



**QUALITY WORKS.**



**2016**

# LANXESS AKTIENGESELLSCHAFT, COLOGNE

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# Income Statement

## LANXESS AG

€ thousand	Note	2015	2016
<b>Sales</b>	(1)	<b>4,090</b>	<b>5,877</b>
Cost of sales	(2)	(4,090)	(5,709)
<b>Gross profit</b>		<b>0</b>	<b>168</b>
General administration expenses		(44,238)	(37,741)
Other operating income	(3)	32,570	3,454
Other operating expenses	(4)	(4,061)	(9,059)
<b>Operating result</b>		<b>(15,729)</b>	<b>(43,178)</b>
Income from investments in affiliated companies		252,471	762,164
Income from other securities and loans included in financial assets	(5)	6,526	8,388
Net interest expense	(6)	(43,570)	(49,530)
Other financial income and expenses – net	(7)	(7,559)	(10,505)
<b>Financial result</b>		<b>207,868</b>	<b>710,517</b>
Income taxes	(8)	(101,377)	(89,148)
<b>Income after income taxes</b>		<b>90,762</b>	<b>578,191</b>
<b>Net income</b>		<b>90,762</b>	<b>578,191</b>
Carryforward to new account	(20)	7,061	42,910
Withdrawal from other retained earnings		0	(289,096)
<b>Distributable profit</b>		<b>97,823</b>	<b>332,005</b>

# Statement of Financial Position

## LANXESS AG

€ thousand	Note	31.12.2015	31.12.2016
<b>ASSETS</b>			
<b>Non-current assets</b>	(12)		
<b>Intangible assets</b>		46	33
<b>Property, plant and equipment</b>		70	64
<b>Financial assets</b>			
Investments in affiliated companies	(13)	738,864	738,864
Loans to subsidiaries	(14)	198,363	198,363
Other loans	(15)	19,096	43,066
		<b>956,439</b>	<b>980,390</b>
<b>Current assets</b>			
<b>Receivables and other assets</b>			
Receivables from affiliated companies	(16)	2,035,239	2,510,254
Other assets	(17)	21,454	1,984,518
<b>Securities</b>	(18)	100,004	215,064
<b>Liquid assets</b>		309,893	200,339
		<b>2,466,590</b>	<b>4,910,175</b>
<b>Prepaid expenses</b>	(19)	<b>8,743</b>	<b>28,500</b>
<b>Total assets</b>		<b>3,431,772</b>	<b>5,919,065</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>	(20)		
Capital stock (conditional capital €18.305 thousand)		91,523	91,523
Capital reserves		1,230,529	1,230,529
Other retained earnings		97,892	386,988
Distributable profit		97,823	332,005
		<b>1,517,767</b>	<b>2,041,045</b>
<b>Provisions</b>			
Provisions for pensions and other post-employment benefit obligations	(21)	58,280	58,801
Tax provisions	(22)	56,881	35,688
Other provisions	(23)	30,316	35,964
		<b>145,477</b>	<b>130,453</b>
<b>Liabilities</b>			
Bonds	(24)	1,400,000	2,700,000
Liabilities to banks	(25)	148,118	22,553
Trade payables	(26)	652	2,442
Payables to affiliated companies	(27)	218,370	1,021,282
Other liabilities	(28)	1,388	1,290
		<b>1,768,528</b>	<b>3,747,567</b>
<b>Total equity and liabilities</b>		<b>3,431,772</b>	<b>5,919,065</b>
Contingent liabilities from guarantees	(30)	315,276	298,770

# Notes to the Financial Statements of LANXESS Aktiengesellschaft, Cologne, for fiscal 2016

## GENERAL

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 declaration has been made available to the stockholders, and the English version is permanently posted at [www.lanxess.com/Investor Relations/Corporate Governance](http://www.lanxess.com/Investor Relations/Corporate Governance).

For this reporting year, the following deviations from the presentation methods, accounting policies and valuation principles used in previous years were undertaken:

- › Pursuant to Article 75, Paragraph 6, Sentence 1 of the Introductory Act to the German Commercial Code (EGHGB), revised version, in conjunction with Section 253, Paragraph 2, Sentence 1 of the German Commercial Code (HGB), revised version, pension commitments (provisions for pensions) in the annual financial statements for fiscal 2016 are measured using the average market interest rate of the past ten years (2015: average market interest rate of the past seven years).
- › The prior-year sales figures cannot be used for comparison due to the revision of Section 277, Paragraph 1 of the HGB through the implementation of the German Accounting Directive Implementation Act (BilRUG). Analogous application of Section 277, Paragraph 1 of the HGB as amended by the BilRUG would have resulted in sales of €5,472 thousand for the previous year.

## PRESENTATION

The financial statements of LANXESS AG 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 3 of HGB in conjunction with Section 298, Paragraph 3 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, 2016, in accordance with the International Financial Reporting Standards (IFRS), as endorsed by the European Union.

The financial statements and combined management report for fiscal 2016 prepared in application of Section 315, Paragraph 3 HGB in conjunction with Section 298, Paragraph 3 HGB are published together with the auditor's report in the German Federal Gazette (Bundesanzeiger). They are made available at [www.lanxess.com/Investor Relations/Publications](http://www.lanxess.com/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 €150.00 are expensed in the year of acquisition. Low-value assets costing between €150.00 and €1,000.00 are combined in a collective item and depreciated over 5 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 ringfenced 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 of the German Commercial Code (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 euros 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 prepaid 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 the LANXESS fiscal entity, which is currently 32.3% (2015: 32.1%). 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 2016, 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 ba-

sis of biometric probability using the Heubeck 2005 G reference tables. Expected future salary and pension increases are taken into account. 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 reduced by 0.25 percentage points to 1.50% in the annual financial statements for 2016. For new pension commitments, the expected rate of increase is unchanged from the previous year at 1.00%. The discount rate used is 4.01% (2015: 3.89%) for pensions, 1.59% (2015: 2.02%) for early retirement benefits and 3.24% (2015: 3.89%) for miscellaneous post-employment benefits. The interest rate used to discount pension and other post-employment benefit obligations to December 31, 2016, is the average market interest rate for the past ten years (2015: past seven 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, five years for early retirement benefits and three years for phased early retirement programs.

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 gains 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 in the reporting period were recorded in line with the redefinition of Section 277, Paragraph 1 of the German Commercial Code (HGB) as amended by the German Accounting Directive Implementation Act (BilRUG). Sales revenues totaled €5,877 thousand (2015: €4,090 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 €5,709 thousand (2015: €4,090 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 €2,959 thousand (2015: €28,366 thousand) from the reversal of provisions.

### 4 | Other Operating Expenses

The other operating expenses included prior-period expenses of €8,484 thousand (2015: €0 thousand) arising from a compensatory claim on the basis of the master agreement between Bayer AG and LANXESS AG.

### 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 €8,281 thousand (2015: €6,471 thousand) from long-term loans to LANXESS Deutschland GmbH.

### 6 | Net Interest Expense

€ thousand	2015	2016
<b>Other interest and similar income</b>		
from third parties	396	150
from affiliated companies	18,273	13,994
	<b>18,669</b>	<b>14,144</b>
<b>Interest and similar expenses</b>		
to third parties	52,107	58,275
for the interest portion of provisions for pensions and other non-current personnel-related provisions	2,121	2,250
to affiliated companies	8,011	3,149
	<b>62,239</b>	<b>63,674</b>
<b>Net interest expense</b>	<b>(43,570)</b>	<b>(49,530)</b>

### 7 | Other Financial Income and Expenses - Net

€ thousand	2015	2016
<b>Other financial expenses</b>		
Exchange losses	596,497	165,747
Miscellaneous financial expenses	7,976	11,166
	<b>604,473</b>	<b>176,913</b>
<b>Other financial income</b>		
Exchange gains	595,784	165,676
Miscellaneous financial income	1,130	732
	<b>596,914</b>	<b>166,408</b>
<b>Other financial income (expenses) - net</b>	<b>(7,559)</b>	<b>(10,505)</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 €89,148 thousand in 2016 (2015: €101,377 thousand) is the aggregate of the tax expense of €68,352 thousand for 2016 and €20,796 thousand in respect of previous years.

Tax expense does not include deferred taxes. As of December 31, 2016, 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	2015	2016
Wages and salaries	25,588	30,709
Social expenses and expenses for pensions and other benefits	10,188	1,781
of which for pensions	9,351	915
	<b>35,776</b>	<b>32,490</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, 2015	Average 2016	Dec. 31, 2016
General administration	127	133	135

## 11 | Audit Fees

All fees for the services of PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft are published in the notes to the LANXESS Group consolidated financial statements.



## NOTES TO THE STATEMENT OF FINANCIAL POSITION

### 12 | Non-Current Assets

€ thousand	Gross carrying amounts				Amortization/depreciation and write-downs				Net carrying amounts	
	Jan. 1, 2016	Additions	Disposals	Dec. 31, 2016	Jan. 1, 2016	Additions	Disposals	Dec. 31, 2016	Jan. 1, 2015	Dec. 31, 2016
<b>Intangible assets</b>										
Software licenses	57	7	0	64	11	20	0	31	46	33
	<b>57</b>	<b>7</b>	<b>0</b>	<b>64</b>	<b>11</b>	<b>20</b>	<b>0</b>	<b>31</b>	<b>46</b>	<b>33</b>
<b>Property, plant and equipment</b>										
Furniture, fixtures and other equipment	213	31	44	200	143	37	44	136	70	64
	<b>213</b>	<b>31</b>	<b>44</b>	<b>200</b>	<b>143</b>	<b>37</b>	<b>44</b>	<b>136</b>	<b>70</b>	<b>64</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	19,096	23,970	0	43,066	0	0	0	0	19,096	43,066
	<b>956,323</b>	<b>23,970</b>	<b>0</b>	<b>980,293</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>956,323</b>	<b>980,293</b>
<b>Total non-current assets</b>	<b>956,593</b>	<b>24,008</b>	<b>44</b>	<b>980,557</b>	<b>154</b>	<b>57</b>	<b>44</b>	<b>167</b>	<b>956,439</b>	<b>980,390</b>

### 13 | Shareholdings Pursuant to Section 285, No. 11 of the German Commercial Code (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 €41,765 thousand, including €23,963 thousand in 2016, 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 2016.

The net income and expenses of €7 thousand recorded in 2016 (2015: €55 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 of the German Commercial Code (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 €160 thousand (2015: €119 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 €2,510,254 thousand (2015: €2,035,239 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 €1,137 thousand (2015: €1,039 thousand) existed in connection with the service agreement described in Note (1). Furthermore, there were no receivables with maturities in excess of one year (2015: €3,500 thousand).

### 17 | Other Assets

Other assets comprised the following:

€ thousand	Dec. 31, 2015	Dec. 31, 2016
Time deposits	0	1,950,000
Tax receivables		
from sales taxes	11,436	21,103
from income taxes	7,771	10,862
Miscellaneous assets	2,247	2,553
	<b>21,454</b>	<b>1,984,518</b>

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

### 18 | Securities

Securities had a carrying amount of €215,064 thousand (2015: €100,004 thousand) and primarily comprised units of money market funds, mutual funds and commercial papers that can be sold at any time.

### 19 | Prepaid Expenses

The prepaid expenses in fiscal 2016 mainly included discounts of €27,085 thousand (2015: €6,127 thousand) on the bonds issued.

## 20 | Equity

Changes in equity in 2016 were as follows:

€ thousand	Dec. 31, 2015	Dividend	Net income	Withdrawal from	Transfer to	Dec. 31, 2016
Capital stock	91,523	0	0	0	0	91,523
Capital reserves	1,230,529	0	0	0	0	1,230,529
Other retained earnings	97,892	0	0	0	289,096	386,988
Distributable profit	97,823	(54,913)	578,191	(289,096)	0	332,005
	<b>1,517,767</b>	<b>(54,913)</b>	<b>578,191</b>	<b>(289,096)</b>	<b>289,096</b>	<b>2,041,045</b>

The capital stock is divided into 91,522,936 no-par bearer shares.

The Annual Stockholders' Meeting on May 20, 2016, resolved to utilize the distributable profit for 2015, amounting to €97,823 thousand, as follows:

- › To pay a dividend totaling €54,913 thousand (€0.60 per no-par share entitled to the dividend)
- › To carry forward €42,910 thousand to new account

### **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 rights to, or impose exercise obligations on, the holders or creditors of these 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 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. When deciding on the exclusion of the subscription rights of stockholders, the Board of Management 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. The authorization to issue bonds has yet to be utilized.

### **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). 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. However, this subscription right can be excluded in certain cases defined in greater detail in Section 4, Paragraphs 2 and 3 of LANXESS AG's articles of association. When deciding on the exclusion of the subscription rights of stockholders for shares from Authorized Capital II, the Board of Management will 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. Authorized Capital has yet to be 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.

On February 26, 2016, the German Federal Council passed the "Law on the Implementation of the Residential Property Directive and the Amendment of Provisions under Commercial Law." The law was promulgated on March 16, 2016, and came into effect on March 17. It led to an amendment to Section 253 of the German Commercial Code (HGB) regarding the measurement of provisions for pension commitments, and the period of time for calculating the average interest rate used to discount pension provisions under commercial law was extended from seven to ten years.

Pursuant to Article 75, Paragraph 6 of the Introductory Act on the German Commercial Code (EGHGB), revised version, the

revision of Section 253 HGB must be applied to the company's annual financial statements for the first time as of December 31, 2016. Pension provisions as of December 31, 2016, amounted to €58,345 thousand. The difference pursuant to Section 253, Paragraph 6, Sentence 1 HGB for the fiscal year amounted to €7,943 thousand and is subject to the ban on distribution pursuant to Section 253, Paragraph 6, Sentence 2 HGB.

The effect caused by the change in the discount rate was recognized in the operating result.

### **22 | Tax Provisions**

The tax provisions relate to income taxes of €12,432 thousand for the current fiscal year and €23,256 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 2016 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 against a reference index, the Dow Jones STOXX 600 Chemicals<sup>SM</sup>. 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. The LTSP 2014 - 2017 program uses the MSCI World Chemicals Index as a new reference index. There were no further material changes compared with the LTSP 2010 - 2013.

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, 2016, totaled €2,700,000 thousand (2015: €1,400,000 thousand) and comprised the following:

€ thousand	Interest rate %	Maturity	Volume
Eurobond 2011/2018	4.125	May 2018	500,000
Eurobond 2012/2022	2.625	November 2022	500,000
Private placement 2012/2022	3.500	April 2022	100,000
Private placement 2012/2027	3.950	April 2027	100,000
Eurobond 2016/2021	0.250	October 2021	500,000
Eurobond 2016/2026	1.000	October 2026	500,000
Hybrid bond 2016/2076	4.500	December 2076	500,000
			<b>2,700,000</b>

The €200,000 thousand bond issued in fiscal 2009 was redeemed in September 2016. In addition, bonds totaling €1,500,000 thousand were issued in fiscal 2016.

## 25 | Liabilities to Banks

The liabilities to banks of €22,553 thousand (2015: €148,118 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 €1,021,282 thousand (2015: €218,370 thousand) mainly comprised loans, including accrued interest, and liabilities relating to financial transactions.

## 28 | Other Liabilities

€ thousand	Dec. 31, 2015	Dec. 31, 2016
Tax liabilities	427	431
Miscellaneous liabilities	961	859
	<b>1,388</b>	<b>1,290</b>

## 29 | Further Information on Liabilities

The residual maturities of liabilities are as follows:

€ thousand	Dec. 31, 2015			Dec. 31, 2016		
	Up to 1 year	More than 1 and up to 5 years	More than 5 years	Up to 1 year	More than 1 and up to 5 years	More than 5 years
Bonds	200,000	500,000	700,000	0	1,000,000	1,700,000
Liabilities to banks	148,118	0	0	22,553	0	0
Trade payables	652	0	0	2,442	0	0
Payables to affiliated companies	218,370			1,021,282	0	0
Other liabilities	1,388	0	0	1,290	0	0
	<b>568,528</b>	<b>500,000</b>	<b>700,000</b>	<b>1,047,567</b>	<b>1,000,000</b>	<b>1,700,000</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, 2015	Dec. 31, 2016
to banks	119,717	95,789
to suppliers/other third parties	195,559	202,981
	<b>315,276</b>	<b>298,770</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, 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 ultimate parent company, guaranteed all outstanding liabilities as of December 31, 2016, with respect to Section 479C of the U.K. Companies Act 2006. The net liabilities of LANXESS Limited as of December 31, 2016, amounted to €1,663 thousand.

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. As required by law, LANXESS AG, as the ultimate parent company, guaranteed all outstanding liabilities as of December 31, 2016, with respect to Section 2:403, Paragraph 1 (f) of the Dutch Civil Code. The net liabilities of ARLANXEO Netherlands B.V. as of December 31, 2016, amounted to €101,244 thousand.

Based on the information available to us, the companies concerned should be able to fulfil 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 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 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 €1,897 million as of December 31, 2016 (2015: €2,615 million). Back-to-back derivative contracts with a notional amount of €879 million (2015: €1,984 million) were concluded with Group companies. The total notional amount of derivatives was €2,776 million (2015: €4,598 million). This figure also contains those derivatives included in valuation units.

The derivatives comprised the following:

€ thousand	Notional amount		Fair value		Carrying amount	
	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2016
<b>Forward exchange contracts</b>						
positive fair values	1,985,875	1,840,679	92,750	83,193	0	0
negative fair values	2,612,526	927,637	100,621	37,968	7,499	2,824
	4,598,401	2,768,316	(7,871)	45,225	(7,499)	(2,824)
<b>Forward commodity contracts</b>						
positive fair values	0	3,681	0	449	0	0
negative fair values	0	3,681	0	449	0	0
	0	7,362	0	0	0	0
	<b>4,598,401</b>	<b>2,775,678</b>	<b>(7,871)</b>	<b>45,225</b>	<b>(7,499)</b>	<b>(2,824)</b>

### **Financial derivatives used to hedge currency risks**

LANXESS AG used forward exchange contracts and currency options 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 €340.7 million (2015: €1,188.2 million) and a negative fair value of €20.2 million (2015: negative fair value of €61.7 million) 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 €337.0 million (2015: €1,188.2 million) and had a positive fair value of €20.7 million (2015: positive fair value of €61.7 million). Changes in the value of the corresponding external and internal transactions move in opposite directions and will offset one another by 2018. 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 (exposure in the statement of financial position), LANXESS AG concluded forward exchange contracts with external counterparties with a notional amount of €1,556.5 million (2015: €1,426.5 million) and a fair value of €37.3 million (2015: negative fair value of €18.0 million). Some of these transactions were passed through to Group companies. Contracts with these internal counterparties had a notional amount of €537.7 million (2015: €795.6 million) and a positive fair value of €7.9 million (2015: positive fair value of €10.1 million). 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 net negative and positive fair values, respectively, of €37.3 million and €7.9 million (2015: net negative and positive fair values, respectively, of €18.0 million and €10.1 million). The majority of them mature in 2017 and the remainder in 2019 at the latest. These transactions were not reflected in the statement of financial position.

Forward exchange contracts that were used to hedge foreign currency exposure in the statements of financial position of Group companies and were not matched by internal transactions had a negative fair value of €2.8 million (2015: negative fair value of €7.5 million). 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 €50.5 million at year end (2015: €710.7 million), while the carrying amount of loans to LANXESS AG was €911.2 million (2015: €175.3 million). The net currency risk was minus

€46.7 million (2015: €1.4 million). The external forward exchange contracts had a net negative fair value of €2.8 million (2015: net negative fair value of €7.9 million) and are all due in 2017. They were not recognized in the statement of financial position.

### **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. Valuation units 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 of the German Commercial Code (HGB))**

Total compensation of €11,852 thousand (2015: €9,360 thousand) was paid to the members of the Board of Management of LANXESS AG for fiscal 2016, comprising €7,545 thousand (2015: €6,728 thousand) in annual compensation (fixed compensation, annual bonus, benefits in kind and other), minus €147 thousand (2015: minus €62 thousand) in compensation relating to the previous year and €4,454 thousand (2015: €2,694 thousand) in multi-year compensation.

The multi-year compensation includes total payments of €1,857 thousand (2015: €1,626 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 4,440,000 (2015: 1,200,000). The fair value of these rights at the grant date was €2,597 thousand (2015: €1,068 thousand). In fiscal 2016, stock-based compensation resulted in net expense of €3,430 thousand (2015: €1,450 thousand).

In addition, net expenses of €1,385 thousand (2015: €2,628 thousand) were incurred to provide retirement pensions for the members of the Board of Management. The present value of the



benefit obligation as of December 31, 2016, for those members of the Board of Management serving on that date was €11,691 thousand (2015: €10,307 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 2016.

#### Compensation of the Supervisory Board

€ thousand	Fixed compensation	Compensation for committee membership	Attendance allowance	Long-term compensation	Total
2016	1,160	468	191	0	1,819
2015	1,161	481	220	1,200	3,062

The members of the Supervisory Board received total compensation of €1,819 thousand in 2016 (2015: €3,062 thousand). The provisions established for multi-year compensation for Supervisory Board members as of December 31, 2016, amounted to €588 thousand (2015: €1,200 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 2016.

#### 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 of the German Commercial Code (HGB))

Pension benefits of €1,244 thousand (2015: €293 thousand) were paid to former members of the Board of Management. €603 thousand (2015: €3,822 thousand) was recognized as current pension expense.

Provisions of €26,041 thousand were recognized as of December 31, 2016 (2015: €26,682 thousand) for the current pensions and the pension entitlements of former members of the Board of Management.

Payments totaling €1,244 thousand were made to former members of the Board of Management in fiscal 2016 (2015: €3,673 thousand). In the previous year, this item 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 in 2015 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.

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

There were no loans or advances to members of the Board of Management or the Supervisory Board as of December 31, 2016, 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 of the German Commercial Code (HGB))

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

€ thousand	Amount
Provisions for pensions (seven-year average interest rate)	66,288
less provisions for pensions (ten-year average interest rate)	(58,345)
<b>Difference</b>	<b>7,943</b>
<b>Total amount barred from distribution</b>	<b>7,943</b>

As of December 31, 2016, 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 €332,005 thousand.

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

LANXESS and U.S. company Chemtura signed an agreement on LANXESS' acquisition of Chemtura in September 2016. Chemtura shareholders approved the transaction at an extraordinary general meeting held on February 1, 2017. Subject to outstanding regulatory approvals, the acquisition will likely be closed by mid-2017.

Beyond this, no events of special significance took place after December 31, 2016, 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 €332,005 thousand, the Board of Management proposes that the Annual Stockholders Meeting resolve on the payment of a dividend of €64,066 thousand (€0.70 per no-par share entitled to the dividend) and the allocation of €175,000 thousand to other retained earnings. It also proposes that the remaining amount, €92,939 thousand, be carried forward to new account.

### 39 | Corporate Officers

#### **Supervisory Board**

Members of the Supervisory Board hold or held offices as members of the supervisory board or a comparable supervising body of the corporations listed (as of December 31, 2016).

The following representatives of the company's stockholders are currently members of the Supervisory Board and/or were members of the Supervisory Board in 2015 (offices of former members on the date they stepped down):

#### **Dr. Rolf Stomberg (Chairman)**

- Former Chief Executive of the Shipping, Refining and Marketing Division of The British Petroleum Co. p.l.c., London, U.K.
- Former member of the Board of Directors of The British Petroleum Co. p.l.c., London, U.K.

#### **Further offices:**

- LANXESS Deutschland GmbH, Cologne\* (Chairman)
- Biesterfeld AG, Hamburg\*
- HOYER GmbH, Hamburg
- KEMNA Bau Andreae GmbH & Co. KG, Pinneberg

#### **Dr. Heike Hanagarth (appointed July 1, 2016)**

- Management consultant

#### **Further offices:**

- LANXESS Deutschland GmbH, Cologne\*
- aichele GROUP GmbH & Co. KG, Bretten (Advisory Board) (since November 1, 2016)

#### **Dr. Friedrich Janssen**

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

#### **Further offices:**

- LANXESS Deutschland GmbH, Cologne\*
- National-Bank AG, Essen\*
- Hoberg & Driesch GmbH, Düsseldorf (Chairman of the Advisory Board)

#### **Claudia Nemat (resigned July 30, 2016)**

- Member of the Board of Management of Deutsche Telekom AG

#### **Further offices:**

- LANXESS Deutschland GmbH, Cologne\*
- Airbus Group SE, Leiden, Netherlands\* (from April 28, 2016)
- Airbus Defence and Space GmbH, Ottobrunn\* (from April 28, 2016)
- BuyIn SA, Brussels, Belgium
- Hellenic Telecommunications Organization S.A. (OTE S.A.), Maroussi, Athens, Greece

#### **Lawrence A. Rosen**

- Former member of the Board of Management of Deutsche Post AG, Bonn

#### **Further offices:**

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

#### **Theo H. Walthie**

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

#### **Further offices:**

- LANXESS Deutschland GmbH, Cologne\*
- NBE Therapeutics AG, Basle, Switzerland

#### **Dr. Matthias L. Wolfgruber**

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

#### **Further offices:**

- LANXESS Deutschland GmbH, Cologne\*
- ALTANA AG, Wesel\*
- Grillo Werke AG, Duisburg\*
- ARDEX GmbH, Witten (Chairman of the Advisory Committee)
- Cabot Corporation, Boston, Massachusetts, U.S.A.

\* 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 2015 (offices of former members on the date they stepped down):

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**Ralf Sikorski (Vice Chairman)**

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

**Further offices:**

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

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**Gisela Seidel (former Vice Chairwoman; resigned May 31, 2016)**

- Chairwoman of the Works Council at the Dormagen site

**Further offices:**

- LANXESS Deutschland GmbH, Cologne\*

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**Werner Czaplak**

- Chairman of the LANXESS Central Works Council

**Further offices:**

- LANXESS Deutschland GmbH, Cologne\*

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**Dr. Hans-Dieter Gerriets**

- Chairman of the LANXESS AG 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\*

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**Thomas Meiers**

- District Secretary of the German Mining, Chemical and Energy Industrial Union, Cologne

**Further offices:**

- LANXESS Deutschland GmbH, Cologne\*
- INEOS Deutschland Holding GmbH, Cologne\*
- INEOS Köln GmbH, Cologne\*

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**Manuela Strauch**

- Chairwoman of the LANXESS Works Council at the Uerdingen site

**Further offices:**

- LANXESS Deutschland GmbH, Cologne\*

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**Ifraim Tairi (appointed June 1, 2016)**

- Chairman of the LANXESS Works Council at the Dormagen site

**Further offices:**

- LANXESS Deutschland GmbH, Cologne\*
- ARLANXEO Deutschland GmbH, Dormagen\*

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\*Statutory supervisory boards

### **Board of Management**

The following persons are currently members of the Board of Management:

#### **Offices held by serving Board of Management members (as of December 31, 2016)**

<b>Member of the Board of Management</b>	<b>External offices</b>	<b>Offices within the LANXESS Group</b>
<b>Matthias Zachert</b>		
Chairman of the Board of Management	<ul style="list-style-type: none"> <li>Member of the Presidium of the German Chemical Industry Association (VCI)</li> <li>• Member of the Asia-Pacific Committee of German Business (APA)</li> <li>• Member of the Presidium of "stiftung neue verantwortung e.V."</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.</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 Saltigo GmbH</li> </ul>
<b>Michael Pontzen</b>		
Chief Financial Officer	<ul style="list-style-type: none"> <li>• Member of the Board of Directors of Deutsches Aktieninstitut (DAI)</li> <li>• Member of Gesellschaft für Finanzwirtschaft in der Unternehmensführung e.V. (GEFIU)</li> </ul>	<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.</li> </ul>
<b>Dr. Rainier van Roesel</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> <li>• Member of the Board of the German Chemical Industry Association (VCI) in North Rhine-Westphalia</li> <li>• Chairman of the Trade Policy Committee of the German Chemical Industry Association (VCI)</li> <li>• Member of the German Committee on Eastern European Economic Relations</li> <li>• Member of the 1 b Experience-Exchange Group of the German Association for Personnel Management (DGFP)</li> <li>• Member of the Board of the German Chemical Industry Federation (BAVC)</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 Corp.</li> <li>• Member 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>• Chairman of the Board of Directors of LANXESS Pte. Ltd.</li> <li>• Chairman of the Board of Directors of LANXESS Thai Co., Ltd.</li> </ul>

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

Notified by	Date of change	Threshold	Voting rights		Attributable voting rights
			%	absolute	
BlackRock, Inc., Wilmington, DE, U.S.A.	Nov. 21, 2016	5.00%	5.64%	5,161,891	BlackRock, Inc., Wilmington, DE, U.S.A. (5.64% pursuant to Section 22 German Securities Trading Act WpHG)
Ministry of Finance on behalf of the State of Norway, Oslo, Norway	Dec. 12, 2016	3.00%	4.70%	4,303,688	Norges Bank, Oslo, Norway (4.70% pursuant to Section 22 German Securities Trading Act WpHG)
Templeton Investment Counsel, LLC, Wilmington, Delaware, U.S.A.	Oct. 23, 2015	3.00%	3.04%	2,779,376	Templeton Investment Counsel, LLC, Wilmington, Delaware, U.S.A. (3.04% pursuant to Section 22 Paragraph German Securities Trading Act WpHG)
Allianz Global Investors, GmbH, Frankfurt am Main, Germany	Nov. 23, 2016	3.00%	3.02%	2,765,955	Allianz Global Investors, GmbH, Frankfurt am Main, Germany (3.02% pursuant to Section 22 German Securities Trading Act WpHG)
Dimensional Holdings, Inc., Austin, Texas, U.S.A.	April 20, 2016	3.00%	3.00%	2,748,082	Dimensional Holdings, Inc., Austin, Texas, U.S.A. (3.00% pursuant to Section 22 German Securities Trading Act WpHG)
Union Investment Privatfonds, GmbH, Frankfurt am Main, Germany	July 6, 2016	3.00%	3.00%	2,746,545	Union Investment Privatfonds, GmbH, Frankfurt am Main, Germany (3.00% pursuant to Section 22 German Securities Trading Act WpHG)

## 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 of the German Commercial Code (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

Company Name and Domicile	Interest held (%)	Equity (€ million)	Result (€ million)
<b>Fully consolidated companies</b>			
<b>Germany</b>			
ARLANXEO Deutschland GmbH, Dormagen	100	96	11
Bond-Laminates GmbH, Brilon	100	3	0 <sup>1</sup>
IAB Ionenaustauscher GmbH Bitterfeld, Greppin	100	31	0 <sup>1</sup>
LANXESS Accounting GmbH, Cologne	100	0	0 <sup>1</sup>
LANXESS Buna GmbH, Marl	100	8	0 <sup>1</sup>
LANXESS Deutschland GmbH, Cologne	100	1,299	0 <sup>1</sup>
LANXESS Distribution GmbH, Leverkusen	100	4	0 <sup>1</sup>
SALTIGO GmbH, Leverkusen	100	28	0 <sup>1</sup>
<b>EMEA (excluding Germany)</b>			
Antec International Ltd., Sudbury, Suffolk, U.K.	100	102	1
ARLANXEO Belgium N.V., Zwijndrecht, Belgium	100	149	3
ARLANXEO Elastomères France S.A.S., Lillebonne, France	100	105	4
ARLANXEO Emulsion Rubber France S.A.S., La Wantzenau, France	100	36	2
ARLANXEO Netherlands B.V., Sittard-Geleen, Netherlands	100	118	29
ARLANXEO Holding B.V., Sittard-Geleen, Netherlands	50	2,430	33
ARLANXEO Switzerland S.A., Granges-Paccot, Switzerland	100	45	42
Chemours Jersey Ltd., St Helier, Jersey	100	24	0
Europigments, S.L., Barcelona, Spain	52	5	0
LANXESS (Pty.) Ltd., Modderfontein, South Africa	100	36	7
LANXESS Central Eastern Europe s.r.o., Bratislava, Slovakia	100	14	2
LANXESS Chemicals, S.L., Barcelona, Spain	100	1,486	369
LANXESS Chrome Mining (Pty.) Ltd., Modderfontein, South Africa	100	(35)	(10)

### Company Name and Domicile

Company Name and Domicile	Interest held (%)	Equity (€ million)	Result (€ million)
LANXESS CISA (Pty.) Ltd., Newcastle, South Africa	100	58	3
LANXESS Epierre SAS, Epierre, France	100	0	0
LANXESS Kimya Ticaret Limited Şirketi, Istanbul, Turkey	100	3	1
LANXESS Limited, Newbury, U.K.	100	25	2
LANXESS N.V., Antwerp, Belgium	100	237	15
LANXESS S.A.S., Courbevoie, France	100	108	73
LANXESS S.r.l., Milan, Italy	100	16	2
OOO LANXESS Lipetsk, Lipetsk, Russia	100	2	0
OOO LANXESS, Moscow, Russia	100	2	0
Sybron Chemical Industries Nederland B.V., Ede, Netherlands	100	99	0
Sybron Chemicals International Holdings Ltd., Newbury, U.K.	100	0	0
<b>North America</b>			
ARLANXEO Canada Inc., Sarnia, Canada	100	135	(3)
ARLANXEO USA Holdings Corp., Pittsburgh, U.S.A.	100	1	1
ARLANXEO USA LLC, Pittsburgh, U.S.A.	100	87	(11)
International Dioxide Inc., North Kingstown, U.S.A.	100	2	(1)
LANXESS Corporation, Pittsburgh, U.S.A.	100	1,236	3
LANXESS Sybron Chemicals Inc., Birmingham, U.S.A.	100	29	(1)
Sybron Chemical Holdings Inc., Wilmington, U.S.A.	100	0	0
<b>Latin America</b>			
ARLANXEO Brasil S.A., Duque de Caxias, Brazil	100	327	56
LANXESS Industria de Produtos Quimicos e Plasticos Ltda., São Paulo, Brazil	100	81	8
LANXESS S.A. de C.V., Mexico City, Mexico	100	16	3
LANXESS S.A., Buenos Aires, Argentina	100	21	(8)
Rhein Chemie Uruguay S.A., Colonia, Uruguay	100	1	0

**Company Name and Domicile**

	Interest held (%)	Equity (€ million)	Result (€ million)
<b>Asia-Pacific</b>			
ARLANXEO High Performance Elastomers (Changzhou) Co., Ltd., Changzhou, China	100	81	(18)
ARLANXEO Singapore Pte. Ltd., Singapore	100	686	(87)
ARLANXEO-TSRC (Nantong) Chemical Industrial Co., Ltd., Nantong, China	50	11	1
LANXESS (Changzhou) Co., Ltd., Changzhou, China	100	16	(58)
LANXESS (Liyang) Polyols Co., Ltd., Liyang, China	100	0	1
LANXESS (Ningbo) Pigments Co., Ltd., Ningbo City, China	100	4	(16)
LANXESS (Wuxi) High Performance Composite Materials Company Limited, Wuxi, China	100	124	23
LANXESS Chemical (China) Co., Ltd., Shanghai, China	100	46	1
LANXESS Elastomers Trading (Shanghai) Co., Ltd., Shanghai, China	100	0	0
LANXESS Hong Kong Limited, Hong Kong	100	305	6
LANXESS India Private Ltd., Thane, India	100	170	9 <sup>2</sup>
LANXESS K.K., Tokio, Japan	100	42	3
LANXESS Korea Limited, Seoul, South Korea	100	15	0
LANXESS Pte. Ltd., Singapour	100	49	13
LANXESS PTY Ltd., Lidcombe, Australia	100	8	0
LANXESS Shanghai Pigments Co., Ltd., Shanghai, China	100	22	(1)
LANXESS Specialty Chemicals Co., Ltd., Shanghai, China	100	0	2
Rhein Chemie (Qingdao) Co., Ltd., Qingdao, China	90	42	3

**Company Name and Domicile**

	Interest held (%)	Equity (€ million)	Result (€ million)
<b>Jointly controlled entity</b>			
<b>Germany</b>			
DuBay Polymer GmbH, Hamm	50	31	2
<b>Associate accounted for using the equity method</b>			
<b>Germany</b>			
Currenta GmbH & Co. OHG, Leverkusen	40	127	1
<b>Non-consolidated immaterial subsidiaries</b>			
<b>Germany</b>			
LANXESS Middle East GmbH, Cologne	100	0	0
Sechste LXS GmbH, Cologne	100	0	0
<b>EMEA (excluding Germany)</b>			
W. Hawley & Son Ltd., Newbury, U.K.	100	0	0
<b>North America</b>			
LANXESS Additives Inc., Wilmington, U.S.A.	100	0	0
LANXESS Energy LLC, Wilmington, U.S.A.	100	0	0
<b>Latin America</b>			
Comercial Andinas Ltda., Santiago de Chile, Chile	100	0	0
Petroflex Trading S.A., Montevideo, Uruguay	100	0	0
<b>Asia-Pacific</b>			
LANXESS Thai Co., Ltd., Bangkok, Thailand	100	0	0
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, 2016

# 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, March 1, 2017  
LANXESS Aktiengesellschaft

The Board of Management

Matthias Zachert	Michael Pontzen
Dr. Rainier van Roessel	Dr. Hubert Fink



# Auditor's Report

We have audited the annual financial statements, comprising the statement of financial position, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report, which is combined with the group management report of LANXESS Aktiengesellschaft, Cologne, for the business year from January 1 to December 31, 2016. The maintenance of the books and records and the preparation of the annual financial statements and the combined management report in accordance with German commercial law and supplementary provisions of the articles of incorporation are the responsibility of the Company's Board of Management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system and the combined management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § (Section) 317 HGB ("Handelsgesetzbuch": "German Commercial Code") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors - IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with (German) principles of proper accounting and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in determining the audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the combined management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles

used and significant estimates made by the Company's Board of Management, as well as evaluating the overall presentation of the annual financial statements and combined management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit, the annual financial statements comply with the legal requirements and supplementary provisions of the articles of incorporation and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with (German) principles of proper accounting. The combined management report is consistent with the annual financial statements, complies with the legal requirements and as a whole provides a suitable view of the Company's position, while also suitably presenting the opportunities and risks of future development.

Cologne, March 2, 2017  
PricewaterhouseCoopers GmbH  
Wirtschaftsprüfungsgesellschaft

Bernd Boritzki  
German Public Auditor

Carsten Manthei  
German Public Auditor

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**PUBLISHER**

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