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**LANXESS AG  
ANNUAL FINANCIAL  
STATEMENTS**

# LANXESS AKTIENGESELLSCHAFT, COLOGNE

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# Income Statement

## LANXESS AG

€ thousand	Note	2017	2018
<b>Sales</b>	(1)	<b>6,345</b>	<b>7,256</b>
Cost of sales	(2)	(6,284)	(7,253)
<b>Gross profit</b>		<b>61</b>	<b>3</b>
General administration expenses		(45,490)	(48,034)
Other operating income	(3)	1,065	2,090
Other operating expenses	(4)	(1,425)	(422)
<b>Operating result</b>		<b>(45,789)</b>	<b>(46,363)</b>
Income from investments in affiliated companies		193,727	318,011
Income from other securities and loans included in financial assets	(5)	8,580	8,724
Net interest expense	(6)	(65,293)	(69,113)
Write-downs of financial assets and marketable securities		0	(794)
Other financial income and expenses – net	(7)	(9,353)	(16,533)
<b>Financial result</b>		<b>127,661</b>	<b>240,295</b>
Income taxes	(8)	(59,149)	(109,445)
<b>Income after income taxes</b>		<b>22,723</b>	<b>84,487</b>
<b>Net income</b>		<b>22,723</b>	<b>84,487</b>
Carryforward to new account	(20)	92,939	42,444
Withdrawal from other retained earnings		0	0
<b>Distributable profit</b>		<b>115,662</b>	<b>126,931</b>

# Statement of Financial Position

## LANXESS AG

€ thousand	Note	Dec. 31, 2017	Dec. 31, 2018
<b>ASSETS</b>			
<b>Non-current assets</b>	(12)		
<b>Intangible assets</b>		<b>13</b>	<b>1</b>
<b>Property, plant and equipment</b>		<b>66</b>	<b>67</b>
<b>Financial assets</b>			
Investments in affiliated companies	(13)	738,864	738,864
Loans to subsidiaries	(14)	198,363	198,363
Other loans	(15)	43,156	60,010
		<b>980,462</b>	<b>997,305</b>
<b>Current assets</b>			
<b>Receivables and other assets</b>			
Receivables from affiliated companies	(16)	3,849,019	3,060,820
Other assets	(17)	50,445	245,533
<b>Securities</b>	(18)	<b>49,937</b>	<b>49,212</b>
<b>Liquid assets</b>		<b>124,033</b>	<b>1,053,593</b>
		<b>4,073,434</b>	<b>4,409,158</b>
<b>Prepaid expenses</b>	(19)	<b>26,149</b>	<b>30,706</b>
<b>Total assets</b>		<b>5,080,045</b>	<b>5,437,169</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>	(20)		
Capital stock (conditional capital €9,152 thousand)		91,523	91,523
Capital reserves		1,230,529	1,230,529
Other retained earnings		561,988	561,988
Distributable profit		115,662	126,931
		<b>1,999,702</b>	<b>2,010,971</b>
<b>Provisions</b>			
Provisions for pensions and other post-employment benefit obligations	(21)	65,760	74,190
Tax provisions	(22)	17,547	54,147
Other provisions	(23)	40,626	38,878
		<b>123,933</b>	<b>167,215</b>
<b>Liabilities</b>			
Bonds	(24)	2,700,000	2,700,000
Liabilities to banks	(25)	34,301	28,973
Trade payables	(26)	1,565	1,584
Payables to affiliated companies	(27)	219,993	527,203
Other liabilities	(28)	551	1,223
		<b>2,956,410</b>	<b>3,258,983</b>
<b>Total equity and liabilities</b>		<b>5,080,045</b>	<b>5,437,169</b>
Contingent liabilities from guarantees	(30)	285,558	119,734

# Notes to the Annual Financial Statements of LANXESS Aktiengesellschaft, Cologne, for the Fiscal Year 2018

## GENERAL INFORMATION

The Board of Management and Supervisory Board have issued the declaration required under Section 161 of the German Stock Corporation Act (AktG) regarding the German Corporate Governance Code. This has been made available to the stockholders and can be found at [www.lanxess.com](http://www.lanxess.com) in the Investor Relations section under Corporate Governance.

## FUNDAMENTALS

The annual financial statements of LANXESS AG, Cologne (registered at Cologne District Court, HRB 53652), are prepared in accordance with the provisions of the German Commercial Code (HGB) and the German Stock Corporation Act that are applicable to large stock corporations. As in the previous year, the management report of LANXESS AG has been combined with the management report of the LANXESS Group in application of Section 315, Paragraph 5 HGB in conjunction with Section 298, Paragraph 2 HGB.

To enhance clarity, certain items in the income statement and the statement of financial position are combined and are explained in the Notes.

The income statement has been drawn up using the cost-of-sales method.

Financial income and expenses whose disclosure is not covered by a mandatory item and which cannot be assigned to a separate item are reported under other financial income or expenses.

As the primary parent company of the LANXESS Group, LANXESS AG has prepared consolidated financial statements as of December 31, 2018, in accordance with the International Financial Reporting Standards (IFRS), as endorsed by the European Union.

The annual financial statements and combined management report for fiscal year 2018 prepared in application of Section 315, Paragraph 5 HGB in conjunction with Section 298, Paragraph 2 HGB are published together with the auditor's report in the German Federal Gazette (Bundesanzeiger). They are made available at [www.lanxess.de](http://www.lanxess.de) under Investor Relations, Publications.

## ACCOUNTING POLICIES AND VALUATION PRINCIPLES

Intangible assets that have been acquired are recognized at cost and amortized on a straight-line basis over their estimated useful lives. Self-generated intangible assets are not capitalized.

Property, plant and equipment is carried at the cost of acquisition. Assets subject to depletion are depreciated. Write-downs are made for any declines in value that go beyond the depletion reflected in depreciation and are expected to be permanent. Additions made in the reporting year are depreciated using the straight-line method. Low-value assets costing up to €250.00 are expensed in the year of acquisition. Low-value assets costing between €250.00 and €1,000.00 are combined in a collective item and depreciated over five years using the straight-line method.

Useful lives of intangible assets, property, plant and equipment:

Software licenses	3 to 4 years
Computer equipment	3 to 4 years
Furniture and fixtures	4 to 10 years

Investments in affiliated companies are recognized at cost of acquisition, less write-downs for any decline in value that is expected to be permanent. Where the reasons for write-downs made in previous years no longer apply or only partially apply, the respective items are written back accordingly, provided that the write-back does not cause the carrying amount to exceed the cost of acquisition.

Cash has been deposited in a fiduciary account to meet the obligations relating to the "demographic change fund" for employees defined in the collective bargaining agreement for the German chemical industry. This cash deposit is administered on behalf of LANXESS AG by the fiduciary agent Deutsche Treuinvest Stiftung and is ring-fenced against other creditors' claims. The level of benefits owed to the employees thus meets the conditions for classification as "securities-linked pension or similar commitments" pursuant to Section 253, Paragraph 1, Sentence 3 HGB. The fund assets as defined in Section 246, Paragraph 2, Sentence 2, Subsentence 1 HGB are measured at

fair value pursuant to Section 253, Paragraph 1, Sentence 4 HGB and offset against the underlying commitments pursuant to Section 246, Paragraph 2, Sentence 2, Subsentence 1 HGB. Since, in the case of "securities-linked pension and similar commitments," adjusting the carrying amount of the commitments to the fair value of the corresponding assets acts as a de facto bar to distribution, the ban on distribution pursuant to Section 268, Paragraph 8, Sentence 3 in conjunction with Sentence 1 HGB therefore does not apply.

Loans receivable that are interest-free or bear low rates of interest are carried at present value; other loans receivable are carried at nominal value.

Receivables and other assets are stated at nominal value, less any necessary write-downs. The amounts of such write-downs reflect the probability of default.

Marketable securities are valued at the lower of cost and fair value.

Bank deposits held in euro are recognized at their nominal value; such assets held in foreign currencies are translated at the spot rate on the closing date of the financial statements.

Disbursements prior to the closing date that represent spending for a specific period thereafter are recognized as pre-paid expenses. Also included are the differences between the issue and settlement amount for bonds issued by LANXESS AG that will be amortized over the maturity of the bonds.

Deferred taxes are calculated for temporary differences between the accounting valuations and tax valuations of assets, liabilities and deferred items. As the primary company of the LANXESS Group's fiscal entity in Germany, LANXESS AG therefore has to recognize temporary differences relating both to its own financial statements and to those of companies with which it forms a fiscal entity. In addition to temporary differences, tax loss carryforwards are also accounted for. Deferred taxes are based on the aggregate income tax rate for all companies in LANXESS AG's fiscal entity, which is currently 32.3% (previous year: 32.3%). The combined income tax rate comprises corporate income tax, trade tax and the solidarity surcharge. Any resulting tax liability would be recognized as a deferred tax liability in the statement of financial position. The option of capitalizing tax refunds is not utilized. In the reporting year, there was a net surplus of deferred tax assets, which is not recognized.

The capital stock is stated at par value.

Provisions for pensions and other post-employment benefits are computed using the projected unit credit method on the basis of biometric probability using the Heubeck 2018 G reference tables (previous year: Heubeck 2005 G reference tables).

Expected future salary and pension increases are taken into account. The effect of the first-time application of the 2018 G reference tables on profit and loss of €373 thousand was immediately recognized in full in personnel expenses in the reporting period. The current assumptions for salary increases are unchanged from the previous year at 2.50% for non-managerial employees and 2.75% for managerial employees. For older pension commitments, the expected rate of increase was left at 1.50% in the annual financial statements for 2018. For new pension commitments, the expected rate of increase is unchanged from the previous year at 1.00%. The discount rate used is 3.21% (previous year: 3.68%) for pensions, 0.81% (previous year: 1.26%) for early retirement benefits and 2.32% (previous year: 2.80%) for miscellaneous post-employment benefits. The interest rate used to discount pension and other post-employment benefit obligations to December 31, 2018, is the average market interest rate for the past ten fiscal years for an assumed residual maturity as calculated and published by the Deutsche Bundesbank. The assumed residual maturity is 15 years for pensions and other post-employment benefits and one year for early retirement benefits.

For employees who joined after December 31, 2016, and new employees, LANXESS has launched a pension model comprising employee- and employer-financed components as an accessory to pension liability insurance. The settlement amount of the obligation equates to the fair value of the pension liability insurance secured via a contractual trust arrangement (CTA), which constitutes fund assets as defined in Section 246, Paragraph 2, Sentence 2 HGB, so the obligation and fund assets balance out to zero. In the case of the present commitment, the interest expense equals the income from the pension liability insurance. Both amounts are to be netted in accordance with Section 246, Paragraph 2, Sentence 2 HGB.

Tax provisions are established for the amounts of tax arrears expected to be payable less the advance payments made.

The other provisions are established to cover all foreseeable risks and uncertain liabilities, based on reasonable estimates of the future settlement amounts of such commitments. Future price and cost increases are taken into account if there are sufficient objective indications that they will occur. Provisions maturing in more than one year are discounted to present value using the average market interest rate for the past seven years, based on their remaining maturities.

Liabilities are reflected at their settlement amounts.

Contingent liabilities arising from sureties and debt guarantees are shown at the amounts equivalent to the loans or commitments actually outstanding on the closing date.

Income and expenses are accrued in the fiscal year.

Foreign currency receivables and liabilities, forward exchange contracts and other currency derivatives are recognized using the mark-to-market method. Foreign currency receivables and payables are valued at middle spot exchange rates, while currency derivatives contracts concluded to hedge them are valued at the forward market rates on the closing date. Valuation gains and losses are offset against one another. Provisions for impending losses are established with respect to any excess of losses over gains. Gains are only recognized if they relate to receivables and payables due within one year. Foreign currency cash and cash equivalents and balances with banks are translated at the average exchange rates prevailing on the closing date.

## NOTES TO THE INCOME STATEMENT

### 1 | Sales

Sales revenues totaled €7,256 thousand (previous year: €6,345 thousand) and related mainly to services provided to LANXESS Deutschland GmbH in Germany on the basis of a service agreement.

### 2 | Cost of Sales

The cost of sales totaling €7,253 thousand (previous year: €6,284 thousand) primarily comprised expenses relating to the services provided. These were in particular personnel and general administration expenses.

### 3 | Other Operating Income

The other operating income included prior-period income of €2,012 thousand (previous year: €853 thousand) from the reversal of provisions.

### 4 | Other Operating Expenses

The other operating income included prior-period expenses of €35 thousand (previous year: €166 thousand).

### 5 | Income from Other Securities and Loans Included in Financial Non-Current Assets

The income from other securities and loans included in financial non-current assets largely comprised income of €8,258 thousand (previous year: €8,258 thousand) from long-term loans to LANXESS Deutschland GmbH.

### 6 | Net Interest Expense

€ thousand	2017	2018
<b>Other interest and similar income</b>		
from third parties	9,298	887
from affiliated companies	6,164	4,674
	<b>15,462</b>	<b>5,561</b>
<b>Interest and similar expenses</b>		
from third parties	74,544	70,238
for the interest portion of provisions for pensions and other non-current personnel-related provisions	2,342	2,407
to affiliated companies	3,869	2,029
	<b>80,755</b>	<b>74,674</b>
<b>Net interest expense</b>	<b>(65,293)</b>	<b>(69,113)</b>

## 7 | Other Financial Income and Expenses – Net

€ thousand	2017	2018
<b>Other financial expenses</b>		
Exchange losses	271,569	215,832
Miscellaneous financial expenses	10,199	10,254
	<b>281,768</b>	<b>226,086</b>
<b>Other financial income</b>		
Exchange gains	270,876	208,228
Miscellaneous financial income	1,539	1,325
	<b>272,415</b>	<b>209,553</b>
<b>Other financial income (expenses) – net</b>	<b>(9,353)</b>	<b>(16,533)</b>

The exchange gains and losses were principally attributable to foreign currency items relating to LANXESS AG and to the valuation of foreign currency transactions undertaken with third parties on behalf of Group companies.

The miscellaneous financial expenses were mainly for guarantee commission payments to affiliated companies. Miscellaneous financial income largely comprised guarantee commission payments received from affiliated companies.

## 8 | Income Taxes

The tax expense of €109,445 thousand in the reporting year (previous year: €59,149 thousand) is the aggregate of the tax expense of €43,721 thousand for the reporting year and tax expense of €65,724 thousand in respect of previous years.

Tax expense does not include deferred taxes. As of December 31, 2018, LANXESS AG expected to receive a future tax benefit resulting from temporary accounting differences, both in its own financial statements and in those of companies with which it forms a fiscal entity for tax purposes. This amount was calculated on the basis of a combined income tax rate of 32.3% (LANXESS AG and companies with which it has profit and loss transfer agreements).

Deferred tax liabilities mainly relate to differences in valuations of property, plant and equipment, intangible assets and equity interests in stock corporations. A deferred tax asset is recognized as a result of the higher pension obligations recognized for accounting purposes than for tax purposes. Other deferred tax assets relate to provisions that are not tax-deductible, such as those for impending losses or for pre-retirement leave, and valuation differences, as in the case of provisions for service anniversaries and miscellaneous provisions and liabilities.

## 9 | Personnel Expenses

€ thousand	2017	2018
Wages and salaries	31,659	32,314
Social expenses and expenses for pensions and other benefits	7,347	9,846
of which for pensions	6,456	8,895
	<b>39,006</b>	<b>42,160</b>

The interest portion of personnel-related provisions, especially provisions for pensions, is recognized not in personnel expenses but in interest expense.

## 10 | Employees

	Dec. 31, 2017	Average 2018	Dec. 31, 2018
General administration	146	151	153

## 11 | Audit Fees

All fees for the services of PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft are published in the notes to the LANXESS Group consolidated financial statements. The fees were mainly paid for the audit of LANXESS AG's annual financial statements and of the consolidated financial statements including the early warning system and for the review of the condensed consolidated interim financial statements. Fees were also paid for other audit-related services and other services. The other audit-related services primarily include services in connection with sustainability reporting and other services for audit certificates.



## NOTES TO THE STATEMENTS OF FINANCIAL POSITION

### 12 | Non-Current Assets

€ thousand	Gross carrying amounts				Amortization/depreciation and write-downs				Net carrying amounts	
	Jan. 1, 2018	Additions	Disposals	Dec. 31, 2018	Jan. 1, 2018	Additions	Disposals	Dec. 31, 2018	Jan. 1, 2018	Dec. 31, 2018
<b>Intangible assets</b>										
Software licenses	64	0	0	64	51	12	0	63	13	1
	<b>64</b>	<b>0</b>	<b>0</b>	<b>64</b>	<b>51</b>	<b>12</b>	<b>0</b>	<b>63</b>	<b>13</b>	<b>1</b>
<b>Property, plant and equipment</b>										
Furniture, fixtures and other equipment	189	36	29	196	123	35	29	129	66	67
	<b>189</b>	<b>36</b>	<b>29</b>	<b>196</b>	<b>123</b>	<b>35</b>	<b>29</b>	<b>129</b>	<b>66</b>	<b>67</b>
<b>Financial assets</b>										
Investments in affiliated companies	738,864	0	0	738,864	0	0	0	0	738,864	738,864
Loans to subsidiaries	198,363	0	0	198,363	0	0	0	0	198,363	198,363
Other loans	43,156	16,854	0	60,010	0	0	0	0	43,156	60,010
	<b>980,383</b>	<b>16,854</b>	<b>0</b>	<b>997,237</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>980,383</b>	<b>997,237</b>
<b>Total non-current assets</b>	<b>980,636</b>	<b>16,890</b>	<b>29</b>	<b>997,497</b>	<b>174</b>	<b>47</b>	<b>29</b>	<b>192</b>	<b>980,462</b>	<b>997,305</b>

### 13 | Shareholdings Pursuant to Section 285, No. 11 HGB

The mandatory disclosures in accordance with Section 285, No. 11 HGB are contained in the list of shareholdings.

### 14 | Loans to Subsidiaries

Loans to subsidiaries comprised two long-term loans to LANXESS Deutschland GmbH.

### 15 | Other Loans

The other loans almost entirely comprised the pro rata trust assets of LANXESS Pension Trust e.V. (LXS Trust). LANXESS AG has transferred cash amounting to €58,248 thousand, of which €16,483 thousand in the reporting year, to LXS Trust in several tranches under a contractual trust arrangement (CTA) to secure pension obligations.

The pro rata trust assets of LANXESS AG are invested in shares in a special fund run by an investment management company. Revenue recognition by LANXESS AG takes place at the time a distribution resolution is reached by the investment management company. Contractually agreed obligations for the payment of additional premiums by the trustor may also have an impact. No distribution resolution was taken in the reporting period.

The net income and expenses of €371 thousand recorded in the reporting year (previous year: €90 thousand) largely resulted from the payment of additional premiums by the trustor. The fair value of the assets of LXS Trust exceeded their carrying amount at year end.

Since the assets allocated to the CTA do not constitute plan assets within the meaning of Section 246, Paragraph 2, Sentence 2 HGB, they are measured at cost of acquisition pursuant to Section 253, Paragraph 1, Sentence 4 HGB and not at fair value, and there is no ban on their distribution.

Since 2010, cash payments have been deposited annually with Deutsche Treuinvest Stiftung to meet the obligations relating to the "demographic change fund" for employees established by the collective bargaining agreement for the German chemical industry. The fair value of the fiduciary assets corresponds to the fair value of the obligations under the "demographic change fund" amounting to €249 thousand (previous year: €205 thousand). The carrying amounts of the fiduciary assets and the obligations recognized under other provisions have been netted, as have income and expenses.

### 16 | Receivables from Affiliated Companies

Receivables from affiliated companies totaling €3,060,820 thousand (previous year: €3,849,019 thousand) related mainly to short-term loans receivable, including accrued interest, receivables from financial transactions and receivables under profit and loss transfer agreements. Trade receivables amounting to €2,481 thousand (previous year: €2,189 thousand) existed in connection with the service agreement described in Note (1). Furthermore, there were no receivables with maturities in excess of one year, as in the previous year.

### 17 | Other Assets

Other assets comprised the following:

€ thousand	Dec. 31, 2017	Dec. 31, 2018
Time deposits	0	150,000
Steuerforderungen		
from income taxes	24,970	54,118
from sales taxes	20,532	38,838
Miscellaneous assets	4,943	2,577
	<b>50,445</b>	<b>245,533</b>

All of the other assets were due in the respective following year.

### 18 | Securities

Securities had a carrying amount of €49,212 thousand (previous year: €49,937 thousand) and comprised units of mutual funds that can be sold at any time.

### 19 | Prepaid Expenses

The prepaid expenses in fiscal year 2018 mainly included discounts of €29,222 thousand (previous year: €24,277 thousand) on the bonds issued.

## 20 | Equity

Changes in equity in 2018 were as follows:

€ thousand	Dec. 31, 2017	Dividend	Net income	Dec. 31, 2018
Capital stock	91,523	0	0	91,523
Capital reserves	1,230,529	0	0	1,230,529
Other retained earnings	561,988	0	0	561,988
Distributable profit	115,662	(73,218)	84,487	126,931
	<b>1,999,702</b>	<b>(73,218)</b>	<b>84,487</b>	<b>2,010,971</b>

As of the closing date, the capital stock was divided into 91,522,936 no-par bearer shares.

The Annual Stockholders' Meeting on May 15, 2018, resolved to utilize the distributable profit for fiscal year 2017, amounting to €115,662 thousand, as follows:

- › To pay a dividend totaling €73,218 thousand (€0.80 per no-par share entitled to the dividend)
- › To carry forward €42,444 thousand to new account

### **Conditional Capital**

The Annual Stockholders' Meeting of LANXESS AG on May 15, 2018, authorized the Board of Management until May 14, 2023, with the approval of the Supervisory Board, to issue – in one or more installments – warrant bonds and/or convertible bonds, profit-participation rights and/or income bonds or a combination of these instruments (collectively referred to as “bonds”) – as either registered or bearer bonds – with a total nominal value of up to €1,000,000,000, with or without limited maturity, and to grant option rights to, or impose exercise obligations on, the holders or creditors of warrant bonds, profit-participation rights with warrants or income bonds with warrants, and/or to grant conversion rights to, or impose conversion obligations on, the holders or creditors of convertible bonds, convertible profit-participation rights or convertible income bonds in respect

of bearer shares of the company representing a total pro rata increase of up to €9,152,293 in the company's capital stock on the terms to be defined for these bonds. Pursuant to Section 4, Paragraph 5 of the articles of association, the capital stock of LANXESS AG is thus conditionally increased by up to €9,152,293 (Conditional Capital). The Board of Management is authorized, with the approval of the Supervisory Board, to exclude subscription rights in certain cases which are detailed in the authorization. The Board of Management will consider other capital measures with stockholders' subscription rights disappplied in its decision to disapply stockholders' subscription rights when issuing convertible bonds or bonds with warrants, profit participation rights or income bonds (or combinations of these instruments). By way of self-commitment, the Board of Management undertakes to perform capital measures with stockholders' subscription rights disappplied up to a maximum total amount of 20% of the company's current capital stock. This restriction applies when issuing new shares utilizing authorized capital, utilizing treasury shares or issuing bonds with warrants or conversion rights/obligations on the basis of which shares must be issued, with stockholders' subscription rights disappplied in each case. The Board of Management will be bound by this declaration until a future Annual Stockholders' Meeting again resolves to authorize the Board of Management to implement capital measures under exclusion of stockholders' subscription rights. The authorization to issue bonds has yet to be utilized.

### **Authorized Capital I and III**

Pursuant to Section 4, Paragraph 3 of LANXESS AG's articles of association, the Annual Stockholders' Meeting on May 15, 2018, authorized the Board of Management until May 14, 2023, with the approval of the Supervisory Board, to increase the capital stock on one or more occasions by issuing new no-par bearer shares against cash or contributions in kind up to a total amount of €18,304,587 (Authorized Capital I). Furthermore, pursuant to Section 4, Paragraph 4 of LANXESS AG's articles of association, the Annual Stockholders' Meeting on May 26, 2017, authorized the Board of Management until May 25, 2022, with the approval of the Supervisory Board, to increase the company's capital stock on one or more occasions by issuing new bearer shares against cash or contributions in kind up to a total amount of €9,152,293 (Authorized Capital III). Stockholders are generally entitled to subscription rights when Authorized Capital I and III are utilized. However, these rights can be excluded in certain cases which are defined in Section 4, Paragraphs 3 and 4 of the articles of association of LANXESS AG. By way of self-commitment, the Board of Management undertakes to perform capital measures with stockholders' subscription rights disappplied up to a maximum total amount of 20% of the company's current capital stock. This restriction applies when issuing new shares utilizing authorized capital, utilizing treasury shares or issuing bonds with warrants or conversion rights/obligations on the basis of which shares must be issued, with stockholders' subscription rights disappplied in each case. The Board of Management will be bound by this declaration until a future Annual Stockholders' Meeting again resolves to authorize the Board of Management to implement capital measures under exclusion of stockholders' subscription rights. Authorized Capital I and III have not yet been utilized.

## **21 | Provisions for Pensions and Other Post-Employment Benefit Obligations**

Pension provisions relate to pension obligations for present and former employees and to commitments under early retirement programs.

Pension provisions as of December 31, 2018, amounted to €74,027 thousand (previous year: €65,487 thousand). The difference pursuant to Section 253, Paragraph 6, Sentence 1 HGB for the fiscal year amounted to €11,672 thousand (previous year: €10,228 thousand) and is subject to the ban on distribution pursuant to Section 253, Paragraph 6, Sentence 2 HGB.

The settlement amounts of the obligations from the pension and similar commitments accessory to the pension liability insurance amounted to €214 thousand and were netted against the fair value of the pledged pension liability insurance, which constitutes fund assets as defined in Section 246, Paragraph 2, Sentence 2 HGB, of €214 thousand. No interest expenses or income resulted from the pension liability insurance in the reporting period.

## **22 | Tax Provisions**

The tax provisions relate to income taxes of €6,232 thousand for the reporting period and €47,915 thousand for previous years.

## **23 | Other Provisions**

The other provisions are established for performance-related compensation components (APP, LTSP, LTPB) for employees, vacation and overtime credits, long-service anniversaries and other uncertain liabilities. Other uncertain liabilities comprised, among other things, the expected cost of the Annual Stockholders' Meeting for fiscal year 2018 and the variable and fixed compensation of the Supervisory Board.

The annual performance-based component of the variable compensation, known as the Annual Performance Payment (APP), is based on corporate business targets and other conditions, such as the attainment of certain targets for Group EBITDA pre exceptionals, which are defined by the Board of Management and the Supervisory Board before the beginning of the respective fiscal year. Actual payments may differ from the amount calculated in advance.

The long-term, performance-related components of the compensation system are the Long-Term Stock Performance Plan (LTSP) and the Long-Term Performance Bonus (LTPB).

The LTSP is based on the performance of LANXESS stock. The LTSP 2014–2017 program set up in 2014 uses the MSCI World Chemicals Index as a reference value. The Dow Jones STOXX 600 Chemicals<sup>SM</sup> serves as a reference index for the LTSP 2010–2013, in place since 2010, from which exercisable

rights are still outstanding. It responds to the call by legislators for a stronger focus on long-term company performance. The LTSP is divided into four four-year tranches, and participation is contingent upon a personal investment in LANXESS shares. These shares are subject to an average vesting period of five years (LTSP 2010–2013) and four years (LTSP 2014–2017). The rights granted by the LTSP may be exercised at the end of these periods. The exercise period is three years in general, but five years for the 2012 and 2013 tranches. In the LTSP 2018–2021, in place since 2018, the rights granted are exercised immediately at the end of the four-year vesting period. The value of a stock performance right is dependent on the average performance of LANXESS stock relative to the MSCI World Chemicals Index during the vesting period. The performance relative to the index is calculated individually for each of the four years of the vesting period.

The LTPB rewards the financial development of the Group based on the business performance in two consecutive years. The bonus payment is a percentage of base salary.

## 24 | Bonds

Bonds as of December 31, 2018, totaled €2,700,000 thousand (previous year: €2,700,000 thousand) and comprised the following:

€ thousand	Interest rate %	Maturity	Volume
Eurobond 2016/2021	0.250	October 2021	500,000
Private placement 2012/2022	3.500	April 2022	100,000
Eurobond 2012/2022	2.625	November 2022	500,000
Eurobond 2018/2025	1.125	May 2025	500,000
Eurobond 2016/2026	1.000	October 2026	500,000
Private placement 2012/2027	3.950	April 2027	100,000
Hybrid bond 2016/2076	4.500	December 2076	500,000
			<b>2,700,000</b>

The bond of €500,000 thousand issued in fiscal year 2011 was repaid in May 2018. In addition, bond with a total value of €500,000 thousand was issued in fiscal year 2018.

## 25 | Liabilities to Banks

The liabilities to banks of €28,973 thousand (previous year: €34,301 thousand) mainly comprise accrued interest.

## 26 | Trade Payables

All trade payables are to third parties.

## 27 | Payables to Affiliated Companies

Payables to affiliated companies amounting to €527,203 thousand (previous year: €219,993 thousand) mainly comprised loans, including accrued interest, and liabilities relating to financial transactions.

## 28 | Other Liabilities

€ thousand	Dec. 31, 2017	Dec. 31, 2018
Tax liabilities	517	897
Miscellaneous liabilities	34	326
	<b>551</b>	<b>1,223</b>

## 29 | Further Information on Liabilities

The residual maturities of liabilities are as follows:

€ thousand	Dec. 31, 2017			Dec. 31, 2018		
	Up to 1 year	More than 1 year	of which more than 5 years	Up to 1 year	More than 1 year	of which more than 5 years
Bonds	500,000	2,200,000	1,100,000	0	2,700,000	1,600,000
Liabilities to banks	34,301	0	0	28,973	0	0
Trade payables	1,565	0	0	1,584	0	0
Payables to affiliated companies	169,993	50,000	0	527,203	0	0
Other liabilities	551	0	0	1,223	0	0
	<b>706,410</b>	<b>2,250,000</b>	<b>1,100,000</b>	<b>558,983</b>	<b>2,700,000</b>	<b>1,600,000</b>

## 30 | Contingent Liabilities from Guarantees

Under the master agreement that was concluded between Bayer AG and LANXESS AG together with the Spin-Off and Take-over 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.

LANXESS AG has given the following guarantees on behalf of subsidiaries:

€ thousand	Dec. 31, 2017	Dec. 31, 2018
to banks	130,181	94,372
to suppliers/other third parties	155,377	25,362
	<b>285,558</b>	<b>119,734</b>

In addition, LANXESS AG has provided guarantees on behalf of subsidiaries for payment obligations relating to future deliveries under long-term procurement agreements.

Outside of Germany, LANXESS Limited (registration no. 03498959), Newbury, Great Britain, 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 ultimate parent company, guaranteed all outstanding liabilities as of December 31, 2018, with respect to Section 479C of the U.K. Companies Act 2006. The net liabilities of LANXESS Limited as of December 31, 2018, amounted to €1,225 thousand.

In previous years, the former Dutch Group company ARLANXEO Netherlands B.V., Sittard-Geleen, Netherlands, utilized the exemption from the publication and auditing of its annual financial statements as permitted by Section 2:403, Paragraph 1 (f) of the Dutch Civil Code. LANXESS AG withdrew the legally required guarantee for all outstanding liabilities with respect to Section 2:403, Paragraph 1 (f) of the Dutch Civil Code when it sold the interest in ARLANXEO to Saudi Aramco in 2018.

Based on the information available to us, the companies concerned should be able to fulfill the underlying obligations in all cases. The guarantees are not expected to be utilized.

**OTHER MANDATORY DISCLOSURES****31 | Notification of Interests Held in the Company**

(Section 160, Paragraph 1, No. 8 of the German Stock Corporation Act (AktG))

Notifications of interests held in LANXESS AG are set out in the disclosures pursuant to Section 160, Paragraph 1, No. 8 AktG.

**32 | Derivative Financial Instruments**

In the course of their business, LANXESS AG and companies in the LANXESS Group are exposed to risks of changes in exchange rates and market prices. Derivative financial instruments are used in some cases to hedge against these risks. These comprise over-the-counter (OTC) instruments that are not traded on an exchange. They mainly include forward exchange contracts, interest rate swaps and forward commodity contracts.

The use of such instruments is governed by uniform guidelines and is subject to stringent internal controls. It is confined to hedging of the Group's operating business and the related investments and financing transactions.

The purpose of using derivative financial instruments is to reduce fluctuations in earnings and cash flows caused by changes in exchange rates, interest rates and market prices.

There is a risk that the value of financial derivatives may change as a result of fluctuations in underlying parameters such as exchange rates. Where derivatives are used for hedging purposes, the possibility of a loss of value due to a drop in prices is offset by corresponding increases in the values of the hedged contracts.

In the case of derivatives with a positive fair value, a credit or default risk arises if the counterparties cannot meet their obligations. To minimize this risk, credit limits are assigned to individual banks, and framework agreements are used that allow offsetting of the fair value of open derivative positions in the event of insolvency of a counterparty.

The notional amount of financial derivative contracts concluded with external counterparties was €1,129,453 thousand as of December 31, 2018 (previous year: €2,175,200 thousand). Back-to-back derivative contracts with a notional amount of €1,110,805 thousand (previous year: €1,510,158 thousand) were concluded with Group companies. The total notional amount of derivatives was €2,240,258 thousand (previous year: €3,685,358 thousand). This figure also contains those derivatives included in valuation units.

The derivatives comprised the following:

€ thousand	Notional amount		Fair value		Carrying amount	
	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018
<b>Forward exchange contracts</b>						
positive fair values	1,544,792	992,323	32,383	21,355	0	0
negative fair values	1,632,452	1,238,329	37,518	25,884	831	3,132
	<b>3,177,244</b>	<b>2,230,652</b>	<b>(5,135)</b>	<b>(4,529)</b>	<b>(831)</b>	<b>(3,132)</b>
<b>Interest rate swaps</b>						
positive fair values	500,000	0	531	0	0	0
negative fair values	0	0	0	0	0	0
	<b>500,000</b>	<b>0</b>	<b>531</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Forward commodity contracts</b>						
positive fair values	4,057	4,803	382	589	0	0
negative fair values	4,057	4,803	382	589	0	0
	<b>8,114</b>	<b>9,606</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
	<b>3,685,358</b>	<b>2,240,258</b>	<b>(4,604)</b>	<b>(4,529)</b>	<b>(831)</b>	<b>(3,132)</b>

### **Financial Derivatives Used to Hedge Currency Risks**

LANXESS AG used forward exchange contracts to hedge exchange rate risks.

Hedging was undertaken using forward exchange contracts for highly probable forecast transactions by Group companies in foreign currencies and was passed through to these Group companies on a back-to-back basis.

Forward exchange contracts with a notional amount of €332,607 thousand (previous year: €311,673 thousand) and a fair value of minus €12,900 thousand (previous year: €14,893 thousand) were concluded with external counterparties to hedge highly probable forecast transactions by Group companies in foreign currencies. They were matched by transactions with Group companies with a notional amount of €332,607 thousand (previous year: €311,673 thousand) and had a fair value of €12,900 thousand (previous year: minus €14,893 thousand). Changes in the value of the corresponding external and internal transactions move in opposite directions and will offset one another by 2021. These transactions were grouped in valuation portfolios and not recognized in the statement of financial position.

To hedge currency risks relating to receivables and payables of LANXESS AG and Group companies (risk in the statement of financial position), LANXESS AG concluded forward exchange contracts with external counterparties with a notional amount of €792,044 thousand (previous year: €1,359,470 thousand) and a fair value of minus €5,275 thousand (previous year: €6,099 thousand). Some of these transactions were passed through to Group companies. Contracts with these internal counterparties had a notional amount of €773,395 thousand (previous year: €1,194,429 thousand) and a fair value of €746 thousand (previous year: minus €11,233 thousand). Where forward exchange contracts concluded to hedge foreign currency receivables and payables of Group companies were passed through to the companies concerned by way of internal contracts, they were grouped in valuation portfolios together with the opposing transactions. At the closing date, valuation portfolios comprising external and internal transactions had fair values of minus €5,275 thousand and €746 thousand respectively (previous year: €6,099 thousand and minus €11,233 thousand respectively). The majority of them mature in 2019 and the remainder in 2021 at the latest. These transactions were not reflected in the statement of financial position.

Forward exchange contracts that were used to hedge foreign currency risk in the statements of financial position of Group companies and were not matched by internal transactions had a fair value of minus €3,132 thousand (previous year: minus €831 thousand). The negative fair value is reflected in other provisions.

Further valuation units (micro hedges) comprised foreign currency loans from Group companies to LANXESS AG or vice

versa for which forward exchange contracts had been concluded on a back-to-back basis. The carrying amount of loans granted by LANXESS AG was €63,015 thousand at year end (previous year: €48,280 thousand), while the carrying amount of loans to LANXESS AG was €64,047 thousand (previous year: €88,820 thousand). The net currency risk was €1,397 thousand (previous year: €4,303 thousand). The external forward exchange contracts had a net negative fair value of minus €3,132 thousand (previous year: minus €831 thousand) and are all due in 2019. They were not recognized in the statement of financial position.

### **Financial Derivatives Used to Hedge Interest Rate Risks**

LANXESS AG used interest rate swaps to hedge interest rate risks in connection with the issue of financing instruments.

Hedging was undertaken using interest rate swaps for highly probable forecast transactions to refinance the Group, which were issued directly by LANXESS AG on the capital market.

To hedge interest rate risks, LANXESS AG completed interest rate swaps with external partners with a notional amount of €500,000 thousand in the previous year. With the issue of a bond with a total value of €500,000 thousand in May 2018, the interest rate swap was reversed in profit or loss.

As of the closing date, there were no financial derivatives used to hedge interest rate risks.

### **Financial Derivatives Used to Hedge Price Risks**

Forward commodity contracts concluded with external counterparties, all of which mature within one year, were passed through to Group companies on a back-to-back basis. The results of such transactions that had terminated by year end canceled each other out. Micro hedges were established for open transactions, giving a net zero result.

### **Valuation Methods**

The fair values of financial derivatives are determined using customary valuation methods and are based on the market data (market values) available at the measurement date. The following principles are applied:

- › The fair values of forward exchange contracts are derived from their trading or listed prices using the "forward method."
- › The fair values of forward commodity contracts are also derived from their trading or listed prices using the "forward method."

The effectiveness of hedge relationships is measured using the dollar-offset method.



### 33 | Total Compensation of the Board of Management and Supervisory Board (Pursuant to Section 285, No. 9 a HGB)

Total compensation of €12,183 thousand (previous year: €14,581 thousand) was paid to the members of the Board of Management of LANXESS AG for fiscal year 2018, comprising €8,597 thousand (previous year: €10,362 thousand) in annual compensation (annual base salary, Annual Performance Payment (APP), benefits in kind and other), €0 thousand (previous year: minus €86 thousand) in compensation relating to the previous year and €3,586 thousand (previous year: €4,305 thousand) in multi-year compensation.

The multi-year compensation includes total payments of €1,726 thousand (previous year: €2,721 thousand) under the Long-Term Performance Bonus (LTPB) and the stock-based Long-Term Stock Performance Plan (LTSP). The number of

compensation rights granted under the LTSP was 1,860,000 (previous year: 1,740,000). The fair value of these rights at the grant date was €1,860 thousand (previous year: €1,584 thousand). In fiscal year 2018, stock-based compensation resulted in net income of €81 thousand (previous year: expense of €1,558 thousand).

In addition, net expenses of €2,581 thousand (previous year: €2,585 thousand) were incurred to provide retirement pensions for the members of the Board of Management. The present value of the benefit obligation as of the end of 2018 for those members of the Board of Management serving on that date was €16,858 thousand (previous year: €14,277 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 the LANXESS Group and LANXESS AG for fiscal year 2018.

#### Compensation of the Supervisory Board

€ thousand	Fixed compensation	Compensation for committee membership	Attendance allowance	Long-term compensation	Total
2018	1,160	540	221	0	1,921
2017	1,160	480	183	0	1,823

The members of the Supervisory Board received total compensation of €1,921 thousand in fiscal year 2018 (previous year: €1,823 thousand). The provisions established for multi-year compensation for Supervisory Board members as of December 31, 2018, amounted to €1,310 thousand (previous year: €950 thousand).

In addition, the employee representatives on the Supervisory Board who are employees of the LANXESS Group received salaries 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 compensation are given in the "Compensation report" section of the combined management report for the LANXESS Group and LANXESS AG for fiscal year 2018.

### 34 | Total Remuneration of Former Members of the Board of Management and of Members of the Board of Management Who Stepped Down During the Fiscal Year (Pursuant to Section 285, No. 9 a, Sentence 6 dd and No. 9 b HGB)

Payments totaling €473 thousand were made to former members of the Board of Management in fiscal year 2018 (previous year: €473 thousand) and related to pension benefits. €2,790 thousand (previous year: €2,203 thousand) was recognized as current pension expense.

Provisions of €30,089 thousand were recognized as of December 31, 2018 (previous year: €27,772 thousand) for the current pensions and the pension entitlements of former members of the Board of Management.

### 35 | Loans and Advances Granted to Members of the Board of Management and the Supervisory Board (Pursuant to Section 285, No. 9 c HGB)

There were no loans or advances to members of the Board of Management or the Supervisory Board as of December 31, 2018, nor had any other financial commitments been entered into for these individuals.

### 36 | Amounts Barred from Distribution (Pursuant to Section 253, Paragraph 6, Sentence 2 HGB)

Amounts subject to the bar on distribution as of the closing date:

€ thousand	Dec. 31, 2017	Dec. 31, 2018
Provisions for pensions (seven-year average interest rate)	75,715	85,699
less provisions for pensions (ten-year average interest rate)	(65,487)	(74,027)
<b>Difference</b>	<b>10,228</b>	<b>11,672</b>
<b>Total amount barred from distribution</b>	<b>10,228</b>	<b>11,672</b>

As of December 31, 2018, the level of unrestricted reserves exceeded the total volume of amounts barred from distribution. Therefore, no bar on distribution applies to the distributable profit of €126,931 thousand.

### 37 | Events After the End of the Reporting Period

In January 2019, LANXESS announced a stock repurchase volume of up to €200 million, equivalent to around 4.9% of the capital stock. The repurchase is to end no later than December 31, 2019. The shares will be retired. The stock repurchase is being implemented on the basis of the authorization granted by the Annual Stockholders' Meeting on May 20, 2016, which still allows for further repurchases of up to 10% of the capital stock of LANXESS AG.

No other events of special significance took place after December 31, 2018, that are expected to materially affect the financial position or results of operations of LANXESS AG.

### 38 | Appropriation of Earnings

Regarding the appropriation of distributable profit of €126,931 thousand, the Board of Management proposes that the Annual Stockholders' Meeting resolve on the payment of a dividend of €0.90 per no-par share entitled to the dividend. This equates to a total distribution of €82,371 thousand. The amount remaining after deduction of the planned dividend, €44,560 thousand, is to be carried forward to new account.

The final dividend amount depends on the number of no-par shares entitled to the dividend as of the date of the resolution on the appropriation of distributable profit on the day of the Annual Stockholders' Meeting. The company is currently implementing a repurchase program for the acquisition of treasury shares at a purchase price of up to €200,000 thousand (not including incidental expenses), which was announced on January 10, 2019 and will run until December 31, 2019. As treasury shares are not entitled to the dividend, the number of no-par shares entitled to the dividend will decrease up to the day of the Annual Stockholders' Meeting.

### 39 | Corporate Officers

#### Supervisory Board

Members of the Supervisory Board hold offices as members of the supervisory board or a comparable supervising body of the corporations listed (as of December 31, 2018).

The following representatives of the company's stockholders are currently members of the Supervisory Board (offices of former members on the date they stepped down):

#### Dr. Matthias L. Wolfgruber (Chairman since May 15, 2018)

Self-employed consultant

Former Chairman of the Management Board of ALTANA AG

#### Further offices:

LANXESS Deutschland GmbH, Cologne<sup>1)</sup> (Chairman since May 15, 2018)

Grillo Werke AG, Duisburg<sup>1)</sup>

ALTANA AG, Wesel<sup>1)</sup>

ARDEX GmbH, Witten (Chairman of the Advisory Board)

Cabot Corporation, Boston, Massachusetts (U.S.)

#### Dr. Heike Hanagarth

Self-employed management consultant

Former member of the Board of Management of Deutsche Bahn AG, Berlin

#### Further offices:

LANXESS Deutschland GmbH, Cologne<sup>1)</sup>

aichele GROUP GmbH & Co. KG, Bretten

Gilde Buy Out Partners BV, Utrecht, Netherlands

**Dr. Friedrich Janssen**

Member of the Supervisory Boards of various commercial enterprises

Former member of the Board of Management of E.ON Ruhrgas AG, Essen

**Further offices:**

LANXESS Deutschland GmbH, Cologne<sup>1)</sup>

National-Bank AG, Essen<sup>1)</sup>

Hoberg & Driesch GmbH, Düsseldorf (Chairman of the Advisory Committee)

**Pamela Knapp (joined on May 15, 2018)**

Member of the Boards of Management and Supervisory Boards of various European commercial enterprises

Former CFO of GfK SE

**Further offices:**

NV Bekaert SA, Kortrijk, Belgium (Member of the Board of Directors)

Panalpina World Transport (Holding) AG, Basel, Switzerland  
(Member of the Board of Directors)

Compagnie de Saint-Gobain S.A., Courbevoie, France  
(Member of the Board of Directors – Conseil d'Administration)

Peugeot S.A., Rueil-Malmaison, France  
(Member of the Supervisory Board – Conseil de Surveillance)

HKP Group AG, Zürich, Switzerland (Member of the Board of Directors)

**Lawrence A. Rosen**

Member of the Supervisory Boards of various commercial enterprises

Former member of the Board of Management of Deutsche Post AG

**Further offices:**

LANXESS Deutschland GmbH, Cologne<sup>1)</sup>

Qiagen N.V., Venlo, Netherlands

**Dr. Rolf Stomberg (resigned May 15, 2018)**

Former Chief Executive of the Shipping, Refining and Marketing Division of The British Petroleum Co. p.l.c., London, Great Britain

Former member of the Board of Directors of The British Petroleum Co. p.l.c., London, Great Britain

**Further offices:**

LANXESS Deutschland GmbH, Cologne<sup>1)</sup> (Chairman) (until May 15, 2018)

Biesterfeld AG, Hamburg<sup>1)</sup>

HOYER GmbH, Hamburg

**Theo H. Walthie**

Self-employed consultant

Former Global Business Group President for the Hydrocarbons & Energy Business of the Dow Chemical Company

**Further offices:**

LANXESS Deutschland GmbH, Cologne<sup>1)</sup>

NBE Therapeutics AG, Basel, Switzerland  
(Chairman of the Board of Directors)

1) Statutory supervisory boards

The following representatives of the company's employees are currently members of the Supervisory Board and/or were members of the Supervisory Board in the previous year:

**Ralf Sikorski (Vice Chairman)**

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

**Further offices:**

LANXESS Deutschland GmbH, Cologne<sup>1)</sup> (Vice Chairman)

Chemie Pensionsfonds AG, Munich<sup>1)</sup> (Chair) (since January 1, 2018)

RAG AG, Herne<sup>1)</sup>

RAG Deutsche Steinkohle AG, Herne<sup>1)</sup>

RWE AG, Essen<sup>1)</sup>

RWE Power AG, Cologne and Essen<sup>1)</sup> (Vice Chairman)

RWE Generation SE, Essen<sup>1)</sup>

KSBG – Kommunale Verwaltungsgesellschaft GmbH, Essen<sup>1)</sup>  
(Vice Chairman)

**Werner Czaplík**

Chairman of the LANXESS Central Works Council and of the LANXESS Group Works Council

Member of the LANXESS Works Council at the Leverkusen site

**Further offices:**

LANXESS Deutschland GmbH, Cologne<sup>1)</sup>

**Dr. Hans-Dieter Gerriets**

Chairman of the LANXESS Group Managerial Employees' Committee and Chairman of the LANXESS Managerial Employees' Committee; manager of a production facility in the Advanced Industrial Intermediates business unit of LANXESS Deutschland GmbH

**Further offices:**

LANXESS Deutschland GmbH, Cologne<sup>1)</sup>

**Thomas Meiers**

Secretary to the Board of Directors, Board Division 3 "Digitalization/Labor/Members" of the German Mining, Chemical and Energy Industrial Union (IG BCE), Hanover

**Further offices:**

LANXESS Deutschland GmbH, Cologne<sup>1)</sup>

INEOS Deutschland Holding GmbH, Cologne<sup>1)</sup>

INEOS Köln GmbH, Cologne<sup>1)</sup>

**Manuela Strauch**

Chairwoman of the LANXESS Works Council at the Uerdingen site

Member of the LANXESS Central Works Council

**Further offices:**

LANXESS Deutschland GmbH, Cologne<sup>1)</sup>

**Ifraim Tairi (resigned December 31, 2018)**

Chairman of the LANXESS Works Council at the Dormagen site

Member of the LANXESS Central Works Council

**Further offices:**

LANXESS Deutschland GmbH, Cologne<sup>1)</sup> (until December 31, 2018)

ARLANXEO Deutschland GmbH, Dormagen<sup>1)</sup>

1) Statutory supervisory boards

### Board of Management

The following persons are currently members of the Board of Management (offices of Stephen C. Forsyth on March 31, 2018):

#### Offices held by serving Board of Management members

Member of the Board of Management	External offices	Offices within the LANXESS Group
<b>Matthias Zachert</b>		
Chairman of the Board of Management	<ul style="list-style-type: none"> <li>Member of the Supervisory Board of Siemens AG, Berlin and Munich (joined on January 31, 2018)</li> </ul>	<ul style="list-style-type: none"> <li>Chairman of the Executive Board of LANXESS Deutschland GmbH</li> <li>Chairman of the Shareholders' Committee of ARLANXEO Holding B.V. (until December 31, 2018)</li> </ul>
<b>Dr. Hubert Fink</b>		
Member of the Board of Management		<ul style="list-style-type: none"> <li>Member of the Executive Board of LANXESS Deutschland GmbH</li> <li>Chairman of the Supervisory Board of Saltego GmbH</li> </ul>
<b>Stephen C. Forsyth</b>		
Member of the Board of Management (Ceased to be a member of the Board of Management at the end of the day on May 31, 2018)		<ul style="list-style-type: none"> <li>Member of the Board of Directors of LANXESS Solutions US Inc.</li> <li>Member of the Board of Directors of LANXESS Canada Co./Cie</li> <li>Member of the Board of Directors of LANXESS Laurel de Mexico, S.A. de C.V.</li> <li>Member of the Board of Directors of Chemtura Corporation Mexico, S. de R.L. de C.V.</li> <li>Member of the Board of Directors of Crompton Servicios, S.A. de C.V.</li> <li>Member of the Board of Directors of Great Lakes Chemical Corporation</li> <li>Member of the Board of Directors of Assured Insurance Company</li> <li>Member of the Board of Directors of LANXESS Holding Company US Inc.</li> <li>Member of the Board of Directors of LANXESS Sybron Chemicals Inc.</li> <li>Member of the Board of Directors of Sybron Chemical Holdings Inc.</li> <li>Member of the Board of Directors of THE LANXESS Foundation Inc.</li> <li>Chief Financial Officer of LANXESS Services US LLC</li> </ul>
<b>Michael Pontzen</b>		
Member of the Board of Management and Chief Financial Officer		<ul style="list-style-type: none"> <li>Member of the Executive Board of LANXESS Deutschland GmbH</li> <li>Member of the Board of Directors of LANXESS Corp.</li> <li>Member of the Shareholders' Committee of ARLANXEO Holding B.V. (until December 31, 2018)</li> <li>Member of the Board of Directors of LANXESS Solutions Korea Inc.</li> <li>Member of the Board of Directors of LANXESS Solutions US Inc.</li> </ul>
<b>Dr. Rainier van Roessel</b>		
Member of the Board of Management and Labor Relations Director	<ul style="list-style-type: none"> <li>Member of the Supervisory Board of CURRENTA Geschäftsführungs-GmbH, Leverkusen</li> </ul>	<ul style="list-style-type: none"> <li>Member of the Executive Board of LANXESS Deutschland GmbH</li> <li>Chairman of the Board of Directors of LANXESS S.A. de C.V.</li> <li>Executive member of the Board of Administration of LANXESS N.V.</li> <li>Chairman of the Board of Directors of LANXESS Hong Kong Ltd.</li> <li>Chairman of the Board of Directors of LANXESS Pte. Ltd.</li> <li>Chairman of the Board of Directors of LANXESS Corp.</li> <li>Chairman of the Board of Directors of LANXESS Chemical (China) Co. Ltd.</li> <li>Chairman of the Board of Directors of LANXESS India Private Ltd.</li> <li>Chairman of the Board of Directors of LANXESS K.K.</li> <li>Member of the Board of Directors of LANXESS Thai Co., Ltd.</li> <li>Member of the Board of Directors of LANXESS Solutions US Inc.</li> <li>Member of the Board of Directors of LANXESS Solutions Korea Inc.</li> <li>Member of the Board of Directors of LANXESS Solutions Japan K.K.</li> </ul>

## Disclosures Pursuant to Section 160, Paragraph 1, No. 8 of the German Stock Corporation Act (AktG)

Notified by	Date of change	Thresh- old	Voting rights		Voting rights via instruments		Attributable voting rights
			%	absolute	%	absolute	
Ministry of Finance on behalf of the State of Norway, Oslo, Norway	Dec. 18, 2018	5.00%	5.35%	4,897,864	0.11%	101,337	Norges Bank, Oslo, Norway (5.35% pursuant to Sections 33, 34 WpHG new version & 0.11% pursuant to Section 38 Paragraph 1 WpHG new version)
The Capital Group Companies, Inc., Los Angeles, California, U.S.	Nov. 22, 2017	5.00%	5.02%	4,598,544			The Capital Group Companies, Inc., Los Angeles, California, U.S. (5.02% pursuant to Sections 21, 22 WpHG old version, Sections 33, 34 WpHG new version)
Warren E. Buffett	Dec. 21, 2017	5.00%	5.02%	4,589,596			General Reinsurance AG, Cologne, Germany (5.02% pursuant to Sections 21, 22 WpHG old version, Sections 33, 34 WpHG new version)
Government of Singapore, acting by and through the Ministry of Finance, Singapore, Singapore	Dec. 21, 2017	5.00%	5.01%	4,583,610			GIC Private Limited, Singapore, Singapore (5.01% pursuant to Sections 21, 22 WpHG old version, Sections 33, 34 WpHG new version)
BlackRock, Inc., Wilmington, DE, U.S.	Dec. 12, 2018	5.00%	4.98%	4,559,110	0.47%	427,276	BlackRock, Inc., Wilmington, DE, U.S. (4.98% pursuant to Sections 33, 34 WpHG new version & 0.47% pursuant to Section 38 Paragraph 1 WpHG new version)
American Funds Fundamental Investors, Wilmington, DE, U.S.	Dec. 10, 2018	3.00%	3.17%	2,900,000			American Funds Fundamental Investors, Wilmington, DE, U.S. (3.17% pursuant to Sections 33, 34 WpHG new version)
Templeton Investment Counsel, LLC, Wilmington, Delaware, U.S.	Oct. 23, 2015	3.00%	3.04%	2,779,376			Templeton Investment Counsel, LLC, Wilmington, Delaware, U.S. (3.04% pursuant to Sections 21, 22 WpHG old version, Sections 33, 34 WpHG new version)
Deutsche Asset Management Investment GmbH, Frankfurt, Germany	May 17, 2018	3.00%	3.01%	2,758,676			Deutsche Asset Management Investment GmbH, Frankfurt, Germany (3.01% pursuant to Sections 33, 34 WpHG new version)

# List of Shareholdings

LANXESS AG, either directly or indirectly, holds at least 20% of the shares in the following companies (information pursuant to Section 285, No. 11 HGB). The figures stated for equity and net income/loss are derived from the annual financial statements prepared in accordance with local law.

## Company Name and Domicile

	Interest held (%)	Equity (€ million)	Result (€ million)
<b>Fully consolidated companies</b>			
<b>Germany</b>			
Bond-Laminates GmbH, Brilon	100	3	0 <sup>1)</sup>
IAB Ionenaustauscher GmbH Bitterfeld, Greppin	100	31	0 <sup>1)</sup>
IMD Natural Solutions GmbH, Dortmund	100	1	0 <sup>1)</sup>
LANXESS Accounting GmbH, Cologne	100	0	0 <sup>2)</sup>
LANXESS Deutschland GmbH, Cologne	100	1,299	0 <sup>1)</sup>
LANXESS Distribution GmbH, Leverkusen	100	4	0 <sup>1)</sup>
LANXESS Organometallics GmbH, Bergkamen	100	52	0 <sup>1)</sup>
Saltigo GmbH, Leverkusen	100	28	0 <sup>1)</sup>
<b>EMEA, excluding Germany</b>			
Anderol B.V., Venlo, Netherlands	100	16	4
Antec Internation Ltd., Sudbury, Suffolk, Great Britain	100	26	11
Chemtura France S.A.S., Fitz James, France	100	6	0
Europigments, S.L., Barcelona, Spain	52	5	1
Great Lakes Chemical (Netherlands) B.V., Amsterdam, Netherlands	100	3	0
Great Lakes Holding S.A.S., Fitz James, France	100	8	0
LANXESS (Pty.) Ltd., Modderfontein, South Africa	100	24	(3)
LANXESS Central Eastern Europe s.r.o., Bratislava, Slovakia	100	18	3
LANXESS CISA (Pty.) Ltd., Newcastle, South Africa	100	55	7
LANXESS Chemicals, S.L., Barcelona, Spain	100	1,414	18
LANXESS Chrome Mining (Pty.) Ltd., Modderfontein, South Africa	74	(39)	(14)
LANXESS Epierre SAS, Epierre, France	100	1	0
LANXESS Holding Switzerland AG, Frauenfeld, Switzerland	100	575	84

## Company Name and Domicile

	Interest held (%)	Equity (€ million)	Result (€ million)
<b>Fully consolidated companies</b>			
LANXESS Holding UK Unlimited, Manchester, Great Britain	100	74	(2)
LANXESS Investments Netherlands B.V., Amsterdam, Netherlands	100	115	0
LANXESS Kimya Ticaret Limited Şirketi, Istanbul, Turkey	100	1	1
LANXESS Limited, Newbury, Great Britain	100	25	1
LANXESS Manufacturing Netherlands B.V., Amsterdam, Netherlands	100	227	10
LANXESS N.V., Antwerp, Belgium	100	271	24
LANXESS S.A.S., Courbevoie, France	100	45	1
LANXESS S.r.l., Milan, Italy	100	62	3
LANXESS Sales Netherlands B.V., Amsterdam, Netherlands	100	18	3
LANXESS Services Switzerland GmbH, Frauenfeld, Switzerland	100	0	0
LANXESS Solutions Italy S.r.l., Latina, Italy	100	64	(1)
LANXESS Solutions UK Ltd., Manchester, Great Britain	100	241	19
LANXESS Switzerland GmbH, Frauenfeld, Switzerland	100	364	127
LANXESS Urethanes UK Ltd., Baxenden NR Accrington, Great Britain	100	19	1
OOO LANXESS, Moscow, Russia	100	3	1
OOO LANXESS Lipetsk, Lipetsk, Russia	100	3	1
Sybron Chemical Industries Nederland B.V., Ede, Netherlands	100	44	0
Sybron Chemicals International Holdings Ltd., Newbury, Great Britain	100	0	0
<b>North America</b>			
Assured Insurance Company, Montpelier, U.S.	100	1	0
Great Lakes Chemical Corporation, Wilmington, New Castle, U.S.	100	169	(12)
LANXESS Canada Co./Cie, Elmira, Canada	100	87	9
LANXESS Corporation, Pittsburgh, U.S.	100	2,209	36
LANXESS Holding Company US Inc., Wilmington, New Castle, U.S.	100	6	605
LANXESS Services US LLC, Wilmington, New Castle, U.S.	100	12	13

## Company Name and Domicile

	Interest held (%)	Equity (€ million)	Result (€ million)
<b>Fully consolidated companies</b>			
LANXESS Solutions US Inc., Wilmington, New Castle, U.S.	100	2,222	58
LANXESS Sybron Chemicals Inc., Birmingham, U.S.	100	(46)	1
Sybron Chemical Holdings Inc., Wilmington, U.S.	100	0	0
<b>Latin America</b>			
Chemtura Corporation Mexico, S. de R.L. de C.V., Atizapan de Zaragoza, Mexico	100	11	(2)
LANXESS Indústria de Poliuretanos e Lubrificantes Ltda., Rio Claro, Brazil	100	12	(2)
LANXESS Industria de Produtos Quimicos e Plasticos Ltda., São Paulo, Brazil	100	71	(1)
LANXESS S.A. de C.V., Mexico City, Mexico	100	22	3
LANXESS S.A., Buenos Aires, Argentina	100	16	(10)
Rhein Chemie Uruguay S.A., Colonia, Uruguay	100	1	0
<b>Asia-Pacific</b>			
LANXESS Advanced Materials (Nantong) Co. Ltd., Nantong, China	100	14	(6)
Chemtura Chemicals Nanjing Co. Ltd., Nanjing, China	100	12	0
Chemtura China Holding Co. Ltd., Shanghai, China	100	20	(40)
LANXESS Taiwan Ltd., Kaohsiung, Taiwan	100	19	1
LANXESS Additives Hong Kong Ltd., Hong Kong, Hong Kong	100	40	40
LANXESS Electronic Materials L.L.C., Gyeonggi-do, Korea	100	14	0
LANXESS (Changzhou) Co., Ltd., Changzhou, China	100	50	0
LANXESS (Liyang) Polyols Co., Ltd., Liyang, China	100	(4)	(2)
LANXESS (Ningbo) Pigments Co., Ltd., Ningbo City, China	100	33	(8)
LANXESS Chemical (China) Co., Ltd., Shanghai, China	100	46	8
LANXESS Hong Kong Limited, Hong Kong, Hong Kong	100	295	5
LANXESS India Private Ltd., Thane, India	100	189	17 <sup>2)</sup>
LANXESS K.K., Tokio, Japan	100	47	3
LANXESS Korea Limited, Seoul, Republic of Korea	100	19	2
LANXESS Pte. Ltd., Singapore, Singapore	100	58	7
LANXESS PTY Ltd., Lidcombe, Australia	100	8	0
LANXESS Shanghai Pigments Co., Ltd., Shanghai, China	100	47	(1)

## Company Name and Domicile

	Interest held (%)	Equity (€ million)	Result (€ million)
<b>Fully consolidated companies</b>			
LANXESS Solutions Australia Pty. Ltd., West Gosford, Australia	100	3	0
LANXESS Solutions India Private Ltd., New Delhi, India	100	0	0
LANXESS Solutions Japan K.K., Tokyo, Japan	100	25	4
LANXESS Solutions Korea Inc., Gyeonggi-do, Korea	100	9	0
LANXESS Solutions Singapore Pte. Ltd., Singapore, Singapore	100	5	0
LANXESS Specialty Chemicals Co., Ltd., Shanghai, China	100	(14)	(7)
LANXESS (Wuxi) High Performance Composite Materials Company Limited, Wuxi, China	100	145	14
Rhein Chemie (Qingdao) Co., Ltd., Qingdao, China	90	39	0
LANXESS Additives Taiwan Ltd., Kaohsiung, Taiwan	100	9	0
<b>Jointly controlled entities</b>			
<b>Germany</b>			
DuBay Polymer GmbH, Hamm	50	34	2
<b>North America</b>			
Rubicon LLC, Salt Lake City, U.S.	50	16	0
<b>Associate accounted for using the equity method</b>			
<b>Germany</b>			
Currenta GmbH & Co. OHG, Leverkusen	40	64	51
<b>Non-consolidated immaterial subsidiaries</b>			
<b>Germany</b>			
LANXESS Middle East GmbH, Cologne	100	0	0
CheMondis GmbH, Cologne	100	0	0 <sup>1)</sup>
Siebte LXS GmbH	100	0	0 <sup>1)</sup>
<b>EMEA, excluding Germany</b>			
Gulf Stabilizers Industries Sales FZCO, Dubai, UAE	52	0	0
W. Hawley & Son Ltd., Newbury, Great Britain	100	0	0

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**Company Name and Domicile**

	Interest held (%)	Equity (€ million)	Result (€ million)
<b>North America</b>			
LANXESS Energy LLC, Wilmington, New Castle, U.S.	100	0	0
<b>Latin America</b>			
Comercial Andinas Ltda., Santiago de Chile, Chile	100	0	0
Crompton Servicios, S.A. de C.V., Atizapan de Zaragoza, Mexico	100	0	0
<b>Asia-Pacific</b>			
LANXESS Thai Co., Ltd., Bangkok, Thailand	100	1	1
PCTS Specialty Chemicals Malaysia (M) Sdn. Bhd., Kuala Lumpur, Malaysia	100	0	0
<b>Other non-consolidated immaterial companies</b>			
<b>Latin America</b>			
Hidrax Ltda., Taboão da Serra, Brazil	39	1	0

- 1) Result after profit transfer  
2) Financial statements as of March 31, 2018
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# Responsibility Statement

To the best of our knowledge, and in accordance with the applicable financial reporting principles, the annual financial statements give a true and fair view of the earnings, asset and financial position of the LANXESS AG, and the combined management report includes a fair review of the development and performance of the business and the position of the LANXESS Group and LANXESS AG, together with a description of the principal opportunities and risks associated with the expected development of the LANXESS Group and LANXESS AG.

Cologne, February 27, 2019  
LANXESS Aktiengesellschaft

The Board of Management

Matthias Zachert

Dr. Hubert Fink

Michael Pontzen

Dr. Rainier van Roessel

# Independent Auditor's Report

Based on the final results of our audit, we issued the following unqualified auditor's report dated March 1, 2019:

## “INDEPENDENT AUDITOR’S REPORT

To LANXESS Aktiengesellschaft, Cologne

### REPORT ON THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS AND OF THE MANAGEMENT REPORT

#### *Audit Opinions*

We have audited the annual financial statements of LANXESS Aktiengesellschaft, Cologne, which comprise the balance sheet as at December 31, 2018, and the statement of profit and loss for the financial year from January 1 to December 31, 2018, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of LANXESS Aktiengesellschaft, which is combined with the group management report, for the financial year from January 1 to December 31, 2018. We have not audited the content of the [statement on corporate governance pursuant to § [Article] 289f HGB [Handelsgesetzbuch: German Commercial Code] and § 315d HGB] in accordance with the German legal requirements.

In our opinion, on the basis of the knowledge obtained in the audit,

- › the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law and give a true and fair view of the assets, liabilities and financial position of the Company as at December 31, 2018, and of its financial performance for the financial year from January 1 to December 31, 2018, in compliance with German Legally Required Accounting Principles, and
- › the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the management report does not cover the content of the statement on corporate governance referred to above.

Pursuant to [§ [Article] 322 Abs. [paragraph] 3 Satz [sentence] 1 HGB [Handelsgesetzbuch: German Commercial Code]], we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

#### *Basis for the Audit Opinions*

We conducted our audit of the annual financial statements and of the management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as “EU Audit Regulation”) and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the “Auditor’s Responsibilities for the Audit of the Annual Financial Statements and of the Management Report” section of our auditor’s report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the annual financial statements and on the management report.

#### *Key Audit Matters in the Audit of the Annual Financial Statements*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the financial year from January 1 to December 31, 2018. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matter of most significance in our audit was as follows:

**① Recoverability of investments in affiliated companies**

Our presentation of this key audit matter has been structured as follows:

- ① Matter and issue
- ② Audit approach and findings
- ③ Reference to further information

Hereinafter we present the key audit matter:

**① Recoverability of investments in affiliated companies**

① Investments in affiliated companies amounting to EUR 739 million (13.6% of total assets) are reported under the "Financial assets" item in the statement of financial position in the annual financial statements of LANXESS AG. The investments in affiliated companies comprise the investment in LANXESS Deutschland GmbH, which holds further investments in turn.

Investments in affiliated companies are measured in accordance with German commercial law at the lower of cost and fair value. The impairment testing of the shares in LANXESS Deutschland GmbH also takes into account the fair values of its indirect and direct investments, since these could have a material impact on the fair value of the shares in LANXESS Deutschland GmbH. The respective fair values of LANXESS Deutschland GmbH and its indirect and direct investments are determined if there are indications of possible impairment. For this purpose, the investments are reviewed to establish whether the carrying amount of the investment is not covered by the corresponding (share of) net assets of the company, the company has a history of making losses or there are other indicators which could result in the permanent impairment of the investment.

The fair values for investments are generally calculated as the present values of the expected future cash flows derived from the planning projections prepared by the Company.

The reviews for indications of impairment and the fair values determined did not result in a need for any write-downs for the fiscal year.

The outcome of the reviews and valuations depends in particular on planning projections, the estimation of future cash inflows as well as discount and growth rates, which are subject to material uncertainty. Against this background and in view of its material importance for LANXESS AG's assets, liabilities, and financial performance, this matter was of particular significance for our audit.

② As part of our audit, we reviewed and evaluated the methodological procedure adopted for the purposes of the impairment testing of the shares in LANXESS Deutschland GmbH, among other things. Using the annual financial statements of LANXESS Deutschland GmbH, we verified that the carrying amount of the investment in LANXESS Deutschland GmbH is covered by the company's net assets and that there is no history of making losses. In addition, we conducted interviews with the client, examined the documentation for matters that could result in the permanent impairment of the investment and also obtained information on this subject from the executive directors. We also inspected the planning projections for the various business areas at the level of LANXESS AG and verified that these contained no evidence for the permanent impairment of the investment either. We assessed the appropriateness of the future cash inflows used in the planning projections, among other things by comparing this data with the current budgets in the five-year plan approved by the executive directors, and reconciling it against general and sector-specific market expectations. Overall, the assumptions used by the executive directors are in line with our expectations.

We also assessed the recoverability of the investments held by LANXESS Deutschland GmbH. For this purpose, we investigated whether the carrying amount of the investment is covered by the (share of) the net assets of the respective company. In the case of those companies with (a share of) net assets below the carrying amount of the investment, a history of losses or other indicators that could result in the permanent impairment of the investment, we obtained the relevant determination of fair value for the investment and assessed whether the fair values were properly calculated and whether they affect the carrying amount of the investment in LANXESS Deutschland GmbH.

In our view, on the basis of the available information, the procedures adopted by the executive directors for the purpose of the impairment testing of the shares in LANXESS Deutschland GmbH, including the measurement parameters applied and underlying measurement assumptions, are appropriate overall for the proper measurement of the investments in affiliated companies.

③ The Company's disclosures relating to the investments in affiliated companies are contained in the notes to the financial statements in the section entitled "Accounting Policies and Valuation Principles."

### **Other Information**

The executive directors are responsible for the other information. The other information comprises the [statement on corporate governance pursuant to § 289f HGB and § 315d HGB.

Our audit opinions on the annual financial statements and on the management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- › is materially inconsistent with the annual financial statements, with the management report or our knowledge obtained in the audit, or
- › otherwise appears to be materially misstated.

### **Responsibilities of the Executive Directors and the Supervisory Board for the Annual Financial Statements and the Management Report**

The executive directors are responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles. In addition, the executive directors are responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the executive directors are responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, the executive directors are responsible for the preparation of the management report that as a whole provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The supervisory board is responsible for overseeing the Company's financial reporting process for the preparation of the annual financial statements and of the management report.

### **Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report**

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Company's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- › Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- › Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems of the Company.
- › Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- › Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.
- › Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.
- › Evaluate the consistency of the management report with the annual financial statements, its conformity with German law, and the view of the Company's position it provides.
- › Perform audit procedures on the prospective information presented by the executive directors in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

## **OTHER LEGAL AND REGULATORY REQUIREMENTS**

### ***Further Information pursuant to Article 10 of the EU Audit Regulation***

We were elected as auditor by the annual general meeting on May 15, 2018. We were engaged by the supervisory board on October 29, 2018. We have been the auditor of the LANXESS Aktiengesellschaft, Köln, without interruption since the financial year 2004.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

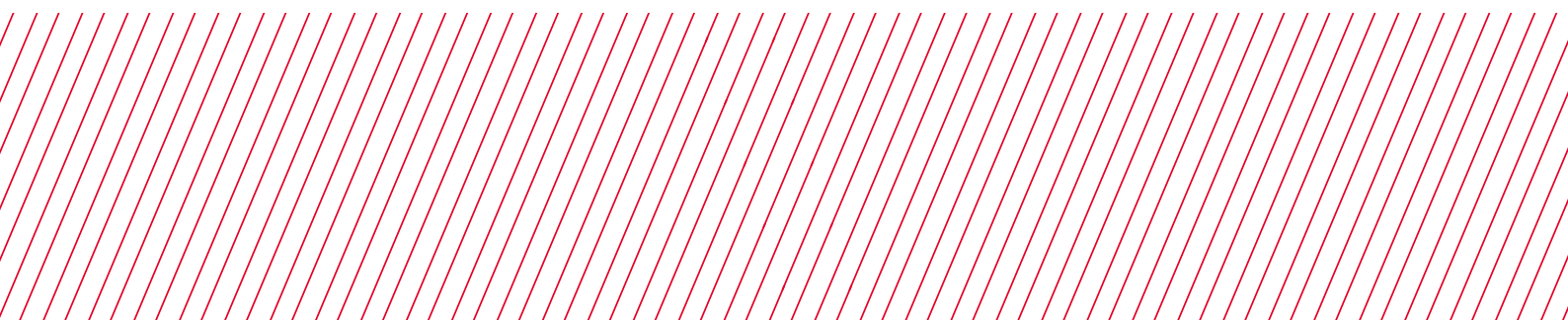
## **GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT**

The German Public Auditor responsible for the engagement is Jörg Sechser.

Cologne, March 1, 2019

PricewaterhouseCoopers GmbH  
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