany) 2015	Germany 2014	Germany 2015	North America 2014	North America 2015	Latin America 2014	Latin America 2015	Asia-Pacific 2014	Asia-Pacific 2015	LANXESS 2014	LANXESS 2015
External sales by market	2,296	2,325	1,440	1,365	1,338	1,368	859	830	2,073	2,014	8,006	7,902
Non-current region assets	642	655	1,029	1,035	413	446	320	244	1,284	1,394	3,688	3,774
Acquisitions	–	–	–	–	–	–	–	–	–	–	–	–
Capital expenditures	117	91	158	163	46	79	34	24	337	100	692	457
Employees (December 31)	3,267	3,143	7,747	7,523	1,371	1,312	1,467	1,412	2,732	2,835	16,584	16,225

Notes to the segment reporting

The valuation principles applied in segment reporting correspond to the uniform recognition and valuation principles used for the consolidated financial statements prepared in accordance with IFRS. As part of the global realignment, Group structures were reorganized in 2015. Effective January 1, 2015, the antioxidants and accelerators product lines of the dissolved Rubber Chemicals business unit (Performance Chemicals segment) were integrated into the Advanced Industrial Intermediates business unit (Advanced Intermediates segment). In addition, employees were assigned to various business units in connection with the dissolution of Aliseca GmbH. The prior-year figures have been restated accordingly, resulting in reallocations from the Performance Chemicals segment to the Advanced Intermediates segment, and changes in the overall headcount.

On December 31, 2015, the LANXESS Group comprised the following reporting segments:

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

The reconciliation eliminates inter-segment items and reflects assets and liabilities that are not directly allocated to the core segments including, in particular, those pertaining to the Corporate Center. The reconciliation also includes €0 million (2014: €0 million) relating to Currenta GmbH & Co. OHG, Leverkusen, Germany, which is accounted for using the equity method, and the income of €0 million (2014: €2 million) from this investment (see Note [3]).

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

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

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

Regional sales are calculated according to the recipient's place of business. In fiscal 2015, no individual customer of the LANXESS Group accounted for more than 10% of Group sales.

The earnings indicator used for internal management purposes in the LANXESS Group is the operating result before depreciation and amortization (EBITDA) pre exceptionals (see the section headed "Value management and control system" in the combined management report for 2015). This is disclosed as the "segment result." The starting point for calculating EBITDA pre exceptionals is the operating result (EBIT), which comprises gross profit, selling expenses, general administration expenses, research and development expenses and other operating income and expenses. EBITDA pre exceptionals is calculated from EBIT by adding back depreciation and impairments of property, plant and equipment, amortization and impairments of intangible assets, disregarding exceptional items. The latter are effects of an unusual nature or magnitude. They may include write-downs, reversals of impairment charges recognized in previous years, restructuring expenses, expenses for the design and implementation of IT projects and expenses for portfolio adjustments.

In view of the Group's central financial management, interest income and expense and income tax income and expense are not reported at segment level. The write-downs recognized in the previous fiscal year mainly related to a pilot facility of the Butyl Rubber business unit (Performance Polymers segment).

In fiscal 2015, impairment charges recognized in previous years on assets in the cash-generating units were reversed. Further information is provided in the section headed "Estimation uncertainties and exercise of discretion."

The exceptional items that impacted EBITDA in 2015 mainly related to the "Let's LANXESS again" program initiated in the previous year and include the costs associated with the closure of the site in Marl, Germany. The corresponding exceptional items in the previous year mainly related to measures associated with the "Let's LANXESS again" and "Advance" programs.

Reconciliation of Segment Sales

€ million	2014	2015
Total segment sales	**8,019**	**7,919**
Other/Consolidation	(13)	(17)
Group sales	**8,006**	**7,902**

The change in segment results in the reconciliation is mainly due to expenses from currency hedges.

Reconciliation of Segment Results

€ million	2014	2015
Total segment results	**969**	**1,167**
Depreciation and amortization	(426)	(474)
Reversals of impairment charges	–	56
Exceptional items affecting EBITDA	(164)	(52)
Other financial income and expense	(71)	(61)
Net interest expense	(69)	(66)
Income from investments accounted for using the equity method	2	0
Other/Consolidation	(161)	(282)
Income before income taxes	**80**	**288**

The reconciliation of segment results to income before income taxes contains total exceptional items comprising net charges of €7 million (2014: charges of €184 million) (see Notes [26] and [27]). These include write-downs of €11 million (2014: €20 million), reversals of impairment charges totaling €56 million (2014: €0 million) and exceptional items of minus €52 million (2014: minus €164 million) that affect EBITDA.

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

Segment assets principally comprise intangible assets, property, plant and equipment, inventories and trade receivables. In particular, segment assets do not include cash and cash equivalents, deferred taxes and near-cash financial assets.

Reconciliation of Segment Assets

€ million	Dec. 31, 2014	Dec. 31, 2015
Total segment assets	**6,125**	**6,151**
Cash and cash equivalents	418	366
Deferred tax assets	380	361
Near-cash assets	100	100
Income tax receivables	34	55
Derivative assets	19	15
Other financial assets	16	25
Other/Consolidation	158	146
Group assets	**7,250**	**7,219**

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

All depreciation, amortization and impairments in fiscal 2014 and 2015 were recognized directly in profit or loss.

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

Reconciliation of Segment Liabilities

€ million	Dec. 31, 2014	Dec. 31, 2015
Total segment liabilities	**2,494**	**2,281**
Other financial liabilities	1,880	1,701
Derivative liabilities	121	119
Income tax liabilities	69	104
Deferred tax liabilities	21	46
Other/Consolidation	504	645
Group liabilities	**5,089**	**4,896**

39 | Audit fees

In 2015, total audit fees of €3,346 thousand (2014: €2,731 thousand) for the auditor of the consolidated financial statements of the LANXESS Group were recognized as expenses. Of this amount, €1,267 thousand (2014: €1,322 thousand) related to the auditing of financial statements, €517 thousand (2014: €560 thousand) to other audit-related services and €1,562 thousand (2014: €849 thousand) to other services rendered to Group companies. In the previous year, the amount recognized for other services included the prorated fee for a purchase in the area of IT services made by the auditors of the financial statements during the year. In fiscal 2015, these services applied for the full reporting period and resulted in an increase in the amount recognized for other services. The fees for financial statements audit services comprise all fees, including incidental expenses, paid or to be paid for the audits of the consolidated financial statements of the LANXESS Group and the mandatory financial statements of LANXESS AG and its German subsidiaries.

40 | Declaration of Compliance pursuant to Section 161 of the Stock Corporation Act

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

41 | Utilization of disclosure exemptions

In 2015, the following German subsidiaries made use of disclosure exemptions pursuant to Section 264, Paragraph 3 of the German Commercial Code (HGB):

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

Outside of Germany, LANXESS Limited (registration no. 03498959), Newbury, United Kingdom, utilized the exemption from the auditing of its annual financial statements as permitted by Section 479A of the U.K. Companies Act 2006. As required by law, LANXESS AG, as the parent company, guaranteed all outstanding liabilities as of December 31, 2015, with respect to Section 479C of the U.K. Companies Act 2006.