DEAR STOCKHOLDERS,

LANXESS developed successfully in 2019 despite the still difficult economic environment. As in the previous year, we significantly improved results in three of our four segments. We are increasingly benefiting from our more balanced portfolio. For example, a sharp volume decline in automotive was compensated for in particular by earnings improvements in the flame retardant and biocides businesses. EBITDA pre exceptionals increased slightly to €1.019 billion.

LANXESS’s transformation into a more stable and profitable company continues. Deals were reached for six important corporate transactions in the second half of 2019 alone. For example, a decision was made to sell the 40% interest in Currenta, the operator of the chemical parks at the sites in the Lower Rhine region. At the same time, Currenta’s site services were secured at attractive terms for the next ten years. In addition, non-strategic parts of the organometallics business were sold, and the sale of the chrome chemicals business got under way.

In November, LANXESS was one of the first major chemicals companies to publish its climate protection target. The Group intends to go climate neutral and eliminate its greenhouse gas emissions by 2040, thus fulfilling its responsibility as a global specialty chemicals company and long-term partner to our customers.

LANXESS still expects a difficult environment in 2020. At present, the potential impact of the spread of coronavirus is particularly hard to predict. However, LANXESS will continue to focus on strengthening and balancing its product portfolio and investing in organic growth.

During the reporting year, the Supervisory Board duly and fully performed the tasks and duties incumbent upon it under the law, the articles of association and the rules of procedure for the Supervisory Board. It regularly advised the Board of Management in its management of the company and monitored its activity. In the process, we were satisfied at all times by the legality, usefulness and propriety of the Board of Management’s work. The Supervisory Board spent a particularly significant amount of time dealing with the company’s strategic development in the reporting year.

The Supervisory Board was directly involved in all decisions of fundamental importance for the company. The Board of Management informed us regularly in written and oral reports about business performance, the situation of the Group, including the risk situation and risk management, strategic development, compliance, management development, the Group’s digitalization projects and current issues. On the basis of these reports, we discussed significant business transactions in detail. We thoroughly examined the reports and the resolutions proposed by the Board of Management and discussed them at length in meetings of the full Supervisory Board and its committees. If the law, articles of association or other provisions required the Supervisory Board to approve the actions of the Board of Management, we discussed these actions in detail and adopted resolutions on them.

The chairs of the Supervisory Board/Presidial Committee and Audit Committee and the Board of Management were in regular contact outside of the Supervisory Board’s meetings. We discussed the company’s current situation and material transactions.

PRINCIPAL TOPICS DISCUSSED BY THE SUPERVISORY BOARD

The Supervisory Board met a total of six times in the reporting year. Two Supervisory Board decisions were made by written circular. We regularly discussed the sales and earnings performance of the Group and its segments, as well as the financial position. Additionally, the Board of Management kept us updated about the overall state of the economy, the situation in the chemical industry,
the performance of LANXESS stock, investment and acquisition plans, the company’s stock repurchase, and sustainability issues. The Supervisory Board addressed the following important issues:

The focus of the Supervisory Board meeting held on March 13, 2019, was the review of the annual financial statements and consolidated financial statements for fiscal year 2018 and the proposal for use of the distributable profit. We discussed and approved the non-financial Group report 2018, which shows the sustainability aspects pursued by the company. The Supervisory Board also discussed motions for resolution by the Annual Stockholders’ Meeting. The Board of Management then presented the internal control, risk management and auditing systems, and we satisfied ourselves of their efficacy. In addition, the Supervisory Board decided upon the variable compensation for the Board of Management members for fiscal year 2018 on the basis of the identified target attainment. We also made amendments to the existing Board of Management contracts. In particular, the LTPB compensation component was changed to a multi-year assessment period, and a claw-back clause was added. As a result of the change to the variable LTPB compensation component, we also updated the declaration of compliance.

At the meeting on May 13, 2019, the Supervisory Board reviewed in full and approved the corporate planning for 2020 proposed by the Board of Management. We also had a detailed discussion about the company’s strategic alignment – including sustainability aspects – and capital expenditure policy. LANXESS has set itself the ambitious target of becoming climate neutral by 2040. As in previous years, current developments in corporate governance were a topic on the agenda of the December meeting. After reviewing compliance with the recommendations and suggestions of the German Corporate Governance Code (GCGC), we resolved to issue a declaration of compliance. In addition, the Board of Management presented a potential M&A project to us. Board of Management personnel decisions were another focus at this meeting. We were presented with a report on the appropriateness of Board of Management compensation at LANXESS compiled by an international HR consulting firm, which we then discussed in detail. On the basis of this report, we reviewed the annual base salary of Mr. Pontzen and Dr. Fink. To succeed Dr. Rainier van Roessel, who departed as a Board of Management member in 2019, the Supervisory Board appointed Dr. Stephanie Coßmann as member of the Board of Management and Labor Relations Director for a period of three years starting January 1, 2020. At the same time, the allocation of responsibilities within the Board of Management was changed. Lastly, the Supervisory Board defined the conditions for the Board of Management’s variable compensation components for fiscal year 2020.
All members of the Supervisory Board and its committees performed their duties diligently and conscientiously. The attendance at meetings of the Supervisory Board and its committees was nearly 94% overall. No member of the Supervisory Board attended half or less than half of the meetings of the Supervisory Board and the committees of which he or she is a member. An overview of the attendance of individual Supervisory Board members at meetings of the Supervisory Board and its committees can be found on the company’s website. The stockholder representatives and employee representatives to the Supervisory Board always worked together in a spirit of trust. They regularly held separate meetings at which they prepared the meetings of the full Supervisory Board. The members of the Board of Management attended the Supervisory Board meetings unless the Chairman of the Supervisory Board determined otherwise.

WORK OF THE COMMITTEES

The Supervisory Board has four committees: the Presidial Committee, the Audit Committee, the Nominations Committee and the Committee formed pursuant to Section 27, Paragraph 3 of the German Codetermination Act. The committees are tasked with preparing the topics and resolutions to be discussed at meetings of the full Supervisory Board. They also, at times, exercise decision-making powers conferred on them by the Supervisory Board.

The Presidial Committee convened five times during the reporting year to prepare the meetings of the Supervisory Board and the decisions to be reached by the full Supervisory Board at its meetings concerning human resources measures in the company’s Board of Management.

The Audit Committee met four times during the year. It dealt in particular with the annual financial statements of LANXESS AG, the consolidated financial statements and the combined management report for fiscal year 2018, the quarterly statements issued during fiscal year 2019, and the condensed consolidated financial statements and interim management report included in the 2019 half-year financial report. It also reviewed the company’s risk management and internal control systems. The Audit Committee also dealt with the concept for approving non-audit services and the non-financial Group report 2018. Other topics discussed were the significant findings by the internal audit department, corporate planning, compliance, the perception of LANXESS on the capital market, and the determination of the principal areas of focus for the audit of the 2019 financial statements. The Committee also found out about the company’s stock repurchase, strategies to hedge currency risks and the recent audit of OTC derivatives contracts pursuant to Section 32 of the German Securities Trading Act. The external auditor reported on the auditing activities at two of the four Audit Committee meetings.

The Nomination Committee met twice in fiscal year 2019. It prepared the Supervisory Board’s nomination of stockholder representatives for the upcoming Supervisory Board elections in 2020. The Committee formed pursuant to Section 27, Paragraph 3 of the German Codetermination Act did not need to convene.

The chairmen of the committees each reported on the meetings and the work of the committees at the meetings of the full Supervisory Board.

CORPORATE GOVERNANCE AND DECLARATION OF COMPLIANCE

In the year under review, the Supervisory Board discussed the GCGC. The joint declarations of compliance made by the Board of Management and Supervisory Board pursuant to Section 161 of the German Stock Corporation Act can be viewed by stockholders at any time on the company’s website. As expressed in the declarations, LANXESS AG currently complies in full with the GCGC’s recommendations. No conflicts of interest on the part of Supervisory Board members became known last year. Further information about corporate governance can be found in the Board of Management’s declaration pursuant to Section 289f of the German Commercial Code and in the Corporate Governance Report.

ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

The annual financial statements prepared by the Board of Management of LANXESS AG in accordance with the rules of the German Commercial Code, the consolidated financial statements prepared in accordance with the International Financial Reporting Standards (IFRS) and the combined management report for fiscal year 2019 were audited by PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, the auditor appointed by the Annual Stockholders’ Meeting on May 23, 2019, and engaged by the Supervisory Board. The auditor issued an unqualified opinion in each case. The auditor carried out the audit in accordance with Section 317 of the German Commercial Code and Regulation (EU) No 537/2014 of the European Parliament.
and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC according to a selection procedure implemented by the company. The auditor responsible for the audit was Mr. Jörg Sechser.

The Supervisory Board convinced itself of the independence of the auditor and the persons acting on the auditor’s behalf.

The audit reports and the documents relating to the financial statements were discussed at length with the Board of Management and the auditor at the Audit Committee meeting held on March 9, 2020. They were also discussed in detail on the basis of the required documents and notes at the Supervisory Board’s financial statements meeting held on March 10, 2020. The responsible auditor was present for the discussions concerning the financial statements of LANXESS AG and the consolidated financial statements of the LANXESS Group. He reported on the scope, focus areas and significant findings of the audits and went into particular detail on the key audit matters. He was also available to the Audit Committee and full Supervisory Board to provide additional information.

Based on the recommendation of the Audit Committee as well as on its own review and in-depth discussions about the financial statements of LANXESS AG, the consolidated financial statements of the LANXESS Group, the combined management report and the proposal for appropriation of the profit, the Supervisory Board endorsed the auditor’s conclusions and had no objections to raise. The Supervisory Board has approved the annual financial statements of LANXESS AG and the consolidated financial statements of the LANXESS Group, which were prepared by the Board of Management. The Supervisory Board endorsed the Board of Management’s proposal for use of the distributable profit after close examination and extensive deliberations that carefully weighed the best interests of the company and the stockholders.

CHANGES IN THE SUPERVISORY BOARD

Mr. Ifraim Tairi left the Supervisory Board as employee representative as of the end of December 31, 2018. To replace him, Ms. Birgit Bierther was appointed to the Supervisory Board of LANXESS AG as an employee representative by Cologne District Court on January 25, 2019.

The Supervisory Board thanks the members of the Board of Management, all of the Group’s employees around the world and the employee representatives for their commitment and work in fiscal year 2019.

Cologne, March 10, 2020
The Supervisory Board

Dr. Matthias L. Wolfgruber
Chairman