2019

ANNUAL REPORT

LANXESS
Energizing Chemistry

CONTENTS

KEY

NFR – Audited disclosures of the LANXESS Group that are included in the 2019 non-financial Group report

References to pages within the report

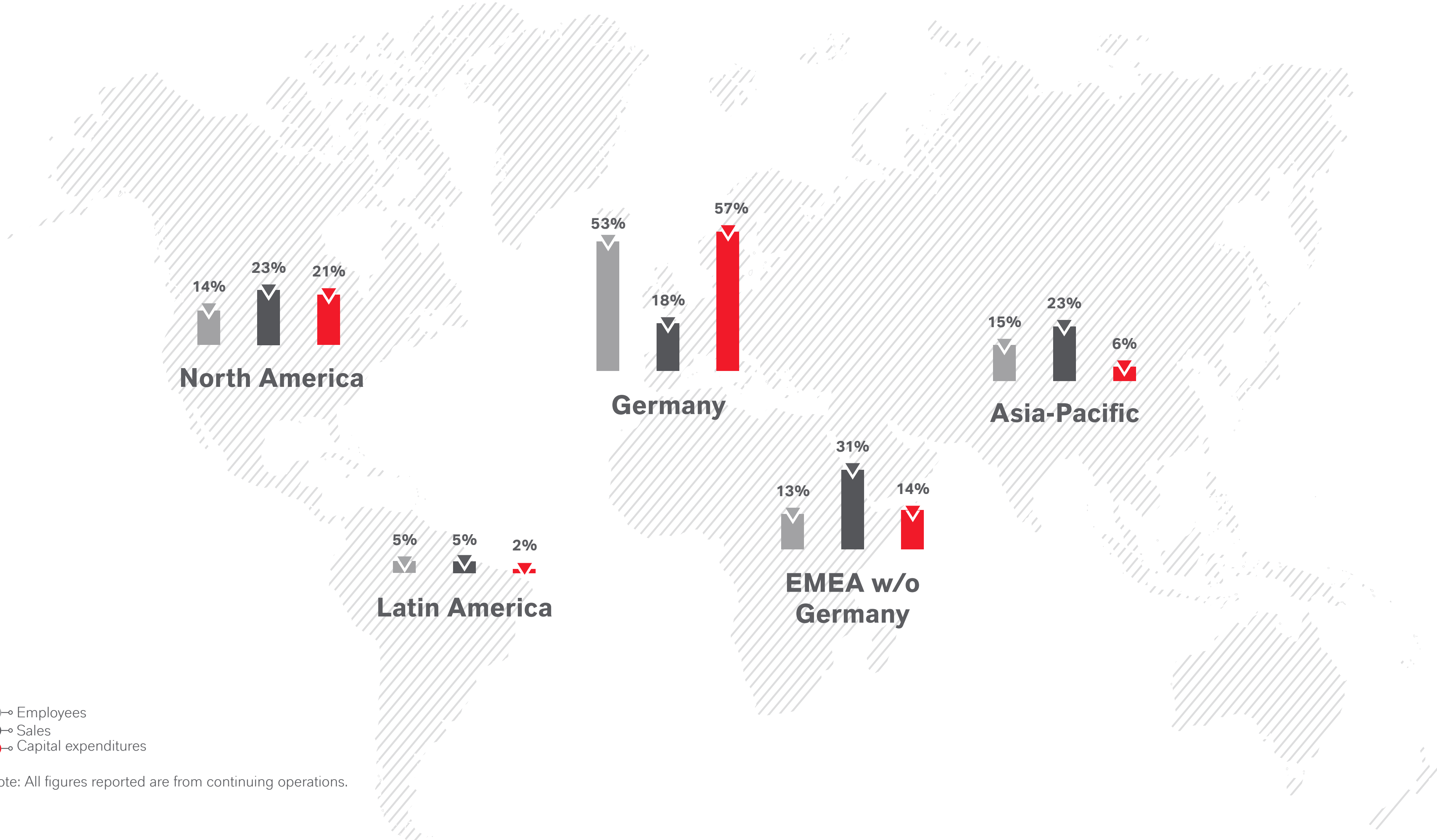
www – References to websites

LANXESS AT A GLANCE

Group Structure

Segments	**Advanced Intermediates**	**Specialty Additives**	**Performance Chemicals**	**Engineering Materials**
Business units	Advanced Industrial Intermediates Saltigo	Polymer Additives Lubricant Additives Business Rhein Chemie	Inorganic Pigments Material Protection Products Liquid Purification Technologies	High Performance Materials Urethane Systems
Applications	› Agrochemicals › Automotive › Construction › Aromas and flavors › Pharmaceuticals › Rubber chemicals › Semiconductors and photovoltaics	› Phosphorous-based or brominated flame retardants › Lubricants › Colorants, polymer additives	› Color pigments › Disinfection, Preservation and Material Protection Products › Products for water treatment	› Automotive › Electrical/electronics › Construction › Medical equipment › Mining › Tires and wheels › Oil and gas › Industrial and mechanical products
Market positions	Europe no. 1–2	Top 3 position	No. 1–4 in niches	Leading position

GLOBAL PRESENCE



Employees
Sales
Capital expenditures

Note: All figures reported are from continuing operations.

KEY DATA 2019

LANXESS Konzern

€ million	Q4/2018	Q4/2019	Change %	2018	2019	Change %
Sales	1,674	1,636	(2.3)	6,824	6,802	(0.3)
Gross profit	365	383	4.9	1,738	1,759	1.2
Gross profit margin	21.8%	23.4%		25.5%	25.9%	
EBITDA pre exceptionals[1]	175	197	12.6	986	1,019	3.3
EBITDA margin pre exceptionals[1]	10.5%	12.0%		14.4%	15.0%	
EBITDA[1]	162	160	(1.2)	906	910	0.4
EBIT pre exceptionals[1]	67	75	11.9	581	557	(4.1)
EBIT[1]	44	0	(100.0)	491	407	(17.1)
EBIT margin[1]	2.6%	0.0%		7.2%	6.0%	
Net income (loss)	99	(48)	< (100)	431	205	(52.4)
from continuing operations	33	(22)	< (100)	282	240	(14.9)
from discontinued operations	66	(26)	> 100)	149	(35)	< (100)
Weighted average number of shares	91,522,936	87,447,852	(4.5)	91,522,936	88,334,641	(3.5)
Earnings per share (€)	1.08	(0.55)	< (100)	4.71	2.32	(50.7)
from continuing operations	0.36	(0.25)	< (100)	3.08	2.72	(11.7)
from discontinued operations	0.72	(0.30)	> 100	1.63	(0.40)	< (100)
Earnings per share from continuing operations adjusted for exceptional items and amortization of intangible assets (€)[2]	0.77	0.64	(16.9)	4.48	4.73	5.6
Dividend per share (€)				0.90	0.95[8]	5.6
ROCE[3]				11.4%	10.0%	
Cash flow from operating activities – continuing operations	172	267	55.2	441	634	43.8
Depreciation and amortization	118	160	35.6	415[7]	503[7]	21.2
Cash outflows for capital expenditures	235	213	(9.4)	482	508	5.4
Total assets		695	1	8,687	8,695	0.1
Equity (including non-controlling interests)				2,773	2,647	(4.5)
Equity ratio[4]				31.9%	30.4%	
Provisions for pensions				1,083	1,178	8.8
Net financial liabilities[5]				1,923	2,522	31.1
Net financial liabilities after deduction of short-term money market investments and securities[6]				1,381	1,742	26.1

	Q4/2018	Q4/2019	Change %	2018	2019	Change %
Employees (December 31)				15,441	15,479[9]	0.2
Personnel expenses (€ million)				1,258	1,333	6.0
Work-related injuries resulting in at least 1 day's absence (per million hours worked)				1.5	1.6	6.7
Proportion of apprentices hired in Germany				84.0%	88.0%	
Turnover resulting from voluntary resignations				3.1%	3.0%	
Specific energy consumption (in gigajoules per metric ton of product)				4.99	5.08	1.8
Specific CO_2e Scope 1 emissions (in CO_2 equivalents, metric tons per metric ton of product)				0.28	0.28	0.0
Specific CO_2e Scope 2 emissions (in CO_2 equivalents, metric tons per metric ton of product)				0.30	0.29	(3.3)
Emissions of volatile organic compounds (in thousand metric tons)				0.7	0.7	0.0

1) EBIT: earnings before interest and taxes.
EBIT pre exceptionals: EBIT disregarding exceptional charges and income.
EBIT margin: EBIT in relation to sales.
EBITDA: EBIT before depreciation of property, plant and equipment and amortization of intangible assets, less reversals of impairment charges on property, plant, equipment and intangible assets.
EBITDA pre exceptionals: EBITDA disregarding exceptional charges and income.
EBITDA margin pre exceptionals: EBITDA pre exceptionals in relation to sales.
See "Value Management and Control System" in the combined management report for details.
2) Earnings per share from continuing operations pre exceptionals and amortization of intangible assets: earnings per share from continuing operations disregarding exceptional charges and income, amortization of intangible assets and attributable tax effects as well as non-recurring earnings effects of the U.S. tax reform in the previous year. See "Business Performance of the LANXESS Group" in the combined management report for details.
3) ROCE: EBIT pre exceptionals in relation to capital employed (total assets less deferred tax assets and interest-free liabilities). ROCE for 2018 as published including the Leather business unit. Capital employed as of December 31, 2019, adjusted. See "Value Management and Control System" in the combined management report for details of capital employed.
4) Equity ratio: equity in relation to total assets.
5) Net financial liabilities: Sum of current and non-current financial liabilities (adjusted for liabilities for accrued interest) less cash, cash equivalents and near-cash assets. See "Value Management and Control System" in the combined management report for details.
6) See "Value Management and Control System" in the combined management report for details of the financial assets deducted.
7) Net of reversals of write-downs of €1 million.
8) Dividend proposal to the Annual Stockholders' Meeting on May 13, 2020.
9) There were 14,304 employees in continuing operations as of the reporting date.

Letter from the CEO

Ladies and Gentlemen,

We can look back on 2019 as an eventful and challenging year in which we achieved our targets. LANXESS is in a good position both operationally and financially and is steering a successful course in a difficult economic environment. In particular, our "Climate Neutral 2040" initiative last year was a good demonstration of how to combine sound business and sustainability.

The past restructuring of our company paid off again in this challenging year. Our focus on more stable and simultaneously more profitable specialty chemicals gives us a strong foundation that sustains us when times get tougher.

We were listed in the Dow Jones Sustainability Index (DJSI) World for the

9th

time in a row.

We have steadily evolved on this basis. For example, we have placed greater emphasis on the issue of consumer protection and, at the end of the year, announced the purchase of the Brazilian biocide manufacturer IPEL. This acquisition enhances our position as one of the leading manufacturers of biocidal active ingredients and formulations and expands our production network.

Another crucial step was the decision to divest our chrome chemicals business and thus sharpen our strategic focus on specialty chemicals. We will go even further by selling our shares in the chemical park operator Currenta in a process that we started last year. The proceeds that we receive for our interest will significantly broaden our scope for growth.

We did a lot of self-improvement work in 2019. For example, we made considerable progress with the Group's digital transformation along our entire value chain. In product development, we are increasingly using artificial intelligence to speed up development cycles and improve products in a sustainable manner. Moreover, we have now equipped most of our facilities with digital data analysis systems, so that they can become even more profitable. And CheMondis, the online marketplace for chemical products founded by us but operating independently, is now Europe's market leader. The digital transformation in the chemicals industry is coming – and we are leading the way.

As you can see, we are taking a strategic approach to our future. However, it is only possible to achieve permanent business success if we take responsibility for the environment and society at the same time. We have therefore integrated all dimensions of sustainability into our corporate strategy. Accordingly, it was only natural for us to renew our commitment to the principles of the U.N. Global Compact in 2019.

Our continued inclusion in two Dow Jones Sustainability Indices shows that we are on the right track. We were listed in the Dow Jones Sustainability Index (DJSI) World for the ninth time in a row and in DJSI Europe for the third time in a row – as the best company in our sector.

Everything that we achieved in 2019 was the result of impressive teamwork. On behalf of my colleagues on the Board of Management, I thank all employees for their dedicated and hard work in the last few months.

We will continue to pool all our strengths in order to drive LANXESS forward. I would be delighted if you, our stockholders, would continue to trust us as we proceed on this journey together.

Yours, Matthias Zachert

Matthias Zachert
Chairman of the Board of Management

STRATEGY

Stable in Turbulent Times

The successes of our transformation process became clearly visible in fiscal year 2019: As a well-balanced specialty chemicals company, we generate stable results even in a gloomy economic environment. We will continue to hone LANXESS's profile in the years to come – with a clear strategy and ambitious goals.

WORLD IN TURMOIL, CHEMISTRY IN FLUX

The protectionist trends seen in major economies in previous years became even more pronounced in the reporting year. Disputes over protective tariffs, trade sanctions, and the uncertain parameters of the Brexit question are restricting global trade and investment. Economic activity is dominated by uncertainty. At the same time, there is both a growing global need and growing willingness for ecologically and socially adapted value creation in order to tackle the crucial challenges of our time – such as climate protection, scarcity of drinking water, and feeding a growing global population. The United Nations' Sustainable Development Goals provide a framework here. Strategy papers such as the EU's "Circular Economy Concept" convey an impression of visions for future value creation. There are long-term risks and challenges due in particular to the transformation with different regional regulation strategies and the varying speeds of implementation. However, big challenges are typically associated with big opportunities. Chemistry is playing a key role here: Modern high-performance plastics and vehicles and charging infrastructure are contributing to the successful transition to electric mobility. Additives are helping many products achieve optimum performance over long periods of time. Ion exchangers are enabling millions of people to supply themselves with clean water and thus to protect their health. Biocides and disinfectants are fighting germs and bacteria, which are multiplying and spreading all the faster with rising global temperatures.

We are ready to support and drive the transformation for the benefit of humanity with our products and our innovation, and in this way to sustainably create added value for all stakeholders.

SUCCESS WITH A CLEAR STRATEGIC FRAMEWORK

Value-based, responsible and reliable action, combined with clear strategic guidelines, serves as the compass with which we will maintain a steady course even in turbulent times.

We successfully build on integrated value chains, sustainable, competitive products and sites, and on our strengths in mid-sized markets with generally above-average growth rates. Here, we offer our customers an attractive combination of the professionalism of a global chemicals group and the agility and proximity to customers of a specialized niche provider. Our strategic guidelines provide a framework not only for evaluating our own portfolio, but also for acquisitions and investments. We are aware that any strategy is only as good as the people working to implement it. LANXESS aims to be a company where a wide variety of talented individuals work together in a safe, productive, and inspiring environment as a highly productive team. Each and every employee at LANXESS is called upon to think entrepreneurially, to act in a solution-oriented way, and to be open to the change that we are experiencing in our markets, but also in our own structures and processes. We therefore see the LANXESS culture as a very significant success factor that we cultivate and actively develop (see page 24).

Our Strategic Guidelines

Raw materials	Sites	Costs	Value chains	Sales markets	Growth & balance
Our value chains originate from globally liquid raw material markets.	We manufacture sustainable products at competitive, sustainable, and climate-neutral networked sites	Our costs are competitive across the value chain.	We strengthen efficient and integrated value chains.	We focus on specialty chemicals markets with higher profitability.	We are leveraging long-term growth potential in Asia and the U.S. and balancing our regional sales split.

Portfolio Management Promotes Stability, Profitability and Growth

Our portfolio adjustments follow a clear strategic direction, with the successful reduction of the formerly very high automotive portion in favor of consumer applications and the expansion of our presence in medium-sized, partially regulated, and thus protected markets for specialty businesses. This balanced structure of our customer markets is intended to provide us with stability, especially in phases of economic downturn. The strengthening of our business with regard to consumer protection – such as with the 2016 acquisition and subsequent enhancement of the U.S. chemical group Chemours' "Clean and Disinfect" business and the expansion of the flame-retardant additives business – drives profitability and growth.

The acquisition of the leading Brazilian biocide manufacturer Itibanyl Produtos Especiais Ltda. (IPEL), agreed at the end of 2019 and completed in February 2020, is squarely in line with this strategy. IPEL generates the majority of its sales from biocides in the paint and varnish industry. With this acquisition, our Material Protection Products business unit is reinforcing its global presence and is now in a position to serve its South American customers from a local production facility. IPEL also has a strong customer network that will soon be able to benefit from our combined product portfolio and regulatory expertise.

Our strategy also entails separating from businesses for which we no longer see long-term development prospects at LANXESS. In 2019, we agreed to sell our chrome chemicals business to Brother Enterprises, a Chinese manufacturer of leather chemicals. The sale of the business was completed on January 10, 2020. With its two South African sites in Newcastle and Merebank, this business most recently generated sales of around €100 million. Brother Enterprises will take over the plant in Newcastle with around 220 employees. We will continue the production of chrome tanning salts in Merebank in contract manufacturing for Brother Enterprises, probably until 2024. As a logical consequence of this transaction, we have also agreed to sell our 74% share in the chrome ore mine in Rustenburg, South Africa, to Clover Alloys, a South African provider of chrome sands and concentrates. We expect this transaction to be completed by the end of 2020. Another, smaller divestment related to our business with tin-based organometallics, which was acquired by the U.S. PMC Group. Until at least the end of 2021, we will continue to produce at the site in Bergkamen, Germany, albeit on a contract manufacturing basis for the future owner. In addition, we disposed of our business with gallium-based organometallics at the site in Pyeongtaek, South Korea.

We also initiated the separation from our 40% investment in the chemical park operator Currenta in the reporting year. After approval from the responsible authorities, this is expected to be sold to investment funds managed by Macquarie Infrastructure and Real Assets (MIRA) at the end of April 2020. Currenta manages and operates the German chemical parks in Leverkusen, Dormagen and Krefeld-Uerdingen, in which a significant portion of our global production facilities are based. With MIRA as a partner and a long-term contract package, we have secured reliable infrastructure at competitive conditions into the future and gained further financial flexibility for the development of the LANXESS portfolio.

We Invest in Organic Growth

We invest in our businesses in order to promote organic growth. Our focus is on expanding capacity and making improvements to existing facilities and plants. The expected return on capital employed (ROCE) of these projects averages 20%. The investments in our aromatics network, with which we are responding to the growing global demand for menthol while also further balancing our product portfolio, are a good example.

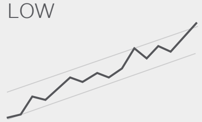
We see targeted investments in our research and development activities as another driver of long-term growth. Our innovation strategy is based on three pillars: product research closely aligned to the market and customer requirements, centrally managed process research focusing on energy and raw material efficiency, and agile digitalization projects.

The biotech startup IMD Natural Solutions, which we acquired in 2017, performed particularly well in the reporting year. Its core product, Nagardo – a glycolipid compound extracted from mushrooms that is effective against bacteria, fungi, and yeasts in food and drinks – was licensed for distribution in the U.S. Preparations for licensing in other markets are currently under way. With Nagardo, we can offer our customers a bio-based addition to our material protection portfolio, which can be up to 50 times more efficient than its synthetic equivalents depending on the application. Our partner Standard Lithium Ltd.'s research project on the extraction of lithium suitable for use in batteries from brine at our U.S. site in El Dorado, Arkansas, where the pilot facility is now complete, is also making progress. Further details about this project and information on how we are using artificial intelligence in our development processes can be found under "Business-Driven Innovation" on page 53 of this Annual Report.

Sights Set Firmly on 2021 Financial Targets

Despite challenging conditions, we are also on course to achieve our financial targets for 2021. They envisage an average operating earnings margin – measured in terms of EBITDA pre exceptionals – of between 14% and 18% over the course of a business cycle. We already reached the lower end of this corridor in 2018 and improved the margin further in 2019 despite the difficult market environment. Moreover, the margin should move around the average level by no more than two to three percentage points in the future. We are stable within the target corridor here, too.

Financial Targets for 2021 Reflect Improved Position

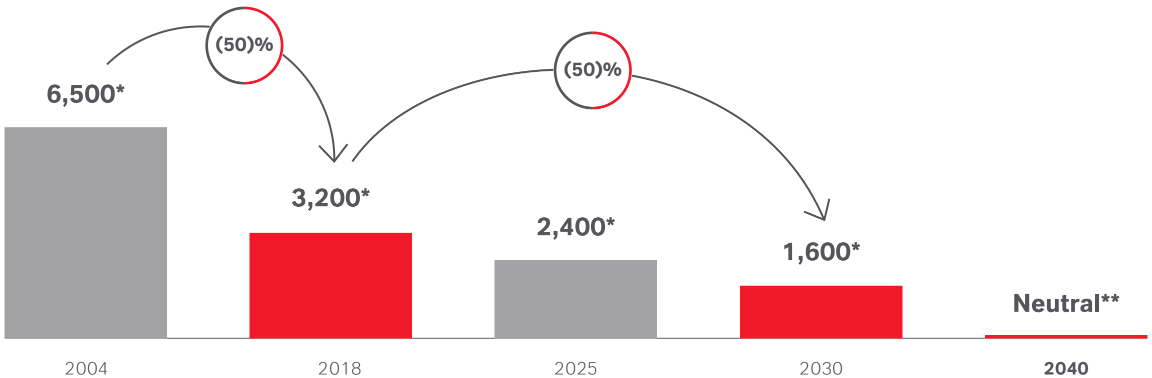
EBITDA margin pre exceptionals (average margin over a business cycle)	14–18%
Cash conversion	> 60%
Margin volatility	LOW  2–3% pts

Adjusted for growth investments, cash conversion in the reporting year amounted to around 65% and was therefore higher than the targeted minimum of 60%. We are keeping this target in our sights, but do not see it as dogma. We will continue to invest in attractive projects with a high return on investment when we are convinced that we can thus create added value for our shareholders and the company. In contrast, we make no compromises when it comes to our sound investment-grade rating – this will continue to constitute a strict goal of our conservative financial policy.

LANXESS TO BE CLIMATE NEUTRAL BY 2040

The world is changing, and this change is urgently necessary. We have clearly formulated our ambition: LANXESS intends to drive the change and thus be part of the solution as a sustainable chemicals company with long-term success. We clearly expressed this ambition in our new climate protection targets, which we set in 2019. By 2030, we want to reduce greenhouse gas emissions from our production and emissions from the energy generation required for our production by another 50%, so that LANXESS will have reduced its emissions by 75% compared to 2004, the year it was founded. In 2040, we ultimately wish to be climate neutral. We describe the specific path to achieving this goal in detail under "Climate Action and Energy Efficiency" from page 46.

Our Journey to Climate Neutrality
in thousands of metric tons of CO_2e



* Emissions from CO_2 equivalents in 1,000 tons in terms of emissions from company-owned plants and processes as well as externally acquired, such as electricity, steam or long-distance heating.
** Less than 300,000 tons of CO_2 equivalents: These will be reduced through compensation measures.

Our wholehearted engagement for sustainable development is also demonstrated by the fact that ESG ("environmental, social and governance") criteria are accounted for in our chief credit facility for the first time. The interest rate terms of the syndicated credit facility signed in December 2019 of €1 billion depend in part on the successful reduction of our greenhouse gas emissions and the increase in the proportion of women at the top three levels of management.

We see the top placements that we achieved in the Dow Jones sustainability indices in 2019 as confirmation that we are on the right path: LANXESS was listed in the Dow Jones Sustainability Index (DJSI) World for the ninth time in a row. We took fourth place in our relevant category, "Chemicals." Moreover, LANXESS was included in DJSI Europe for the third time in a row – as the best company in its sector.

We take all this as an incentive to pursue our sustainability targets even more vigorously in the years to come and to keep setting ourselves new, ambitious goals regarding significant issues. Detailed information on these goals and the organizational structures, management tools, and measures that we use to address sustainability at LANXESS can be found in the following section of this Annual Report.

CORPORATE RESPONSIBILITY

Actively Shaping Sustainability

We aim to cooperate actively on the transformation of industry and global value chains and thus to foster the transition to a more sustainable world. We are therefore continuously enhancing our organizational structures and management tools – always with the objective of making the best possible use of human, natural, and financial resources in the interests of sustainable development. We thus create a measurable benefit for our company and for society.

Thinking and acting sustainably and in an integrated manner supports our business goals in a variety of different ways – from higher resource efficiency to good relationships with our stakeholders, increased risk awareness, and permanently advantageous cost structures. However, the quality of our company is not expressed merely in business success. It is also demonstrated by the social impact of our entrepreneurial activities. Our facilities, locations, and products must have a measurable, sustainable benefit for the community. This principle is the starting point for our thought and action.

Our facilities, locations, and products must have a measurable, sustainable benefit for the community.

Several internationally recognized standards and frameworks give us valuable guidance in this thought and action:

- With the “2030 Agenda for Sustainable Development,” the United Nations has established the basis for global economic progress in harmony with social justice and within the earth’s ecological limits. The specific goals of the Agenda are set out in the Sustainable Development Goals (SDGs).
- The U.N. Global Compact is the world’s biggest and most important initiative for responsible corporate governance. Based on ten universal principles, it pursues the vision of an inclusive and sustainable global economy for the benefit of all people, communities, and markets. As a signatory, we recognize these principles as inalienable rights. We renewed our commitment to the U.N. Global Compact again for 2019.
- The term Responsible Care® stands for the chemical industry’s goal of achieving progress with safety and environmental protection, regardless of the legal specifications. We have documented our commitment to the visions and ethical concerns of this initiative from the International Council of Chemical Associations (ICCA) by signing the Responsible Care® Global Charter. With our internal guidelines, we integrate the principles of the Charter into our guiding principles and corporate strategy.
- Among the internationally recognized principles of business activity to which we are committed are the employment standards of the International Labor Organization, an agency of the United Nations. These are aimed at upholding globally recognized social standards and thereby improving working and living conditions for all people.

The Ten Principles of the U.N. Global Compact

Area	Human rights	Labor	Environment	Anti-corruption
Principle	1 Businesses should support and respect the protection of internationally proclaimed human rights. 2 Businesses should make sure they are not complicit in human rights abuses.	3 Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining. 4 Businesses should uphold the elimination of all forms of forced and compulsory labor. 5 Businesses should uphold the effective abolition of child labor. 6 Businesses should uphold the elimination of discrimination in respect of employment and occupation.	7 Businesses should support a precautionary approach to environmental challenges. 8 Businesses should undertake initiatives to promote greater environmental responsibility. 9 Businesses should encourage the development and diffusion of environmentally friendly technologies.	10 Businesses should work against corruption in all its forms, including extortion and bribery.

Detailed information on our impact assessment concept can be found in the Responsibility/Societal Added Value section of the LANXESS website.

The Sustainable Development Goals in particular are increasingly being taken into account throughout the Group in order to translate the social "2030 Agenda" into appropriate structures, processes and goals for us as a company. To do so, we must understand precisely how our priorities – formulated in the material topics – relate to the priorities of the international community.

We therefore pressed ahead with the development of corresponding analytical processes and tools intensively again in the reporting year. Besides contributions to the achievement of the SDGs, we specifically examined for the first time what impact we are currently having on the aspects underlying the SDGs.

Sustainable Development Goals – Contributions and Impact

1 No poverty	■ Salaries, social security contributions and taxes contribute to the reduction of poverty.
3 Good health and well-being	■ Health and wellbeing are of central importance in the production and use of LANXESS products.
4 Quality education	■ LANXESS supports the continuous qualification and training of its employees and provides education initiatives at its sites around the world.
6 Clean water and sanitation	■ Contribution to water stress at some sites due to the use of water in production. ■ Water stress analyses and production-related risk assessments. ■ Development of products and technologies for water purification.
8 Decent work and economic growth	■ When performing their tasks, some of our employees are exposed to the risk of work-related injuries. ■ Our global safety initiative Xact aims to reduce the LTIFR by > 50% by 2025 (base year: 2016). ■ LANXESS's activities create value, growth and employment.
10 Reduced inequalities	■ Social security contributions and taxes help reduce inequality through transfer payments and fund government structures.
12 Responsible consumption and production	■ LANXESS's business activities cause emissions in the air and water. ■ LANXESS supports development toward resource- and energy-efficient production and sustainable products.
13 Climate action	■ LANXESS's business activities cause greenhouse gas emissions from its own operations or from purchased energy. ■ LANXESS takes climate action seriously. Our company is to be climate neutral by 2040.
16 Peace, justice and strong institutions	■ We see our engagement for ethical business activity and the performance of tax obligations as our contribution to a well-functioning society.

■ Current negative impacts ■ Contribution to the achievement of the SDG ■ Current positive impacts

Detailed information can be found in the Responsibility/Societal Added Value section of the LANXESS website.

The results show that we are creating societal value and have a positive impact on many SDGs. However, the challenges are made equally clear – for example in the fields of climate protection and occupational safety. We are tackling these challenges in a consistent and transparent manner, as we have importantly demonstrated with our ambitious target of climate neutrality by 2040. In doing so, we are pursuing active dialog involving both internal and external stakeholders – for we are firmly convinced that a dialog-oriented approach encourages integrated thinking and improves the quality of our business decisions.

ACTIVE STAKEHOLDER DIALOG

Relevant stakeholders for LANXESS are groups, institutions, or individuals with whom we maintain a direct or indirect relationship through our business activities and who therefore have an interest in our actions. Our main stakeholder groups are customers, capital market representatives, suppliers, the media, and representatives from politics, public authorities, and non-government organizations (NGOs). We engage in intensive dialog with all of these groups. Firstly, to promote mutual understanding and build trust with an open and constructive exchange of views. And secondly, to continuously identify topics that are important in view of our environment and our corporate responsibility.

NFR Audited disclosures of the LANXESS Group that are included in the 2019 non-financial Group report.

The World Business Council for Sustainable Development (WBCSD), which we joined on January 1, 2020, is an important new dialog forum for LANXESS. The WBCSD is a global, CEO-led organization committed to accelerating the pace of change toward a more sustainable world. At the core of the network are six work programs, in which economic concepts and business models are developed to conserve the world's resources while feeding a growing population and ensuring future-proof mobility and livable cities. The WBCSD's approximately 200 member companies represent 19 million employees and USD 8.5 trillion in sales. Thanks to our membership, we will cooperate actively on the transformation of industry and global value chains and can thus align our business strategies at an early stage.

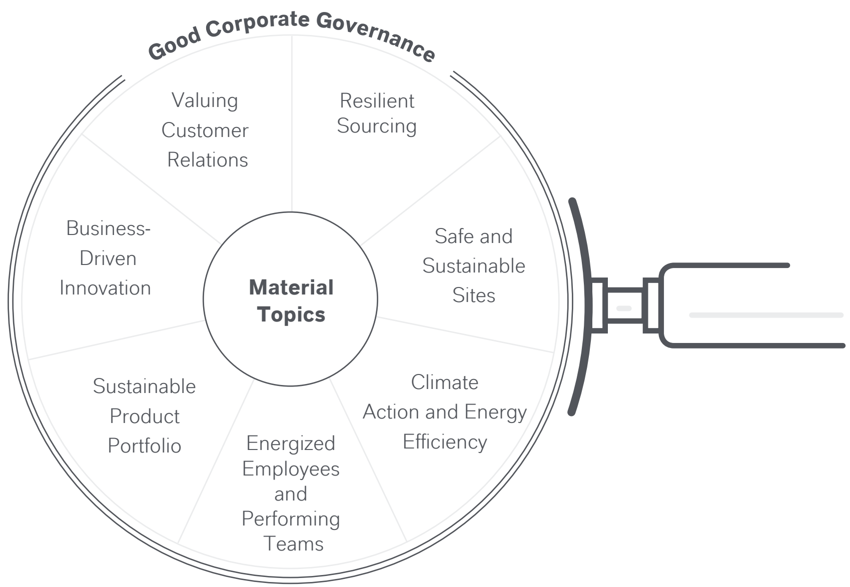
An overview of the main topics and dialog forums for each relevant stakeholder group and other specific activities in the reporting year is provided in the Responsibility section of the LANXESS website.

SYSTEMATIC PRIORITIZATION OF SUSTAINABILITY TOPICS

Identifying the main effects of our actions and incorporating our stakeholders' concerns into our strategy forms the basis of our sustainability management. Our materiality analysis in line with the requirements of the Global Reporting Initiative (GRI) is a key tool for systematically prioritizing the wide range of action areas and using resources as effectively as possible. The results also influence the structure of our external reporting on the topic of corporate responsibility.

We performed our last materiality analysis in fiscal year 2017. This was based on four principles: sustainability context, materiality, completeness, and inclusion of stakeholders. As a result, we defined seven material sustainability topics that were again confirmed by the Board of Management and the Corporate Responsibility Committee in 2019 and thus formed the relevant management framework. The topic of good corporate governance forms the basis for all of our business activities. A detailed description of our process for determining material topics can be found in the Corporate Responsibility/Material Topics section of the LANXESS website.

Material Topics



Further infomation can be found in section "About this Report" on page 226.

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In addition to our materiality analysis, we came up with a definition of materiality for the non-financial Group report – the contents of which are integrated into this section of the Annual Report – in accordance with Section 289c, Paragraph 3, Sentence 1 of the German Commercial Code (HGB). The relevant disclosures in this context are those that are necessary in order to understand the business performance, the business results, the position of the Group, and the effects of our activities on non-financial aspects. For us, this means environmental issues, employee and social issues, human rights, and anti-corruption.

As part of our management of opportunities and risks, we have implemented a wide range of risk-mitigating measures. With regard to the non-financial aspects of the CSR Directive Implementation Act defined as relevant for the non-financial Group report, a net risk analysis shows no material risks in connection with our own business activities or with business relationships, products, and services that are very likely to have serious negative effects. Detailed information on our opportunity and risk management system can be found in the combined management report of the LANXESS Group and LANXESS AG, starting on page 120 of this Annual Report.

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We have formulated specific goals for all key topics. These are based on the goal of using our operating activities to achieve an increase in value for our company, our stakeholders, and society. Some of the variable compensation of the first and second management level below the Board of Management therefore depends on the extent to which certain targets are achieved. In a working group, internal sustainability experts again systematically examined the existing goals and indicators, fleshed these out where necessary, and also defined new goals in the reporting year. This relates in particular to our ambitions relating to "climate action and energy efficiency," which we have raised to a new level with our aim to be climate neutral in 2040.

The table below provides an overview of all corporate responsibility goals in the LANXESS Group. Further information on the individual goals and associated measures can be found in the following pages.

NFR

LANXESS Corporate Responsibility Goals

Topic	Goal	Indicator	Deadline	Status Quo 2019	SDG	Page
Resilient Sourcing Our value chains start from a diverse, sustainable raw material portfolio. We engage with our suppliers and relevant stakeholders to improve the working and environmental conditions in the global supply chains.					1, 8	
Establishment of a systematic sustainability risk analysis to evaluate all suppliers	Status inquiry to identify relevant suppliers with high risk level	Share of suppliers evaluated	2020	The methodology behind the analysis was validated again after receiving the data from Ecovadis. For this reason, we will now carry out the status inquiry originally scheduled for 2019 in 2020.		39
Identification and reduction of sustainability risks in the supply chain	Differentiation of risk score by goods group/country (levels 1–6)	Sustainability risk score	2020			39
Safe and Sustainable Sites We manufacture sustainable products at competitive and sustainable chemical sites. Continuous process improvements and investments are fundamental for our sustained success. We care about the communities of which our sites are a part.					3, 4, 6, 8, 9, 12, 13	
Uniform standards and processes worldwide	Integration of all sites into the global matrix certificate (ISO 9001 and ISO 14001)	Degree of coverage in relation to sites	Ongoing until the end of 2025	As of December 31, 2019, our matrix certificate covered 38 certifiable companies with 74 sites in 21 countries. In relation to the number of employees, this equates to 87% coverage of our matrix certificate. Due to the changes in our site portfolio in recent years, we still have some site certificates and a region certificate; these will also be transferred to our matrix certificate. As of the reporting date, a total of 98% of our sites had ISO 14001 certification.		20–21
Global process safety	Continuous reduction in incidents relating to facility and process safety	Number of reportable incidents relating to facility and process safety	Ongoing	15 relevant incidents, of which seven in facilities acquired in the last years.		40–41
	Continuous reduction in environmental incidents	Number of reportable environmental incidents	Ongoing	Three relevant reportable environmental incidents at LANXESS.		40–41
	Continuous reduction in transportation incidents	Number of reportable transportation incidents	Ongoing	One reportable transportation incident occurred at LANXESS in the reporting year.		40–41

Further information on the SDGs can be found on page 13 and in the Responsibility/Societal Added Value/SDGs section of the LANXESS website.

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LANXESS Corporate Responsibility Goals

Topic	Goal	Indicator	Deadline	Status Quo 2019	SDG	Page
Climate Action and Energy Efficiency For LANXESS, climate action based on efficient energy use is the right thing to do for society and also a key to delivering financial performance in the long term.					3, 7, 8, 12, 13	
Emissions	Reduction of CO_2e emissions by 65% versus 2004 (establishment of LANXESS; 6.5 million metric tons of CO_2e)	Absolute CO_2e emissions (Scope 1 and 2)	End of 2025	Absolute CO_2e emissions were reduced by nearly 5% compared with the previous year. The decline versus 2004, when the company was founded, is 53%.		48
	Including update of 2025 targets from 2015: › Reduction of specific Scope 1 emissions to < 0.19 (CO_2 equivalents, metric tons per metric ton of product) › Reduction of specific Scope 2 emissions to < 0.24 (CO_2 equivalents, metric tons per metric ton of product)			Specific Scope 1 emissions were maintained at the previous year's level of 0.28 metric tons of CO_2e per metric ton of product. Specific Scope 2 emissions were reduced to 0.29 metric tons of CO_2e per metric ton of product.		48
	Reduction of CO_2e emissions by 75% versus 2004 (establishment of LANXESS; 6.5 million metric tons of CO_2e)	Absolute CO_2e emissions (Scope 1 and 2)	End of 2030			46–47
	Climate neutrality for the entire Group	Absolute CO_2e emissions (Scope 1 and 2)	End of 2040			
Energy efficiency	Increase in energy efficiency of 40% to < 1.24 (MWh/t) compared to base year 2015	Energy efficiency	End of 2025	Energy efficiency deteriorated slightly. Specific energy consumption amounted to 1.41 MWh/t at the end of fiscal year.		49–50
Energized Employees and Performing Teams We create a motivating, energetic and health-preserving working environment for all employees, striving for high engagement and impact. We nurture and promote a value-based, performance-orientated culture. We aim to be an attractive employer and to develop peoples' full potential throughout their professional life.					3, 4, 5, 8	
Employee retention	High employee retention: Voluntary turnover rate below 3.5%	Turnover rate on the basis of resignations	Ongoing until the end of 2023	The turnover rate on the basis of resignations was 3.0%.		29
Employee development	At least 80% of apprentices hired after completing their training	Proportion of apprentices hired in Germany	Ongoing until the end of 2023	88% (previous year: 84%) of apprentices were hired.		26
Occupational safety	Continuous decrease in the LTIFR by > 50% (reference LTIFR of 2.0 in 2016)	LTIFR	End of 2025	The LTIFR was 1.6.		37
Employee welfare/work-life balance	95% of countries in which we operate have derived and implemented specific guidelines and/or corresponding models for flexible working conditions from our global "Xwork" principles.	Proportion of countries[1] that have derived and implemented specific guidelines and/or corresponding models for flexible working conditions from our global "Xwork" principles	End of 2022	At the end of 2019, the proportion was 74%.		34

1) Countries in which LANXESS operates.

LANXESS Corporate Responsibility Goals

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Topic	Goal	Indicator	Deadline	Status Quo 2019	SDG	Page
Diversity & inclusion	Increase proportion of women in middle and upper management to 20%	Proportion of women in middle and upper management	End of 2020	The proportion of women was 19.8% (previous year: 19.2%).		31–32
	At least one female Board of Management member	Proportion of women on the Board of Management	Mid-2022	By resolution of the LANXESS Supervisory Board of December 11, 2019, Stephanie Coßmann was appointed as a member of the Board of Management and as Labor Relations Director with effect as of January 1, 2020.		31–32
	Increase the proportion of women in the first level below the Board of Management to 15%	Proportion of women in the first level below the Board of Management	Mid-2022	The proportion of women was 20.9%.		31–32
	Increase the proportion of women in the second level below the Board of Management to 25%	Proportion of women in the second level below the Board of Management	Mid-2022	The proportion of women was 25.1%.		31–32
	At least 30% female and 40% non-German participants in LANXESS corporate talent programs	Proportion of female and non-German participants in LANXESS corporate talent programs	Ongoing until the end of 2022	With a total of 65 participants in 2019, the proportions amounted to 31% female and 49% non-German participants.		27
Sustainable Product Portfolio Our products are manufactured and marketed so that they do not pose a risk to humans or the environment. We systematically evaluate the sustainability of our entire portfolio. Sustainability criteria are also applied in the development of products and applications.					3, 12, 13	
Active portfolio management from a sustainability perspective	Optimization of the sustainability performance of the product portfolio	Proportion of strategic products with a sustainability risk in the total sales of products with a sustainability risk	Mid-2023	At the end of 2019, the proportion was 70%.		51–52
	Inspection and, if necessary, optimization of the quality of all registration dossiers that were prepared in accordance with the REACH Regulation under the guidance of LANXESS	Proportion of inspected/updated dossiers	2026	The project started in mid-2019. The proportion of inspected/updated dossiers is 5%.		51–52

LANXESS Corporate Responsibility Goals

Topic	Goal	Indicator	Deadline	Status Quo 2019	SDG	Page
Business-Driven Innovation We drive process-, product-, application- and business model-oriented innovation for and together with our customers and suppliers. We help our customers to make their business sustainable.					1, 8, 9, 12	
Long-term, continuous development of products, applications, and processes	Developing innovative products based on the needs and expectations of our customers	Number of product-related projects	Ongoing until 2025	114 projects in the reporting year were aimed at developing new/improving existing products and applications.		53, 81
	Continuous further development of our production processes in order to maintain competitiveness and achieve our climate and energy efficiency targets	Number of process-related projects	Ongoing until 2025	68 projects in the reporting year concerned process technology issues with a view to reducing costs, improving efficiency or increasing capacity.		53, 81
Valuing Customers Relationships We value long-term customer relationships, built on trust and knowing, understanding and solving the customers' challenges.						
Long-term customer relationship	Improvement in customer satisfaction and maintenance of customer loyalty: customer loyalty index > 75	Customer loyalty index score	2019	In the 2019/2020 survey, the customer loyalty index score was 77.		54

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GOOD CORPORATE GOVERNANCE

LANXESS's identity is based on five central values: respect, ownership, trust, professionalism and integrity. These values apply always and everywhere – and to all employees. We seek to foster a corporate culture in which responsible and morally irreproachable actions and striving for performance do not contradict but complement each other.

Our central values, supplemented by operational guidelines and organizational structures – summed up as good corporate governance – enable our employees to act responsibly in their day-to-day work and thus turn a relatively abstract concept into a specific corporate success factor. At LANXESS, good corporate governance is embodied by a values-based and safety-conscious corporate culture, effective management systems and a commitment to internationally recognized principles of responsible management, such as the principles of the U.N. Global Compact.

Compliance Organization and Committees

To ensure that our values as well as our rules and standards are observed and continuously developed, we have established the compliance organization and several specialized committees below the level of the Board of Management.

Compliance Organization

The global compliance organization is the central point of contact for all employees on compliance-related issues. It also works with the organizational units to develop measures intended to counter illegal or unethical conduct by LANXESS employees at an early stage and to prevent improprieties. Our compliance management system is described in the opportunity and risk report starting on page 120 of this Annual Report.

Sustainability Committees and Board of Management Responsibilities in Fiscal Year 2019

Supervisory Board

report to

Matthias Zachert CEO	**Michael Pontzen CFO**	**Rainier van Roessel Board member**	**Hubert Fink Board member**
Compliance Organization	**Corporate Risk Committee**	**CR[1] Committee**	**HSEQ[2] Committee**
Group Compliance Officers and local Compliance Officers	Senior executives	Representatives from business units and Group functions	Senior executives
› Administering the CMS[3] › Supporting the organization regarding compliance › Developing preventive activities	› Reviewing and monitoring overall risk profile › Analyzing material risks and opportunities incl. sustainability topics	› Interdisciplinary competence center, advising the Board of Management on matters relating to sustainability	› Defining the global HSEQ[2] guidelines, strategies and programs › Setting and monitoring the HSEQ[2] goals

Continuous development of the sustainability strategy as part of the corporate strategy

1) Responsibility for the compliance organization was transferred from Matthias Zachert to Dr. Stephanie Coßmann effective January 1, 2020.
2) Dr. Rainier van Roessel retired at the end of fiscal year 2019. His CR-related responsibilities were transferred to Dr. Stephanie Coßmann effective January 1, 2020.
3) Corporate Responsibility.
4) Health, Safety, Environment and Quality.
5) Compliance Management System.

Corporate Risk Committee

The Corporate Risk Committee examines and monitors the Group's risk profile and in this context also regularly analyzes the key opportunities, risks, and corresponding preventive measures in relation to sustainability. Our opportunity and risk management system is described in detail in the combined management report starting on page 120 of this Annual Report.

Corporate Responsibility (CR) Committee

The members of this committee represent all LANXESS business units and ensure that all LANXESS's CR activities within the Group are in line with our strategy. As an interdisciplinary competence center, the committee advises both the Board of Management and the business units on all matters relating to sustainability. It is also responsible for collecting and maintaining reliable data that comply with current market standards for use in our external CR communications.

HSEQ Committee

The HSEQ Committee ensures worldwide compliance with uniformly high quality management, safety, environmental, energy and climate protection standards. It has responsibility for initiating and monitoring the global implementation of all necessary HSEQ guidelines, strategies and programs as well as for defining our HSEQ objectives and monitoring their achievement. It also defines the global strategy for our integrated quality and environmental management system and our energy management system.

Integrated Management System

A centrally organized management system at LANXESS provides for the necessary global management structures in all business processes in order to ensure responsible business activities. Globally, we base our actions on the international standards ISO 9001 and ISO 14001 for quality and environmental management and ISO 50001 for energy management.

Confirmation of compliance with the standards ISO 9001 and ISO 14001 is provided in a global matrix certificate. This brings a whole range of benefits:

› a high degree of standardization of processes
› uniform in-house guidelines and instructions
› transparent, efficient, and effective processes and controls
› considerably reduced external expense for the maintenance and optimization of the management system, for the integration of additional management systems (e.g. ISO 50001, sustainability standards), and for the integration of new sites or business units.

We ensure that progress in integrating new sites into our management system and its performance are regularly reviewed worldwide by independent external experts. In 2019, we successfully passed the surveillance audit in accordance with the standards ISO 9001:2015 and 14001:2015 and the recertification audit in accordance with ISO 50001:2011. In the reporting year, the sites in Joo Koon, Singapore; Memphis, USA; Ningbo, China; and Sudbury, Great Britain, were added to the matrix certificate. In addition, Bergkamen was the first site acquired from Chemtura to be integrated into our matrix certificate. With just a few exceptions, the other sites taken on with the acquisition of Chemtura have already been certified in accordance with ISO 9001 and most of them have also been certified in accordance with ISO 14001. We are planning to gradually integrate these sites into our matrix certificate.

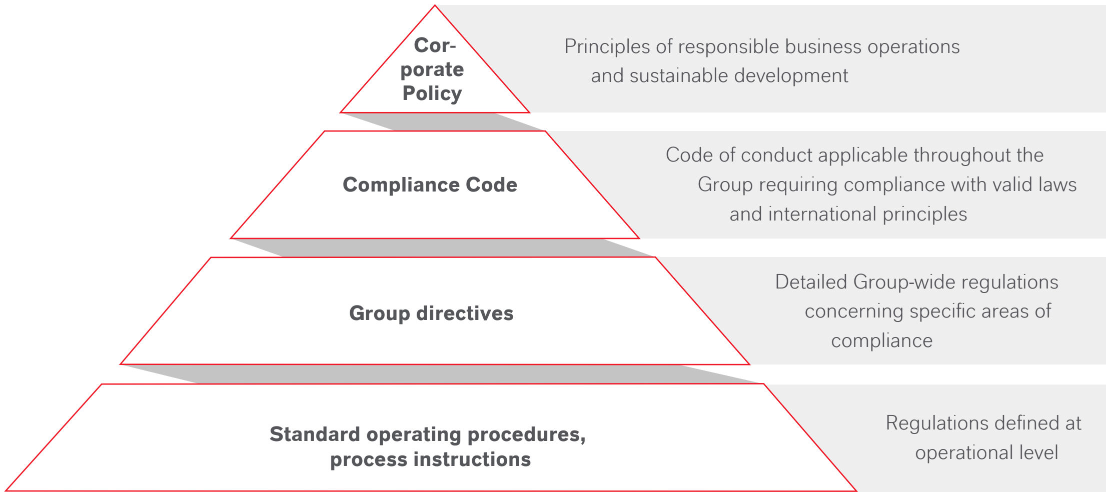
The LANXESS Code of Conduct can be found in the Responsibility/Good Corporate Governance section of the LANXESS website.

As of December 31, 2019, our matrix certificate covered 38 certifiable companies (companies with staff and in which LANXESS has a stake of over 50%) with a total of 74 sites in 21 countries. In relation to the number of employees, this equates to 87% coverage.

In addition, we have had LANXESS AG and all Group companies certified in accordance with ISO 50001 for energy management in Germany and Belgium. The only exceptions are the newly acquired IMD Natural Solutions GmbH and the newly founded CheMondis GmbH. As of December 31, 2019, the energy management system had reached 100% coverage in these two countries in relation to the number of employees. The former Chemtura site in Bergkamen was integrated into the matrix certificate in 2019. IAB Ionenaustauscher GmbH has its own certificate. Outside Germany and Belgium, we are continuing to pursue our strategy of regional and local certifications. In Great Britain, energy audits in accordance with ESOS (Energy Savings Opportunity Scheme) are required for all sites. After the audit requirement was determined in 2018, these audits were conducted in the reporting year.

In addition, individual LANXESS Group companies and sites have other specific management systems and certifications such as EMAS, RC14001 (RC = Responsible Care®), OHSAS 18001, and IATF 16949. The status of our certifications can be viewed at any time in the Corporate Responsibility/References/Certifications section of the LANXESS website.

Clear Rules Provide Guidance



Internal Guidelines and Regulations

The principles of responsible business operations and sustainable development are expressed in our Corporate Policy, which defines our general corporate philosophy and the conduct expected of every single employee in relation to our stakeholders in a total of eleven guidelines.

The LANXESS Code of Conduct, which is applicable throughout the Group, requires all our employees – across all organizational units, regions and hierarchy levels – to behave lawfully and with integrity. Through correct and proper conduct, each employee is responsible for helping to prevent harm to LANXESS and increase the company's value over the long term. The code covers

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issues such as human rights, cartel and antitrust law, anti-corruption, data protection, occupational, product and plant safety, and environmental protection.

Other Group directives, such as the HSE directives and the guideline on incentives, define the specific application of regulations in the individual areas of compliance covered by the code and are binding on all employees throughout the Group. On the basis of these LANXESS directives, more detailed regulations that also take account of local requirements are defined at the operational level in standard operating procedures and process instructions, etc. The applicable directives, standard operating procedures and guidelines are accessible to all employees. Employees are also regularly informed of new and updated regulations relevant to them.

We also expect our suppliers to commit to values and rules, especially the principles of the U.N. Global Compact and the ILO Labor Standards, and to establish adequate systems for ensuring legally compliant and responsible behavior. The LANXESS Supplier Code of Conduct is part of our communication with suppliers. When we select new suppliers, it is essential for us that they acknowledge the principles contained in this code or have established their own comparable regulations and management systems in line with the U.N. Global Compact. In addition, we promote responsible action in the supply chain with our involvement in the Together for Sustainability initiative, which we operate jointly with 24 other international chemical companies (see page 39).

www

The LANXESS Supplier Code of Conduct can be found in the Company/Conditions of purchase and sale section of the LANXESS website.

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Human Rights

In line with our values and operational guidelines, we are committed in all our markets and supply chains to promoting respect for human rights at all times and systematically preventing child and forced labor, for example. At LANXESS, human rights and ethical principles apply without restriction, even if they are not stipulated in the legislation of individual countries. Our target is formulated with corresponding clarity: in all areas over which LANXESS has control, there should be no breaches of human rights. We have included all relevant information on our commitment and on the measures established in the Group to protect human rights in the "LANXESS Position on Human Rights." This document can be viewed at any time in the Corporate Responsibility/Good Corporate Governance section of the LANXESS website.

Direct responsibility for ensuring that human rights are respected at all times lies with the respective management at our sites, supported by our global compliance organization and local Compliance Officers. At Group level, human rights are subject to regular evaluation as part of our risk management system. For example, we conduct specific risk assessments in all national companies with regard to the potential risk of human rights violations. The general risk potential across the Group is determined annually, and national companies with elevated risk potential are subjected to an additional, comprehensive risk assessment at least every three years. The risk assessments are coordinated by Group headquarters and carried out by the responsible

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departments at national level. The assessments confirm that there is a high level of awareness of the subject and that functioning mechanisms have been established to prevent violations of human rights.

We review our activities for the protection of human rights in a regular process, taking account of external requirements such as those formulated in the German National Action Plan on Business and Human Rights (NAP). Our subject experts cooperate across departments to identify potential for improvement and derive suitable measures.

Furthermore, all organizational units at LANXESS and their business activities are subject to regular internal and external audits. It goes without saying that these activities also include monitoring respect for human rights and – if necessary – the introduction of suitable measures to guarantee this.

Our Code of Conduct includes unambiguous instructions regarding the respect of human rights. The code, which every new employee receives with their employment contract, is also an aspect of general training measures. In addition, we hold training sessions geared toward specific selected human rights issues such as occupational safety. If there are suspected human rights violations, the Integrity Line and Compliance Helpdesk offer our employees and external third parties various ways to notify the compliance organization – also anonymously if they wish.

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We have no reports or knowledge of any systematic discrimination against LANXESS employees. This includes discrimination on the basis of skin color, age, gender, sexual orientation, origin, religion, physical and mental abilities, trade union membership or political opinion. In individual cases, misconduct by employees in respect of colleagues or third parties was reported. We will not tolerate verified misconduct and it will result in appropriate disciplinary measures up to and including dismissal.

All acquisitions of companies, interests in companies, or businesses are subject to a careful due diligence process to ensure that human rights are also respected by the target company. Significant suppliers of goods and services are regularly the subject of supplier assessments in the context of TfS audits that include aspects such as compliance with our Supplier Code of Conduct. The audits also cover compliance with human rights, including with regard to child labor and forced labor. In the reporting year, we received no reports or other indications of human rights violations by our suppliers. The same applies to child labor and forced labor.

We have also established the necessary sales-related processes to fulfill our responsibilities. This particularly includes our processes for central product monitoring and for trade compliance, especially with regard to regulations for preventing dual use. We also systematically evaluate the impact of our products on people as part of our portfolio analysis.

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Anti-Corruption

By signing the U.N. Global Compact, we have undertaken to actively counter all forms of corruption. Here too, our target is no incidents. Prevention of corruption is part of our general compliance management system. Organizational measures and regulations for setting up the compliance management system as well as responsibilities for implementation, support and continuous monitoring of the system are defined in a guideline applicable throughout the Group. The respective site management, supported here too by our global compliance organization and local country compliance officers, is responsible for preventing instances of corruption at all times.

A Group-wide directive provides our employees with clear guidance regarding incentives. Our employees are prohibited, either directly or in connection with their professional duties, from offering personal advantages to the employees of other companies – in particular when initiating, awarding or handling an order or assignment. Our employees are likewise prohibited from accepting such advantages or requesting them for themselves. Exceptions may be made for customary occasional or promotional gifts that are symbolic in nature and of low value. If an employee is offered such gifts, they must immediately notify their supervisor or the compliance organization.

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LANXESS may not grant advantages of any kind to public servants or other officials in Germany or abroad. When commissioning service providers who have contact with officials on behalf of LANXESS, employees must likewise ensure compliance with the prohibition on corruption. As a basic principle, we do not provide financial support to political groupings or parties. LANXESS is involved in large industrial associations, which we regard as fundamental to representing our interests. We disclose contributions and spending on political activities transparently; details can be found on the LANXESS website under Corporate Responsibility/Approach/Stakeholder Dialog at any time.

All donations require approval from a member of the Board of Management after prior consultation with the compliance organization.

To enhance our employees' awareness of these rules of conduct, the issue of corruption is regularly covered by compliance training. In addition, we hold specific corruption training aimed at exposed professional groups and countries. In the reporting year, we carried out compliance training sessions with a total of over 3,500 participants worldwide. If there are indications of compliance violations, our employees and external third parties can contact the compliance organization via the established reporting channels – also anonymously if they wish.

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The Corporate Audit function examines and monitors implementation of our measures to prevent corruption. It applies various analytical approaches and scopes here:

- Assessment of the risk of exposure to corruption as part of annual audit planning, and general monitoring of the internal control system: all business units
- Transaction monitoring to ensure compliance with company regulations with an influence on the prevention of corruption in the standard SAP system: at least 90% of all transactions

In fiscal year 2019, we received no reports or other indications of cases of active corruption by LANXESS employees. Verified cases of LANXESS employees being bribed lead to appropriate disciplinary actions up to and including dismissal as well as consideration of further legal steps. In the reporting year, we recorded a low single-digit number of such cases, but these did not have any further significant effects for LANXESS.

15,479
LANXESS employees worldwide

EMPLOYEES

The central task of the Human Resources Group function is to provide the best possible support for the growth of LANXESS's operating businesses. At the same time, global HR trends such as demographic change, globalization, the drive for agility and digitalization, and cultural and value-based transformation mean that, in many places, we have to break the mold. This is just what we have done – by successfully completing an extensive HR transformation project. In the past two years, we have not only implemented a "People Strategy" but also restructured our entire HR organization. The new organizational structure puts the focus on our business, brings our expertise into the regions with globally networked teams and offers effective services as well as global standards in a shared system landscape. In the reporting year, the transformation project won the renowned "HR Excellence Award" in the "Corporations: International HR Management" category.

Our "People Strategy" is based on four pillars and eight strategic action fields that clearly guide our HR work:

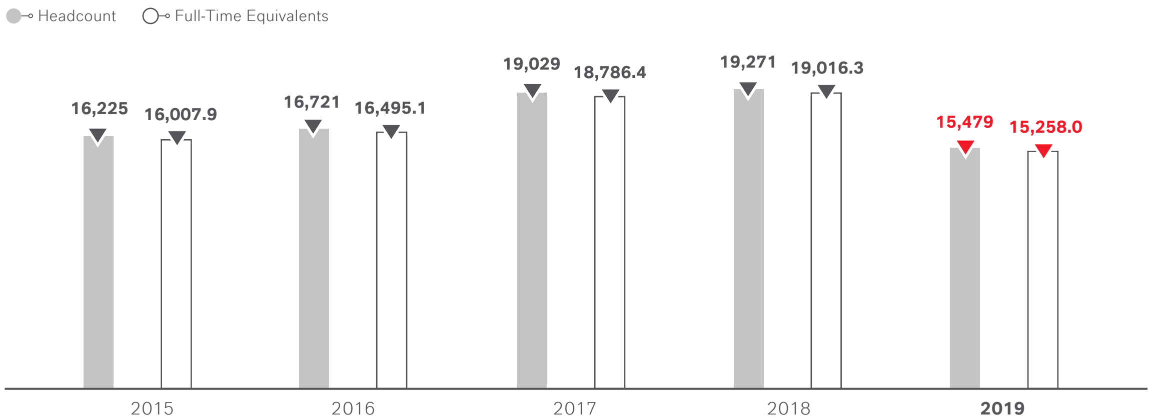
- **Enabling growth**
  With increasingly long-term and strategic workforce planning as well as a globally managed recruiting strategy, we are supporting the sustainable growth of our business in line with our corporate strategy.
- **Developing people**
  We pursue continuous talent management and a comprehensive training and learning concept with the aim of promoting cross-functional and cross-divisional career development, developing young talent from within our own ranks and strengthening expertise for the LANXESS organization of the future.
- **Enhancing and strengthening the HR function**
  We promote efficient and standardized HR processes, act as a global team with transparent structures and establish modern, digital HR systems and tools. We operate as a strategic partner for the businesses.
- **Intensifying dialog**
  We strengthen exchange within and outside the HR department in order to create greater transparency regarding HR products and services, to enhance the role of HR as a strategic partner and to address the needs of the various Group functions and business units in an even more targeted way.

In the reporting year, we initiated or continued a great many projects and measures across these four pillars.

For example, we optimized, digitalized and harmonized significant HR processes throughout the Group with the successful global installation of a digital solution for HR services. The aim is to make these processes more transparent and user-friendly while also markedly less complex. The modern system solution covers central HR processes such as recruitment and onboarding, performance management, document management and employee self-service functions in a single system. We expect to implement another two modules in 2020.

Other priorities in 2019 were the further development and harmonization of our Group-wide talent programs (see page 27 et seq.), the strategic realignment of the topic of Diversity & Inclusion (see page 30) and the global implementation of our Xwork program, which promotes more flexible forms of work (see page 34 et seq.).

Number of Employees



The figures presented here for 2019 differ from those in the financial report, because the figures reported there are for continuing operations (see page 72 et seq.).
These and all subsequent assessments relate – if not explicitly stated otherwise – to the core workforce (see page 33 for explanation).
Figures from 2016–2018 including ARLANXEO.

Targeted Recruitment of Talents

Against a backdrop of strong competition for talent in our core markets and the demographic challenges (see page 32), we see recruitment as a strategic issue and are investing in a distinctive employer brand in order to highlight the advantages of LANXESS as a global and socially responsible employer. Our employer branding centers on authenticity and diversity. We are making ever greater use of social media, where we share a mix of company, product and employee information in order to spark enthusiasm for our company among talented people from a wide range of functions.

As part of our HR transformation, we have strengthened our global recruiter organization. In particular, the new software platform for recruitment and onboarding outlined above helps to make processes in connection with approaching and acquiring new employees more standardized, transparent and customer-focused. In order to approach interesting candidates in both an active and a targeted manner, we have also started building up a pool of active sourcing specialists, who will gradually replace external HR service providers. A total of 868 new employees joined the Group in the reporting year. The focus was on technical positions.

New Employees by Age Group, Gender and Region

	EMEA (excluding Germany)		Germany		North America		Latin America		Asia-Pacific		Total
Age group	**f**	**m**	**f**	**m**	**f**	**m**	**f**	**m**	**f**	**m**	
< 30	14	56	22	78	12	54	9	19	10	50	**324**
30-49	29	50	40	131	19	72	1	12	18	67	**439**
≥ 50	6	14	0	30	10	38	1	2	3	1	**105**
Total	**49**	**120**	**62**	**239**	**41**	**164**	**11**	**33**	**31**	**118**	**868**
Region total	**169**		**301**		**205**		**44**		**149**		
%											
Age group	**f**	**m**	**f**	**m**	**f**	**m**	**f**	**m**	**f**	**m**	
< 30	27.5	31.5	11.6	10.6	20.9	30.0	28.8	27.3	13.7	24.1	**18.3**
30-49	8.3	4.9	6.4	5.2	12.0	11.4	0.8	3.2	4.5	4.7	**5.7**
≥ 50	4.7	1.7	0.0	1.0	4.4	4.8	5.4	1.4	5.9	0.3	**1.7**
Total	**9.3**	**6.0**	**4.6**	**3.8**	**9.2**	**10.2**	**6.2**	**5.6**	**6.0**	**6.1**	**5.6**
Region total	**6.7**		**3.9**		**10.0**		**5.7**		**6.1**		

Our international graduate trainee program is a fundamental tool for securing talent in Germany. Exceptionally well-qualified Master's graduates are prepared for challenging specialist and managerial tasks and gather valuable experience abroad. In addition to an engineering orientation, LANXESS also offers attractive opportunities for economists. In 2019, 23 new graduate trainees (9 women, 14 men) started their career at LANXESS.

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Developing Specialist Staff from within Our Own Ranks

Training young people has always been hugely important to us, both in order to safeguard the company's future and as part of our social responsibility. Vocational training is the basis of our strategy of developing specialist staff for the German sites from within our own ranks.

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215 apprentices on eight technical, scientific and commercial career paths and six dual-study programs started their apprenticeships at LANXESS Deutschland GmbH on September 1, 2019. The proportion of female career starters was around 10% in the reporting year (previous year: 8%).

Taking the new intake into account, there are currently 682 apprentices at LANXESS Deutschland GmbH (as of December 31, 2019). The proportion of female apprentices across all years is around 11%. We invested around €23 million (previous year: €20 million) in the vocational training of young talent in 2019.

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Training will remain a key pillar of our HR policy in the years ahead. It is our stated aim to retain at least 80% of our apprentices after successful completion of their training. We reached this target again in the reporting year with a retention ratio of 88% (previous year: 84%). Outside of Germany, we have also started to offer apprenticeship programs on a smaller scale in countries such as Belgium, Spain, Great Britain, India and South Africa. These have met with a positive response so far and are helping us meet our demand for young talent in the countries in question.

Each year, with our XOnce program, we give school-leavers who still do not meet academic or personal requirements for starting an apprenticeship program immediately the opportunity to qualify for a technical or scientific apprenticeship program – regardless of whether this is then done externally or at LANXESS itself. Ten young people took part in the XOnce program in 2019. On average, approximately 50% of participants become apprentices at LANXESS after participating in the XOnce program.

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Apprentice Ratio[1]

8.1%

1) This figure is the ratio of apprentices at LANXESS Deutschland GmbH. The number of LANXESS Deutschland GmbH employees undertaking an apprenticeship is expressed as a percentage of the core workforce of LANXESS Deutschland GmbH (employees with a permanent, full- or part-time employment contract, see page 32) plus the apprentices of LANXESS Deutschland GmbH.

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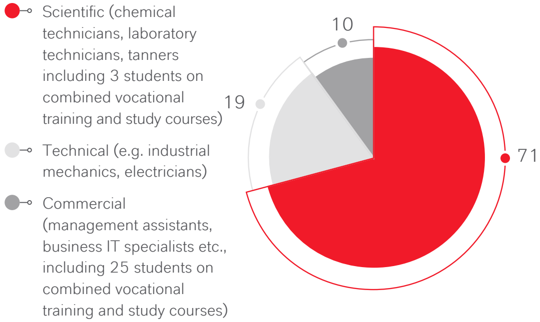
Apprentices by Career Path[1]

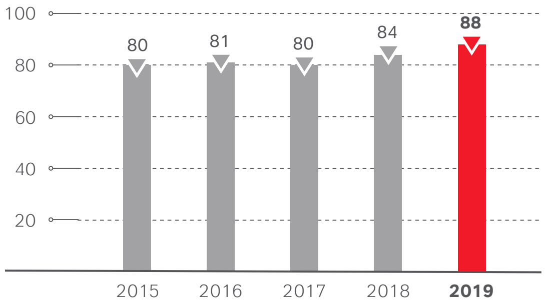
%



1) LANXESS in Germany

Hire Rate of Apprentices and Students on Combined Work and Bachelor's Degree courses at LANXESS[1]

%



1) LANXESS in Germany

Promoting Development Worldwide

Only by constantly investing in training our employees and imparting clear, globally binding values and standards can we as a company keep on using the opportunities of changing markets successfully. Wide-ranging leadership and HR development tools enable and motivate our employees to act on the basis of values, rethink issues, implement them quickly and devise solutions in a team.

NFR

Our activities in the reporting year centered on the further development of global, cross-divisional and cross-hierarchical talent programs, with which we want to retain particularly high-performing employees within our company and identify suitable successors for key positions at an early stage. In the previous year, we successfully established the new "eXplorer" program, which is aimed at employees who have the potential to develop toward major leadership roles at LANXESS in the next few years. Key "eXplorer" topics include dealing with complexity, new forms of collaboration and digital and agile leadership principles. We are now rounding off our range of Group-wide talent programs with "compass" and "navigator."

"compass" is aimed at employees at the start of their career. The program offers guidance for their future career path and encourages practical development measures. The core elements of the program are a Development Center with exercises tailored specially for the target group

NFR

and personal development plans. The "navigator" program is aimed at top-level managers with the potential to lead a business unit or Group function.

Our commitment to increasing diversity at LANXESS (see page 30 et seq.) is reflected in a specific target for the composition of the three talent programs. Every year, the programs' participants should be at least 30% female and 40% non-German. With a total of 65 participants in 2019, the proportions amounted to 31% female and 49% non-German participants, which means we achieved our target for the reporting year. Because the programs can last for up to 18 months, double counting cannot be ruled out.

We offer global leadership training in order to embed our leadership principles more deeply worldwide and to strengthen our leadership culture. Depending on the experience of the participants, basic leadership techniques are conveyed, refreshed and translated into individual measures. Since management practice differs depending on the country and cultural environment, our training programs also take cultural differences into account and increasingly deal with the requirements of digital management. A total of 1,423 managers have been trained since 2016, including 419 in the reporting year.

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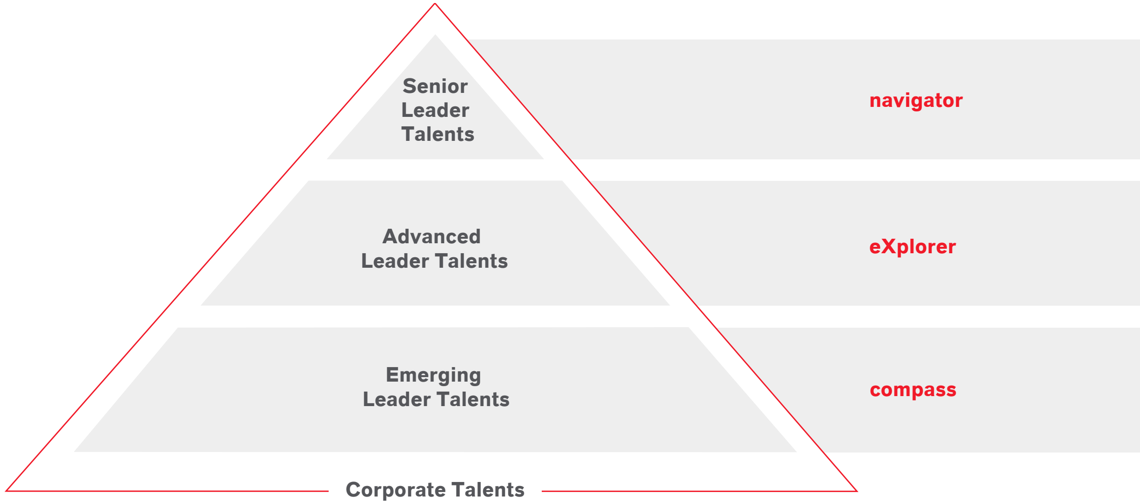
Global Talent Programs Promote High-performing Employees



The performance dialog is a key tool for developing our employees. We use it to help our managers and their employees to compare mutual expectations regarding tasks, targets and responsibilities more effectively and to continuously give each other feedback, thus improving collaboration. The performance dialog was available to all managers in the reporting year and was very well received.

Promoting life-long learning of our employees was also a high priority for our HR development in 2019. In the EMEA region (excluding Germany), for example, 98% of our employees received training, including both basic and safety training, as well as further education to further their careers and skills in the reporting year. On average, each employee received 57 hours of training. This targeted HR development enabled us to fill one fifth of all vacancies in the EMEA region (excluding Germany) with qualified internal applicants.

To keep on expanding the learning options for our employees and make them flexible, digital learning formats are a core part of our training portfolio. We offered our employees 8,941 digital learning formats in 2019. We are also taking more account of the need for digital, virtual management in our leadership training programs. For example, we have integrated virtual exercises that train digital leadership skills. Our mentoring and coaching offerings are also easily accessible via a digital platform. With a broad range that goes beyond traditional training, our dLX Group function is also promoting the digital culture shift at LANXESS.

Leadership at the LANXESS production plants is also important to us. Alongside the basic training, we have therefore developed a second module for new plant managers in order to familiarize the employees with selected operational issues in a more targeted manner.

International deployments are another key component of our systematic HR development. At the end of 2019, 59 employees – i. e. around 1.5% of our specialist and managerial staff – were working outside their contractual country as expatriates. Along with targeted global exchange of expertise through deployment of experts and managers, it is our ongoing aim to build up local management with specialist knowledge and expertise and assign challenging tasks to suitable employees at our international sites. At sites outside Germany, 86% of our leadership positions are currently held by local employees.

NFR

Employee Commitment as a Key Success Factor

Committed employees are the key to strong company performance, successful change and ultimately long-term corporate success. Accordingly, we pay close attention to encouraging the commitment of our employees. Good management helps here, as do personal development prospects, a high degree of flexibility in job design and company values with which our employees can identify. All these factors, among others, shape the LANXESS corporate culture, which we actively cultivate and develop with regard to the constant new challenges in our markets. An important forum for this is the annual Performance Culture Day, which in 2019 was devoted to our “Think New – Act Fast” principle. We also want to lend greater weight to the

Turnover Resulting from Voluntary Resignations by Age Group, Gender and Region
%

	EMEA (excluding Germany)		Germany		North America		Latin America		Asia-Pacific		Total	
											%	Abs.
Age group	**f**	**m**	**f**	**m**	**f**	**m**	**f**	**m**	**f**	**m**		
<30	15.7	2.8	3.7	3.1	12.2	8.3	0.0	1.4	9.6	11.1	**5.4**	**96**
30–49	3.4	3.4	2.1	1.5	7.6	8.7	1.6	1.6	6.3	4.7	**3.5**	**266**
≥50	2.4	1.5	0.7	0.3	4.8	6.2	0.0	0.0	3.9	1.7	**1.6**	**96**
Total	**4.4**	**2.6**	**1.8**	**1.1**	**6.7**	**7.4**	**1.1**	**1.2**	**6.5**	**5.0**	**3.0**	**458**
Region total	**3.0**		**1.2**		**7.3**		**1.2**		**5.3**			
Region total (absolute)	**75**		**95**		**149**		**9**		**130**			

Early turnover: percentage of employees who left our company of their own accord within three years of being hired

NFR

aspect of “cultural fit” when it comes to acquisitions – so a corresponding analysis will become a fixed element of the due diligence process in the future.

Regular and structured feedback is another important element of our corporate culture. To this end, we use a wide range of survey formats to allow feedback relating to the satisfaction and commitment of the various employee groups. In 2019, countries where local surveys were carried out included Brazil, France, the UK, India and Spain.

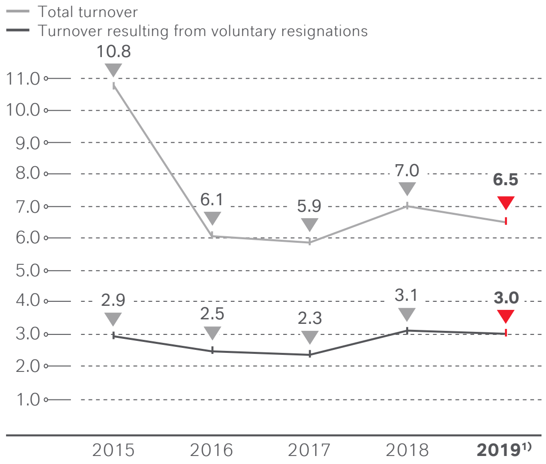
NFR

We regard the turnover rate based on voluntary resignations as a key indicator for the commitment of our employees. Our goal is to continuously keep this ratio below 3.5% until the end of 2023. In the reporting year, the global voluntary turnover rate was 3.0%, meaning that we reached our target for this year. In Germany, the rate was 1.2%. The percentage of employees who left our company of their own accord within three years of being hired stood at an average of 1.2% worldwide in the reporting year.

We rate our performance in relevant rankings and competitions as a further sign of our employees’ satisfaction and the attraction of LANXESS as an employer. LANXESS was named as a top employer or as an employer of choice in various countries, e.g. Brazil and China, in the reporting year.

17
years
average length of service

Development of Turnover Over Time
%



1) The turnover rate is the sum of departures (from the Group) in the last twelve months divided by the average of the headcounts at the end of the last four quarters. It therefore includes employer- and employee-initiated departures as well as retirement. Since fiscal year 2019, temporary absences, e.g. due to parental leave or lengthy illness, are no longer counted as departures.

Early Turnover Resulting from Voluntary Resignations by Age Group, Gender and Region
%

	EMEA (excluding Germany)		Germany		North America		Latin America		Asia-Pacific		Total	
											%	Abs.
Age group	f	m	f	m	f	m	f	m	f	m		
<30	11.8	2.3	0.0	0.8	10.4	6.1	0.0	1.4	6.8	7.2	**3.1**	**54**
30–49	2.0	1.3	1.0	0.6	3.8	4.3	0.0	0.5	1.8	1.7	**1.4**	**107**
≥ 50	0.8	0.4	0.2	0.0	2.6	2.2	0.0	0.0	2.0	0.0	**0.5**	**30**
Total	**2.7**	**1.0**	**0.5**	**0.3**	**4.0**	**3.4**	**0.0**	**0.5**	**2.5**	**2.1**	**1.2**	**191**
Region total	**1.3**		**0.4**		**3.6**		**0.4**		**2.2**			
Region total (absolute)	**34**		**28**		**73**		**3**		**53**			

Total Turnover by Age Group, Gender and Region

	EMEA (excluding Germany)		Germany		North America		Latin America		Asia-Pacific		Total
Age group	f	m	f	m	f	m	f	m	f	m	
<30	8	11	8	27	7	24	3	9	7	32	**136**
30–49	15	53	18	55	17	74	16	33	31	142	**454**
≥ 50	5	52	20	130	23	76	2	29	6	72	**415**
Total	**28**	**116**	**46**	**212**	**47**	**174**	**21**	**71**	**44**	**246**	**1,005**
%											
Age group	w	m	w	m	w	m	w	m	w	m	
<30	15.7	6.2	4.2	3.7	12.2	13.3	9.6	12.9	9.6	15.4	**7.7**
30–49	4.3	5.2	2.9	2.2	10.8	11.7	12.5	8.7	7.8	9.9	**5.9**
≥ 50	3.9	6.5	3.7	4.3	10.0	9.6	10.8	20.2	11.8	25.0	**6.9**
Total	**5.3**	**5.8**	**3.4**	**3.4**	**10.6**	**10.9**	**11.8**	**12.0**	**8.5**	**12.7**	**6.5**
Region total	**5.7**		**3.4**		**10.8**		**12.0**		**11.8**		

Diversity as a Success Factor

We regard diversity as a strategic advantage. Therefore, we aim to enhance diversity at LANXESS and use its positive effects for our company and employees. An appreciative organizational culture that is open to all people – regardless of age, gender, nationality, disability or ideology – helps us to become more innovative and efficient and to attract and retain promising talents. Recognizing and appreciating diversity is therefore ingrained in our values, our guiding principles as well as our leadership principles.

Diversity Work Wins Multiple Awards

Our work to create an organizational culture in which diversity is a matter of course won various awards again in 2019: Among others, the Rhine-Ruhr Diversity Network, in which we engage in an intensive dialog on diversity issues with 14 other large companies from the region, received the Best Practice Award from the "Diversity Charter" initiative.

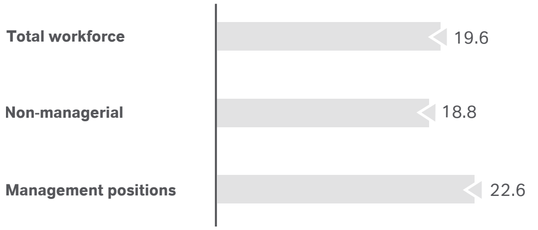
Ratio of Disabled Employees at German Companies

	2015	2016	2017	2018	2019
Ratio in %	5.5	5.6	5.9	5.7	**5.9**

In the reporting year, we revised our strategic "Diversity & Inclusion" (D&I) concept for promoting diversity at LANXESS. In the interests of an integrative approach, we want to better incorporate D&I into all HR processes. In the future, we will follow a more holistic D&I approach and particularly address the aspects of age, gender, nationality, disability and sexual orientation.

Gender diversity remains one of our global priorities, with the clear target of increasing the proportion of women in the company. Our measures begin in recruitment, with messages and event formats tailored specially to women. Their professional and personal development is supported by mentoring, coaching and mandatory D&I criteria for the composition of our global talent programs (see page 27). In addition, we are constantly working to expand and improve our offerings for work-life balance (see page 34 et seq.). Regional and local D&I activities accompany our global measures. They have all helped us to achieve two of our three gender diversity targets ahead of schedule.

Proportion of Women
%



Proportion of Women on the Board of Management and at the Top Management Levels

Proportion of women	2015	2016	2017[1]	2018	2019	Goal	Target date
First level below the Board of Management	9.8%	9.8%	11.6%	13.8%	**20.9%**	15%	June 30, 2022
Second level below the Board of Management	20.5%	25.1%	23.9%	19.2%	**25.1%**	25%	June 30, 2022
Board of Management (number of women)	0	0	0	0	**0**	1 woman	June 30, 2022

1) Year when target was set.
The proportion of women at the second management level below the Board of Management has been fluctuating since 2015 due to M&A activities. In 2018, the proportion of women also fell due to a change in the reporting structure below the Board of Management associated with the introduction of an additional reporting level at the regional level. The significant increase in the proportion of women at the first two management levels below the Board of Management in the reporting year is partly due to a change in the functional reporting structure to our Chief Financial Officer, Michael Pontzen.

In addition, the German Act on Equal Participation of Women and Men in Executive Positions in the Private and the Public Sector commits us to set targets in Germany for aspects such as the proportion of women at the two management levels below the Board of Management and to determine the target date for attainment of the proportion of women. In 2017, the Board of Management and the Supervisory Board approved the targets with an implementation deadline of June 30, 2022: The proportion of women is to be 15% for the first level below the Board of Management and 25% for the second level. At the end of 2019, the proportion of women at the first management level below the Board of Management was 20.9%. At the second management level, it was 25.1%. Both ratios therefore exceeded the target.

We achieved another significant target in the context of gender diversity at the beginning of fiscal year 2020: At least one woman was to be included on the LANXESS Board of Management by mid-2022. By resolution of the LANXESS Supervisory Board of December 11, 2019, Stephanie Coßmann, previously Head of the Human Resources Group function, was appointed as a member of the Board of Management and as Labor Relations Director as of January 1, 2020. She succeeds Rainier van Roessel, who retired at the end of the year.

We are now voluntarily committed to increasing the proportion of women in middle and upper management around the world to 20% by the end of 2020. This figure was already 19.8% as of the 2019 reporting date.

Overcoming Demographic Challenges

Two regions of commercial significance for LANXESS – Europe, especially Germany and Belgium, and the U.S. – are hit particularly hard by the problem of the increasing average age of our employees. Accordingly, competition for qualified young talent is intensifying. In the medium term, illness and retirement – both regular and early – will mean that many vacancies require filling, especially in career paths such as chemical production technician, mechanic/fitter and engineer. Against this backdrop, another 30 additional “demographic jobs” were approved in the reporting year. This means that we have so far created around 110 demographic jobs.

After two successful pilots, we also adopted our newly established, global strategic HR planning process in day-to-day business in the reporting year. The aim is to simulate the long-term staffing supply – taking into account retirements, natural turnover, etc. – and compare it against our long-term staffing requirements, taking into account the corporate strategy and technological changes. This enables us to identify staff shortages at an early stage and instigate appropriate HR measures.

Employees by Age Group, Gender and Region

	EMEA (excluding Germany)		Germany		North America		Latin America		Asia-Pacific		**Total**
Age group	**f**	**m**	**f**	**m**	**f**	**m**	**f**	**m**	**f**	**m**	
< 30	49	182	191	739	55	174	31	71	59	196	**1,747**
30–49	353	1,003	617	2,530	165	622	124	376	394	1,413	**7,597**
≥ 50	134	814	565	3,099	226	795	21	150	52	280	**6,136**
Total	**536**	**1,999**	**1,373**	**6,368**	**446**	**1,591**	**176**	**597**	**505**	**1,889**	**15,479**
Region total	**2,535**		**7,740**		**2,037**		**773**		**2,394**		

Rewarding Performance Appropriately

In the context of the digitalization of our working world, longer working lives and shifting social trends, employees’ expectations of their employer are also constantly changing. This means that existing offerings to employees must be regularly reviewed and, if necessary, adapted to different needs.

In addition to fair monetary remuneration, flexible working conditions and benefits are becoming increasingly important. As components of total remuneration at LANXESS, they make a material contribution to the well-being and productivity of our workforce. It is important to us that the benefits granted support our corporate targets, values and culture and address the relevant needs of our employees. Some benefits are equally essential for all employees, such as:

- Company pension plans and insurance benefits for financial security
- Flexible working conditions and other offerings that support our employees’ work-life balance
- Programs for prevention and long-term preservation of our employees’ health
- Education and training

When designing these benefits, we often go further than the respective statutory framework. In addition, we always aim to account for individual needs and every life situation in the best possible manner.

All services relating to career and family, health and pensions apply to our core workforce. Even so, some individual services in the regions may have differing structures and be locally adapted to the needs of our employees. Our core workforce includes all employees with a permanent full-time or part-time employment contract. As of December 31, 2019, this was 93% of our total workforce worldwide.

Fair Remuneration and Comprehensive Benefits
LANXESS pays its employees worldwide transparent remuneration in line with market conditions that also includes a bonus system geared toward the company's long-term success. In total, 88% of our employees worldwide receive variable remuneration.

Above the pay scale, and, in most countries, within the pay scale, we also provide a performance-related remuneration component on top of fixed pay. This is the Annual Performance Payment (APP), which goes to employees in countries that participate in this program. This bonus payment is linked to the Group's attainment of a defined EBITDA target. Further individual targets in areas such as safety and sustainability additionally apply to top management. In 2019, we shared around €96 million of our profits for 2018 with our employees worldwide.

Furthermore, through the Individual Performance Payment (IPP), managers can also reward outstanding performance of an employee during the year promptly and with no red tape. Around €12 million was assigned for outstanding individual performance alone in fiscal year 2019 (including around €8.5 million in Germany). At present, around 79% of our employees worldwide are entitled to receive the IPP. In relation to this, they also receive a prompt assessment of their performance and their career prospects.

In addition, we offer a long-term incentive program for our managers in Germany. There are similar programs in the U.S., India and China. The Long-Term Stock Performance Plan (LTSP) 2018–2021 consists of four tranches commenced each year and tracks the performance of the LANXESS share compared with the MSCI World Chemicals Index, over a period of four years in each case. The four-year term and the potential growth in value make this program an attractive long-term incentive and retention tool. In addition, there is a new Share Ownership Guideline (SOG) for the Board of Management and our top-level managers. This guideline emphasizes trust in the strategy and long-term success of LANXESS. 99.9% of those eligible participated in the current program in 2019.

As of the reporting date, our employees and directors held around 1% of the LANXESS shares in total in the context of participation programs.

Another core element of our offering is the company pension plan for plugging potential gaps in provision in old age. The design of the company pension plan differs from country to country depending on the state pension system. However, LANXESS's pension commitments often go beyond what is required by law. They are funded by employer and/or employee contributions. Employees in Germany can voluntarily increase their pension and receive additional contributions from LANXESS. 76% of employees participate in the supplementary component of the current pension plan. In turn, other offerings enable a smooth transition into retirement, such as the long-term account for pay-scale employees in Germany. The participation rate here remained at a high level of around 92.4%.

Optimally Balance Work and Life

LANXESS Employee Structure by Employment Type, Gender and Region
(also including employees on fixed-term contracts)[1)]

	EMEA (excluding Germany)		Germany		North America		Latin America		Asia-Pacific		**Total**
Contract	**f**	**m**	**f**	**m**	**f**	**m**	**f**	**m**	**f**	**m**	
Permanent contract	536	1,999	1,373	6,368	446	1,591	176	597	505	1,889	**15,479**
Full-time	483	1,845	993	6,164	438	1,590	175	597	498	1,889	**14,671**
Part-time	53	154	380	204	8	1	1	0	7	0	**808**
Temporary contract	26	39	147	789	3	11	28	30	27	62	**1,162**
Full-time	25	39	127	772	2	11	28	30	25	62	**1,121**
Part-time	1	0	20	17	1	0	0	0	2	0	**41**
Total	**562**	**2,038**	**1,520**	**7,156**	**449**	**1,602**	**204**	**627**	**532**	**1,951**	**16,641**

1) In fiscal year 2019, we employed a total of 83 temporary staff members (16 women and 67 men) at our German companies.

NFR

In line with our employees' desire for more flexible working and working-time models as well as greater transparency regarding existing options, we introduced and communicated global flexibility principles in 2018 under the heading "Xwork – Flexible Work." On this basis, we developed specific guidelines on flexible working conditions and introduced corresponding models in a number of countries in the reporting year, for example a pilot project for flexible working hours at several U.S. sites. All measures count toward our new goal of 95% of all countries in which we operate having derived and implemented specific guidelines and/or corresponding models for flexible working conditions from our global "Xwork" principles by the end of 2022. At the end of 2019, the coverage ratio was already 74%.

The "flexitime" model introduced in Germany in 2017 aims to enable employees in senior management to work part-time in an intelligent way. In the Flexi-95 model, the level of employment is reduced to 95% with a corresponding adjustment to remuneration, meaning that a full-time worker is entitled to 13 extra days off per year. All non-pay-scale employees have been able to participate in the program since 2019. At the end of fiscal year 2019, we already counted around 130 participants, of which 45 in senior management.

Options for Flexible Working Hours and Mobile Working Worldwide
%

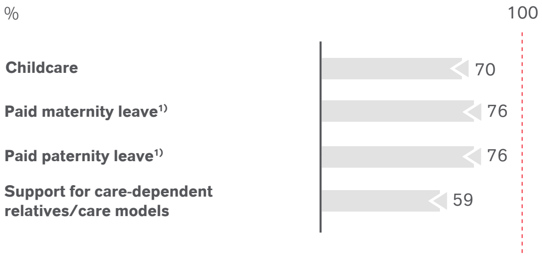
Both coverage ratios decreased in the reporting year due to change in the calculation method. As part of our Xwork program and the associated new target (see left column), we have applied stricter assessment criteria and called not only for a country-specific program, but also, for example, for compliance with the Xwork principles, coverage of the majority of employees in the country and appropriate communication in connection with the new Xwork program.

Work/life balance matters to an ever-growing number of employees. A total of 7% of our employees in Germany aged between 20 and 40 were on parental leave for a time. Of this figure, 58% were fathers. 97% of the employees who ended a parental leave period in 2019 returned to a job at LANXESS, 99% of which still worked in the company at the end of 2019.

The statutory maternity rights in Germany and similar models in the European Union are by no means standard worldwide. Therefore, at our sites outside Europe, we are assessing whether we can introduce or expand country-specific models for our employees. For our employees in the U.S., for example, we approved a new paid parental leave model in the reporting year, which allows mothers and fathers to take parental leave of eight weeks on the birth or adoption of a child – while continuing to receive a full salary. The model will be implemented in 2020.

Against a backdrop of demographic change, care is a major issue in Germany. The centerpiece of the LANXESS care model is caregiver leave, which allows our employees to reduce their working hours by more than their pay during the care period and to work off the hours commensurate with the pay they received after their return. Caregiver leave and time off have been used by 109 employees in Germany since the LANXESS care model was introduced.

Options for Childcare, Maternity/Paternity Leave and Care Models Worldwide
%



1) Beyond legal requirements

Coverage is shown in percent for each initiative with regard to the countries and the total number of employees.

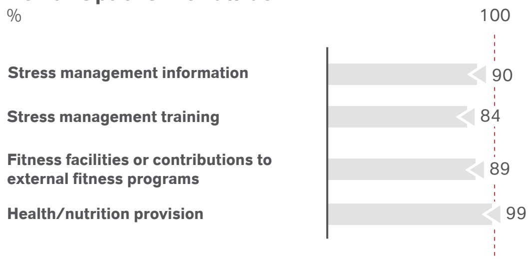
Occupational Health and Safety Enjoy Top Priority

Our occupational health management is based on raising all employees' awareness of their own health and motivating them to act on their own initiative and adopt healthy behaviors in their professional and private lives.

In the context of our occupational health management, we again offered our employees at various German sites a medical check-up in 2019 – this time with a focus on catching poor posture early and preventing back complaints. Around 1,031 people took up this offer. As it proved so successful we will be offering a medical check-up again in 2020. In addition, our employees in Germany again received €200 credit for booking a wide range of health-related options on the digital platform "machtfit." LANXESS pays 80% of the costs for each course booking until the budget is used up. Around 50% of German LANXESS employees are now registered. Up to the reporting date, a total of around 20,000 health units had been booked, with massage, fitness and yoga options proving most popular.

We also offer our employees wide-ranging measures to promote health and wellbeing at our international sites, e. g. medical check-ups, training on stress management and fitness, wellness or dietary options.

Health Options Worldwide
%



Coverage is shown in percent for each initiative with regard to the countries and the total number of employees.

NFR

We address the topic of occupational safety with our global safety initiative Xact. Xact pursues the goal of gradually lifting the safety culture of LANXESS to a higher level. Starting with top management, all employees are expected to work together to improve safety in the Group. We are doing this because we firmly believe that all industrial accidents are avoidable. As a specific target for occupational safety, we aim to reduce the lost time injury frequency rate (LTIFR, known as MAQ in Germany) by more than half by the end of 2025 compared to the reference year of 2016 (LTIFR of 2.0).

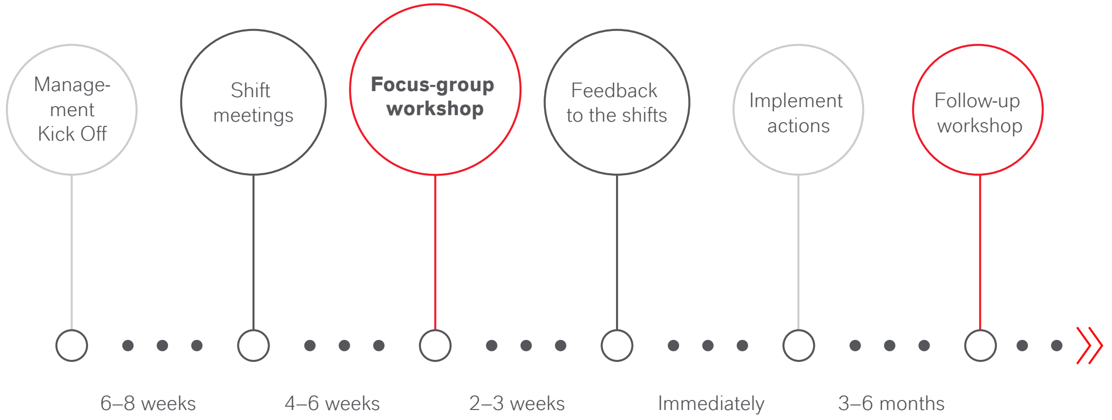
NFR

Six Xact safety rules, the core principles of safe working at LANXESS, address the key points with which all employees – from the factory to the office, regardless of hierarchy and position – can make an active contribution to their own safety and that of their colleagues. They are derived from the Xact "guidelines and principles," the worldwide framework for the orientation of our safety culture.

NFR

As ever, the work of the Xact team is focused on fostering a positive culture of safety and greater alignment toward behavior-based safety. To this end, we therefore developed and piloted a systematic process called the Safety Culture Development Process in 2018. A gradual, global rollout – starting with Germany and the USMCA region – has been underway since 2019.

Our Safety Culture Development Process



NFR

The six-stage process is centered on a full-day, focus-group workshop led by the Xact team. In this workshop, representatives of all levels of the respective department's hierarchy – from plant managers to shift workers – engage in an in-depth discussion the safety culture in their own plant. In this way, we can identify the individual strengths and weaknesses of each plant and initiate targeted improvements. To boost sustainability, a follow-up workshop a few months later discusses the implementation of the measures with the focus group. The Xact team collates the workshop results centrally in order to determine global, regional or department-specific trends.

By the end of 2019, more than 20 of the planned 150 focus-group workshops had been carried out in Germany, the U.S. and China. A first interim evaluation shows that our employees appreciate the fact that they can contribute personally, receive direct feedback from their colleagues and supervisors and actively help to shape the safety culture in their own area of activity. Internal communication, an effective occupational safety organization and mindfulness emerged as particularly important topics for discussion. We will continue this process and extend it to all regions in 2020.

Active, ongoing communication is a top priority for us when it comes to matters relating to safety. The pulse-check survey that we conduct every year among all LANXESS employees is an important tool here. It gives them the opportunity to express their personal experience of key aspects

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of safety at LANXESS. One aim of the anonymous survey is to determine whether the individual employee receives positive feedback for safe work – as intended – or whether supervisors set an example when it comes to safety.

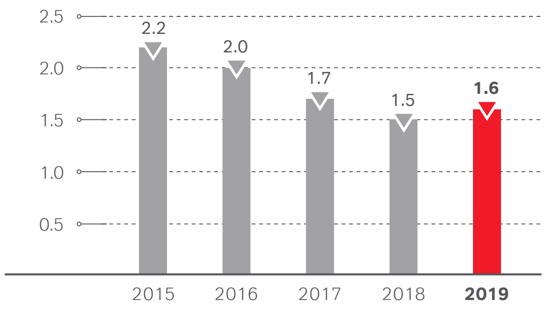
Once again, more than 60% of our employees took part in the survey in 2019. For the first time, those surveyed were also asked how well they understand the Xact "guidelines and principles" and to what extent they are put into practice in their working area. Over 90% of respondents answered the question with "mostly put into practice" or at least "partially put into practice." The high level of awareness and comprehension of the Xact "guidelines and principles" suggest that communication during the rollout has been successful. However, the results differed substantially in terms of individual regions, organizational units and hierarchy levels. For instance, responses to the question on positive feedback from supervisors in the event of safe work were far less affirmative than the global average in countries such as Germany. The survey results and the more than 600 free-form comments therefore give us valuable ideas for the further development of the safety culture at LANXESS.

We also want to reach an improved shared understanding of occupational safety with service providers who perform technical services for us, as well as including them in our safety culture. For instance, our partners must demonstrate that they maintain their own safety-management system and have carried out all safety training that is required of all employees who work for us. Regardless of this, we provide personal safety briefings for employees of our partner companies.

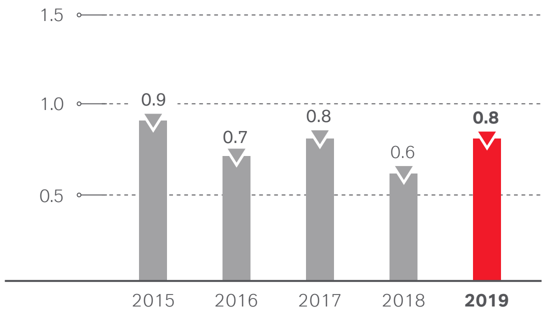
Indicators for the assessment of occupational safety at LANXESS are the recordable incident rate (RIR: number of incidents per 200,000 working hours that have to be reported according to the Occupational Safety and Health Administration) and the lost time injury frequency rate (LTIFR: accidents per million hours worked) for accidents with days lost. The LTIFR in 2019 was 1.6 and thus slightly higher than in the previous year. As in previous years, no fatal accidents occurred in the reporting period. The RIR, which also includes accidents with no days lost in accordance with OSHA rules, was 0.8 in 2019, and thus likewise slightly below the previous year's level. Companies have been taking occupational safety increasingly seriously in recent years. This increased focus at all hierarchy levels has helped to continuously reduce reports of serious accidents on a lasting basis.

All accidents as well as significant near-misses are systematically analyzed with regard to their cause and possible preventive measures. The results of these investigations are, for instance, incorporated into safety updates that are made available to the entire organization. We regard the sharp fall in the LTIFR in recent years as evidence that this structured transfer of knowledge and the many measures to improve occupational safety at LANXESS are having a positive effect.

Work-Related Injuries to LANXESS Employees Resulting in Absence from Work (LTIFR)



Work-Related Injuries to LANXESS Employees That are Reportable in Accordance with OSHA Regulations (RIR)



First CEO Safety Award
For us as a chemicals company, the safety of our plants and processes is the utmost priority. With the CEO Safety Award, bestowed for the first time in March 2019, we want to anchor occupational safety even deeper in the minds of all employees. The international award recognizes particularly successful initiatives and contributions to occupational safety at LANXESS. The focus is on avoiding accidents and incidents as well as the sustainable implementation of safety processes. The first recipients of the award were a plant team from Belgium with their "contractor safety in the event of downtime" project. In this project, excellent preparation for a facility's maintenance downtime of three weeks and targeted training for contractors increased the safety of all participants. In total, around 600 contractor employees and 75 LANXESS employees cooperated closely. Teams from Ningbo, China, and Fords, U.S., were also recognized for their safety initiatives as finalists.

Recognizing, Promoting and Using Good Ideas

With our ideas management system, we systematically promote the development and implementation of suggestions for improvement in order to keep on generating impetus for improving economic efficiency, occupational safety and environmental protection. Many good ideas were again implemented in 2019. 485 contributed to increased occupational safety, 398 to improved environmental performance.

Ideas Management

	2015	2016	2017	2018	2019
No. of new ideas	2,027	2,442	2,262	1,633	**1,538**
Employees entitled to participate	7,390	7,908	7,655	7,206	**7,475**
TMQ[1]	274	318	295	267	**206**
Savings (€ million)	2.56	2.26	1.58	0.92	**0.42**
Bonuses (€ million)	0.95	0.8	0.65	0.34	**0.27**

1) TMQ: rate per thousand employees.

Partnership-based Discussion

Dialog with chemicals social partners – trade unions and employer associations alike – as a principle of consultation in action is the global practice at LANXESS. As part of this, we also respect the freedom of association of our employees in accordance with the International Labour Organization (ILO) and the Global Compact and comply with collective bargaining agreements. We regularly seek dialog with employee representative committees in Germany, Europe and worldwide, provide information on our corporate objectives and involve employee representatives in organizational changes at an early stage.

Fair dealings with employee representatives and trade unions are also a top priority for us outside Europe. In South Africa, for instance, we comply with International Labour Organization (ILO) standards with respect to our employees' freedom of association. This includes regular exchange between local management and trade-union representatives as well as binding, collectively agreed-upon regulations on remuneration and working conditions.

Proportion of Employees Covered by Collective Bargaining Agreements
%

RESILIENT SOURCING

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At LANXESS, raw materials, other materials, equipment and services are subject to globally standardized requirements with regard to safety and environmental protection. Their procurement is the responsibility of the Global Procurement & Logistics (GPL) Group function, the head of which reports directly to the Board of Management member Dr. Hubert Fink. In close coordination with our internal stakeholders, GPL organizes Group-wide procurement, establishes corresponding guidelines, and initiates measures to promote purchasing synergies and sustainable behavior by our suppliers.

In the year under review, procurement transactions with over 15,000 suppliers were processed. A global procurement guideline for the entire Group defines our employees' conduct when dealing with suppliers and their employees. We have specified standardized workflows in the context of procurement in more detail in a process description. In our training program for strategic purchasers (ProTrain), we also pay due attention to the topic of sustainability. Based on the principles of the U.N. Global Compact, the International Labour Organization (ILO), Responsible Care® and other CSR codes, we expect our suppliers to comply with national and other applicable laws and regulations for environmental protection, health and safety at work and with regard to labor and recruitment practices. Acceptance of the requirements of our "Supplier Code of Conduct" is an essential prerequisite for any supplier wishing to work with us.

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In the interests of safe processing at our production facilities, there is a particular focus on the procurement of raw materials. It is thus essential for suppliers to present an up-to-date safety data sheet for the procurement of each raw material. In the case of raw material deliveries from non-European suppliers, our purchasing department clarifies which obligations have to be fulfilled under the REACH Regulation. Since the acquisition of Chemtura, we have also being using the raw material tin, which is classified as a conflict mineral. We purchase tin only from certified dealers who can prove that their goods come from a conflict-free source.

As a founding member of the "Together for Sustainability" (TfS) initiative, our goal is to promote sustainability, increase transparency throughout our supply chain, and thereby further minimize procurement risks. The initiative, which is currently supported by 25 international chemicals companies with an accumulated purchasing volume of more than €281 billion (estimate), is aimed at assessing and continuously improving sustainability activities in the chemicals industry supply chain. The focus here is on human rights, prevention of child labor, labor standards, occupational safety, environmental protection, and business ethics. TfS has established itself in the chemicals industry as the clear standard for a sustainable supply chain.

Because the assessment results and audit reports are shared within the initiative, we had more than 9,400 sustainability assessments and over 500 audit reports available to us as of the end of 2019. Suppliers whose

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sustainability-related activities have been assessed in TfS audits represent 55% (previous year: 70%) of our relevant procurement volume. The relevant procurement volume comprises all suppliers from which we procure more than €20,000 of goods or services per year. The year-on-year decline in the ratio is attributable to the much lower number of TfS audit reports that were valid – i.e. no older than three years – as of the end of 2019. The TfS sustainability assessment is also incorporated into our strategy process, which must be applied to every contract negotiation or renewal with a purchasing volume of more than €5 million.

It is also encouraging to see that our suppliers' average Ecovadis sustainability assessment of 46 points is above the Ecovadis benchmark of 43 points. With regard to our suppliers' weak points, no trend could be discerned in 2019 again. We had no reason in the year under review to end our collaboration with suppliers due to sustainability aspects.

Data from Ecovadis also form the basis for a systematic sustainability risk analysis that we developed in 2019. Taking account of risks in relation to specific goods groups and countries, we will use this tool to identify suppliers with an increased sustainability risk. Our goal is to cover all suppliers by the end of 2020 and thus calculate a sustainability risk score for LANXESS for the first time. In parallel with the analysis, we also intend to initiate targeted measures in 2020 to improve our suppliers' sustainability and thereby gradually lower our sustainability risk score.

SAFE AND SUSTAINABLE SITES

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More than ever, acting sustainably in the chemicals industry means taking responsibility for products and manufacturing processes. All over the world, we are seeing a high level of convergence of environmental and production standards. What used to be positive distinguishing features in the area of sustainability are now increasingly essential worldwide to the mere ability to produce and sell chemical products. Yet we would be failing in our commitment to quality if we simply restricted ourselves to meeting standards – even if they are more exacting than in the past. Instead, our commitment is to make our production safe and sustainable in every respect, thus ensuring our long-term competitiveness.

Our Production, Technology, Safety & Environment (PTSE) Group function, the head of which reports directly to the Board of Management member Dr. Hubert Fink, is responsible for this. PTSE develops and maintains company-wide standards that ensure responsible use of chemicals at LANXESS. They define requirements and govern responsibilities for health protection, environmental protection, handling of chemicals, plant safety and safety precautions in the workplace. Continuous training of our employees and regular audit-based reviews of our health, safety and environmental management systems are aimed to ensure that the requirements are incorporated into our processes systematically and sustainably.

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Uniform Standards in Production

LANXESS operates a total of 61 production sites and has a presence in 19 countries (investments ≥ 50%, as of December 31, 2019). Our wide range of products requires the use of many different chemical and technical processes. Uniform standards for planning, building and operating plants ensure a high level of process, plant and occupational safety.

Handling chemical substances and working with technical equipment involves health and safety risks. We identify these risks and potential threats systematically worldwide – for new and existing plants – and minimize them by implementing defined preventive and protective measures. Experts examine implementation of LANXESS guidelines and local regulations for safe operation of our plants on-site via targeted spot checks in audits whose frequency is geared toward the respective risk profile. Compliance with safety standards must be regularly verified worldwide for every plant via audit opinions. In 2019, a total of 38 production facilities (previous year: 34) were examined in the context of HSE compliance checks (health, safety and environment), including 16 (previous year: 15) in Germany. Furthermore, we completed our gap analyses for the plants acquired from Chemtura. The gap analyses mainly highlighted the differences in the management-system approaches and are now helping to roll out LANXESS management rules and standards at the sites.

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We use an electronic reporting system (Incident Reporting System – IRS) to record accidents and events worldwide in line with uniform regulations. Injuries, transportation accidents, near-accidents, environmental incidents, instances of damage and security-relevant incidents such as theft are documented. Each event is carefully analyzed in order to draw conclusions as to how we can avoid similar incidents in the future.

All measures count toward our goal of continuously reducing the number of events. A few major incidents occurred in the 2019 reporting year. Further information can be found in the GRI Content Index on page 233 of this report.

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Global Hazardous-Goods and Transport-Safety Management System

With a global hazardous-goods and transport-safety management system, we ensure that we minimize or entirely avoid hazards. We coordinate, monitor and review implementation of relevant hazardous-goods and transport-safety regulations as well as in-house regulations centrally in a department that is specifically responsible for this.

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Central classification of our products in line with international, regional and local hazardous-goods regulations ensures that the respective requirements are interpreted uniformly while taking regional and local aspects into account. Classification determines such things as the type of containment (packaging and tanks), marking and labeling, the permitted modes of transport and transportation routes as well as measures that operational staff must take if a transportation event occurs. The corresponding classification data is stored in the safety-data system for chemicals at LANXESS. In recent years, we have gradually connected an increasing number of countries and Group companies to the system. The previously unconnected sites in Argentina, Uruguay and Russia were added as planned in 2019. In 2020, we will integrate the former Chemtura sites in North America.

To counter the deficiencies in load securing of general cargo, the PTSE Group function and the business units have worked closely together to establish a load-securing standard for LANXESS. This standard was tested in numerous field tests and was initially used successfully at our locations in Brunsbüttel and Leverkusen, Germany. In the reporting year, we carried out load-securing training sessions for external service providers in Antwerp, Belgium, and Bitterfeld, Duisburg and Mannheim, Germany, and established the new load-securing standard there. The standard was also implemented at all Indian sites.

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Storage Management

We have around 540 warehouses worldwide, operation of which is split roughly 50:50 between us and external service providers. We select warehouses – both our own and those operated by external service providers – according to logistics, safety and security, environmental protection and cost-effectiveness aspects. We apply a globally standardized warehouse concept that takes into account the substances stored and meets fire protection and occupational health and safety requirements.

Environmental Responsibility

We regard preservation of natural resources – for example by using raw materials and energy as efficiently as possible – and identification of further potential for reducing emissions and waste as an ongoing task in the context of our environmental responsibility and expertise. We equip all new production sites in line with the state of the art, including in terms of environmental standards, taking local requirements into account.

Sparing Use of Water

As a chemicals company, we rely on water for our production. We use it mainly for cooling, as an input material in chemical processes or in the form of steam. In addition, rivers are an important transportation tool, particularly for our networked sites in Germany. Through access to drinking water at our sites, we are also meeting our responsibility to our employees.

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We are aware that our responsibility regarding the most precious of resources does not end at our factory gates. Water availability and quality are global challenges that we can face up to locally as a company. In addition to the efficient use of water, wastewater management is especially important here. SDG 6 sets out specific action areas that we gear our operations toward: Access to water, water quality and quantity, water management and governance as well as protection of ecosystems.

To enable us to derive context-based measures for LANXESS, we have performed a water-stress analysis for all our sites. First, we used the Water Risk Map of the World Wide Fund for Nature (WWF). The water stress indicator compares the amount of water withdrawn in a region to the renewal of water reserves, thus allowing an assessment of availability. The assessment, which initially took only the geographical location of the sites into account, showed that 15 of our sites are in water-stress areas. At these sites, we are therefore paying special attention to the responsible use of water. To further assess and prioritize the sites, we also consider risks and costs relating to water supply and disposal beyond the volume and intensity of water withdrawal. This enables us to identify supply bottlenecks on the basis of various future scenarios and to include this information in the enhancement of our plant portfolio. In addition, the analyses allow us to derive specific measures at individual sites.

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For example, after the low water levels on the Rhine in 2018, which was a particular challenge with regard to cooling water and transport, we joined other companies in the chemicals, steel and petroleum industry in signing the "Low Water Action Plan." A total of eight measures to counter the problems on the Rhine caused by climate change were defined in the four action areas of "information provision," "transport and logistics," "infrastructure" and "long-term solutions."

We are also making major contributions to the water-related SDGs with the products of our Liquid Purification Technologies business unit. Lewatit® ion exchange resins and Lewabrane® reverse osmosis membrane elements are two complementary technologies that have a particular use in the processing and reuse of process water. While reverse osmosis can remove virtually all substances from water, ion exchangers are used to remove individual undesired substances from process water in a targeted manner.

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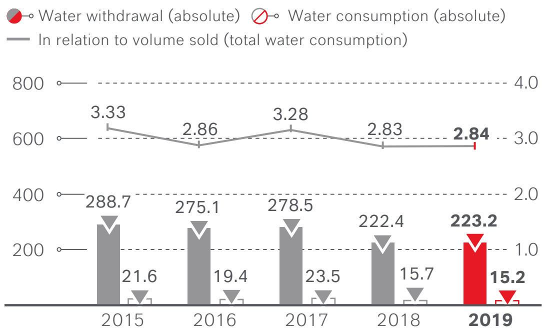
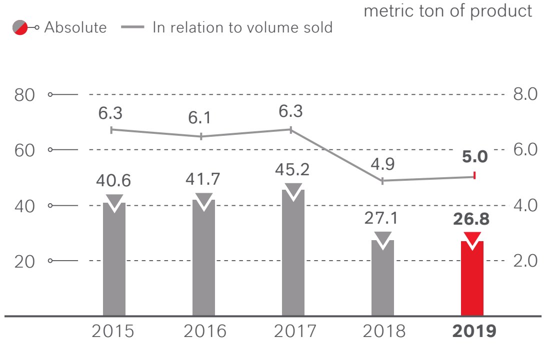
Water Withdrawal & Consumption
in million cubic meters — in cubic meters per metric ton of product



Water Discharge
in million cubic meters — in cubic meters per metric ton of product



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The comparison of water withdrawal and water consumption shows that, while we do withdraw large volumes of water (e.g. in the form of once-through cooling water), this water is later returned to the water cycle in the same quality. LANXESS's water is calculated by substracting the volume of once-through cooling water, wastewater and the volume of sold steam from the water withdrawal. Water consumption was lowered slightly while water withdrawal remained almost constant. Specific water consumption was on the same level as in the previous year.

After a significant reduction in wastewater volume in the previous year as a consequence of the sale of ARLANXEO, it was reduced further in 2019. Compared to the previous year, the specific figure remained almost unchanged.

Sustainable Waste Management

Rigorous material-flow management from use of raw materials to product finishing is aimed at ensuring that we use resources as efficiently as possible and minimize our waste volumes. Where waste is unavoidable, we try to use or sell it as a secondary raw material or energy source. To keep the amount of waste that has to be disposed of to an absolute minimum, we take a wide range of measures to continuously improve recovery in our production processes.

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To ensure continuous optimization of our material-flow management, we have committed ourselves to achieving the targets defined in the international program Operation Clean Sweep (OCS) of the "Society of the Plastics Industry." OCS aims to prevent plastic particles and pellets from entering the maritime environment and having an undesired impact. By joining in 2016, we made a commitment to train relevant employees, to implement measures to prevent the release of pellets at our facilities and to require our business partners to also take active steps to prevent pellet emissions. In the reporting year, our Liquid Purification Technologies business unit made significant progress toward reducing the level of polymers in production wastewater, i.e. directly at the source. This success was based on improvements in the process technology used. In the future, we will continue to invest in solutions that sustainably reduce the entry of plastic particles into the wastewater cycle.

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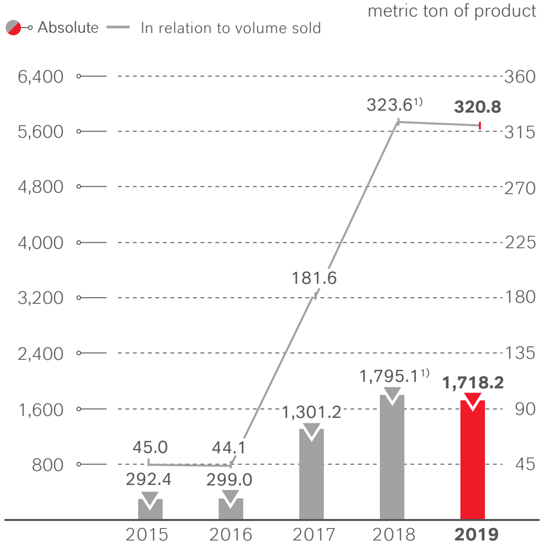
Total Waste

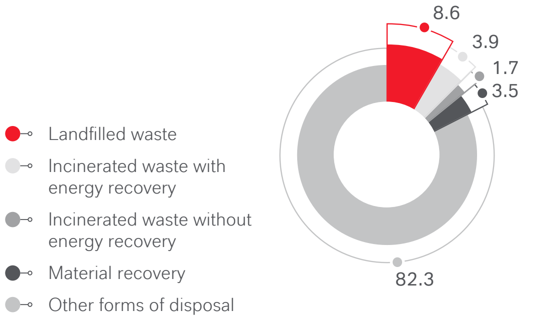
in thousand metric tons / in kilograms of waste per metric ton of product



1) Figure restated

Waste for Disposal

%



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Compared with the previous year, the total amount of waste generated decreased. At the former Chemtura sites (acquired in 2017) in particular, efficiency measures helped drive the waste figures in a positive direction. This effect is also reflected in an improvement in the specific waste volume. The biggest share of our waste volumes comprises slightly polluted wastewater at our El Dorado site in the U.S., which is declared as waste.

Systematic Recording of Key Data

To record key data on safety and environmental protection systematically worldwide, we use an electronic data-entry system. This enables us to calculate a wide range of HSE performance data for each business unit and site worldwide, which is used as a valid data pool for strategic decisions as well as internal and external reporting. In addition, it maps the progress that we make with our global sustainability targets (see the table on pages 16 et seq.). Data is gathered only at production sites where we have investment of over 50%.

PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft has been auditing our HSE key data and the requisite data-gathering processes with limited assurance since 2012. The current independent assurance report can be viewed on page 231 of this report.

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Environmental and Safety Performance Data*

	2017	2018	2019
Safety			
Occupational injuries to LANXESS employees resulting in at least one day's absence (per million hours worked) (LTIFR[1])	1.7	1.5	1.6
Volume sold[2] in thousand metric tons/year	**7,167**	**5,547**	**5,356**
Energy consumption in petajoules (10^{15} joules)[3]	**52.0[a]**	**27.7[a]**	**27.2**
Direct energy sources (GRI 302-1)			
Non-renewable	14.6	11.6[a]	11.2
Renewable (biomass)	2.0	2.2	1.7
Indirect energy sources (GRI 302-1)[4]			
Electricity consumption	10.5	6.2	6.45
Heat and steam consumption	23.95	7.0	7.2
Energy consumption for cooling	0.75	0.55	0.5
Other	0.2	0.15	0.15
Water and wastewater in million cubic meters			
Total water withdrawal (GRI 303-3)	**278.5**	**222.4**	**223.2**
Surface water	83.4	49.5[a]	52.7
Groundwater	8.8	5.3	5.2
Third-party wastewater	1.1	1.2	1.1
Third-party water	185.2	166.4	164.1
Total water withdrawal in water-stress areas (GRI 303-3)	**–**	**–**	**5.9**
Volume of once-through cooling water (GRI 303-4)	**208.6**	**178.5**	**180.1**
Total wastewater discharge (GRI 303-4)	**45.2**	**27.1**	**26.8**
Emissions in wastewater (after treatment) in thousand metric tons			
Total nitrogen	0.55	0.5	0.4
Total organic carbon (TOC)[5]	1.8	1.2[a]	1.2
Heavy metals[6]	0.0054	0.0027	0.0022
Total water consumption (GRI 303-5)[7]	**23.5**	15.7	15.2
Emissions to air in thousand metric tons			
Total greenhouse gas emissions CO_2e (GRI 305-1, GRI 305-2)	5,081[a]	3,210[a]	3,058
Direct (Scope 1)[8]	1,784[a]	1,540[a]	1,504
Indirect (Scope 2)[9]	3,297[a]	1,670[a]	1,554
Ozone-depleting substances (GRI 305-6)	0.00989	0.00785	0.00716
NO_x, SO_x and other emissions (GRI 305-7)			
NO_x[10]	2.7	2.8[a]	2.6
SO_2[11]	1.0	1.0	0.9
CO	2.2	2.2[a]	1.7
NH_3	0.08[a]	0.025[a]	0.045
NMVOC[12]	5.0	0.7[a]	0.7

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Waste in thousand metric tons			
Total weight of waste (GRI 306-2)	1,301.2	1,795.1[a]	1,718.2
Incineration with energy recovery	78.3	65.0[a]	67.5
Incineration without energy recovery	28.3	25.0	29.3
Landfilling	130.4	141.7[a]	147.5
Material recovery	60.7	65.0[a]	60.3
Other forms of disposal	1,003.5	1,498.4[a]	1,413.5
Type of waste			
Hazardous	578.6	718.7[a]	687.8
Non-hazardous	722.6	1,076.4[a]	1,030.4

Explanations concerning our environmental and safety performance data

* 2017: The aggregate data refer to all LANXESS production sites in which the company holds an interest of more than 50%. As an equity investment of exactly 50%, ARLANXEO was included in the LANXESS consolidated financial statements in 2017 and fully consolidated in fiscal year 2017. Therefore, the environmental data pertaining to the ARLANXEO sites also continue to be included in our key data for this period.
2018: As discontinued operations, ARLANXEO was shown separately from continuing operations in reporting year 2018. For the reporting in 2019, only continuing operations are shown for 2018. All charts on environmental and safety performance data present the figures for continuing operations for reporting year 2018.
2017/2018/2019: Some of the data are based on estimates and projections.

1) LTIFR: accident rate per million hours worked resulting in one workday or more lost following the day of the accident, calculated for all employees (including temporary workers) at all sites.
2) Volume sold of goods manufactured by LANXESS and sold internally to another LANXESS company or externally (excluding commercial products).
3) The energy volumes given were calculated on the basis of simplified assumptions and typical substance values. They do not include other forms of imported energy (e.g. the energy contained in raw materials).
4) Indirect energy sources are shown in the form of a balance sheet. The volume of energy sold is subtracted from the volume of energy purchased.
5) Chemical oxygen demand (COD) is calculated as follows: [COD] = [TOC] * 3. For 2019, the COD is 3.6 kt.
6) Heavy metals (arsenic, cadmium, chromium, copper, mercury, nickel, lead, tin, zinc).
7) According to GRI 303-5, total water consumption is calculated by substracting the volume of once-through cooling water, wastewater and the volume of sold steam from the water withdrawal.
8) The emission factors used for fossil fuels are based on calculations by the U.S. EPA (AP-42 from 1998) and on the IPCC Guidelines for National Greenhouse Gas Inventories (2006). In accordance with the GHG Protocol (2004), the factors for calculating CO_2e are based on the global warming potential (time horizon: 100 years) defined in the IPCC Second Assessment Report (SAR 1995). All Scope 1 greenhouse gases are calculated as CO_2e. In accordance with the GHG Protocol, the CO_2 emissions from the combustion of biomass are shown separately and are not included in the Scope 1 emissions. The following emissions were produced during the reporting period: 2015: 236 kt CO_2, 2016: 212 kt CO_2, 2017: 215 kt CO_2, 2018: 230 kt CO_2, 2019: 184 kt CO_2.
9) All Scope 2 greenhouse gases are calculated as CO_2e. In 2019, the conversion factors used were provided by the energy producers. Where these were not available, factors from the IEA (International Energy Agency) from 2017 were used for fiscal year 2019, factors from 2016 were used for fiscal year 2018 and factors from 2015 were used for fiscal year 2017. The Scope 2 CO_2e emissions are calculated using the market-based method in accordance with the GHG Protocol. Using the location-based method, Scope 2 CO_2e emissions for 2019 amounted to 1,989 kt.
10) Nitrogen oxide (NO_x) calculated as NO_2 (excluding N_2O – nitrous oxide).
11) Sulfur dioxide (SO_2) + SO_3 calculated as SO_2.
12) Total VOC (volatile organic compounds) excluding methane and acetone.
a) Values restated due to supplementary notifications or change in calculation method.

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Corporate Citizenship

Our understanding of sustainable sites also includes being a strong and reliable partner for the people locally and in the respective region and taking responsibility for development of the social environment. Our social commitment is based on our corporate expertise and objectives and focused on education, climate protection, water and culture. Our goals in all these areas are identical:

- Mobilizing resources and people for social commitment
- Achieving positive impacts on the company, the environment and society

As a company, we aim to play a positive part in improving living conditions, education, training and equal opportunities as well as health and safety. In addition, we are working to attract talented persons, engage in extensive dialog with our stakeholders, have a positive influence on employee motivation and constantly improve our reputation.

As in the previous year, we provided around €1.7 million globally for our projects in 2019. The regional focal points of our activities in the reporting year were the EMEA and USMCA regions.

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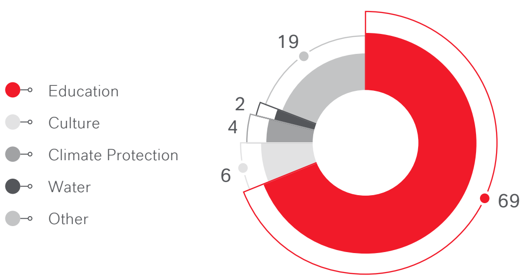
We initially assess our projects according to whether they pursue purely charitable ends (“charitable gift”), whether we are investing in the social environment of our sites (“community investment”) or whether we are investing in corporate objectives such as image, sales and income while also generating social value (“commercial initiative”).

In total, around 300,000 (previous year: nearly 100,000) people benefited from our projects. We use a system of performance indicators to measure the social impact of our activities above and beyond the number of people who benefit. For nearly all of our projects in 2019, we performed an impact assessment, taking into account positive effects in the area around the site and positive environmental effects and impacts on our business. Specific feedback from people who benefit from our projects is a key factor in this context. We regard these indicators as important benchmarks for impact-oriented management of our measures.

Social Activities by Topic[1)]
%



1) Number of projects: 186

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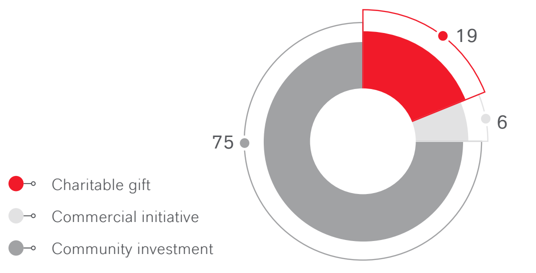
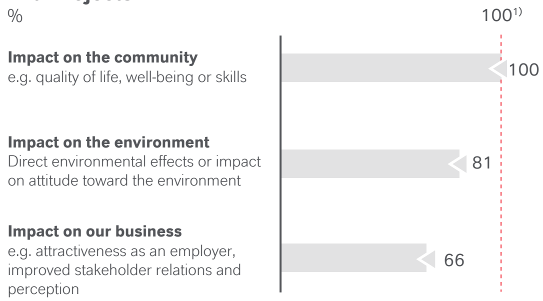
Social Activities by Type of Investment[1)]
%



1) Number of projects: 186

Impact Dimensions of Evaluated Activities and Projects
%



1) Number of projects: 170

Commitment to Education, Climate Protection, Water and Culture

2019 again yielded numerous examples of how we put our social commitment into practice.

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We have been working under the umbrella of the LANXESS education initiative for over ten years and have initiated more than 500 education projects at our sites worldwide in order to get young people interested in the natural sciences at an early age. In Germany, the LANXESS laboratory days again met with a great response, with children from secondary schools spending a day in modern laboratories conducting experiments under expert guidance. In total, 17 of these events took place at our sites in Leverkusen, Dormagen and Krefeld in the reporting year. In addition, we provided schools with project funding of around €147,000. The schools used the donations to purchase STEM teaching materials. We are also particularly interested in supporting disadvantaged children with qualified science teaching. For example, we continued our partnership with "Save the Children Japan" in the reporting year and held workshops in several Japanese cities that are still suffering the aftereffects of the tsunami in 2011. Children in Korea from low-income or otherwise disadvantaged backgrounds also benefited from various educational events.

We have also underscored our commitment to a more environmentally friendly future by sponsoring a U.N. climate change conference simulation. 180 students from 30 nations simulated U.N. climate change talks at the University of Cologne. All the roles – including representatives of government, multinational companies and NGOs – were played by students. They thus not only gained an understanding of different perspectives on the subject to climate change, but also strengthened

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their rhetorical and intercultural skills. In many places, we are also working to protect the climate in entirely practical ways. At our Indian sites in Nagda and Thane, for example, we support projects to bring greenery to urban space. In various villages around Nagda and Jhagadia, we have also installed solar-powered – and thus climate-neutral – street lighting.

For the fifth consecutive year, we held a research competition in China, entitled "Clean Water for a Better Life." In addition to fostering young academic talent, we also aim to raise public awareness of water problems. In the reporting year, the competition was centered on the Sustainable Development Goals. Another priority of our water-related engagement was the installation of drinking water storage in several villages near our Indian site in Nagda.

As part of our cultural commitment, we have been sponsoring lit.Cologne as a lead partner since 2010 and the Kölner Philharmonie for several years. The Ozawa International Chamber Music Academy in Japan, which we also support, gives talented young musicians from all over Asia the opportunity of first-class musical training.

Further information on our corporate citizenship activities can be found in the "Safe and Sustainable Sites" section of the LANXESS website.

CLIMATE ACTION AND ENERGY EFFICIENCY

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With the Paris Climate Agreement, the international community committed to limiting global warming to less than two degrees Celsius above the pre-industrial level. Accordingly, all signatory nations have set ambitious reduction targets. For instance, in Germany, the "Climate Protection Plan 2050" sets out the interim goal of cutting greenhouse gas emissions by at least 55% compared with the base year of 1990 by 2030. Industry is expected to contribute to this with a reduction of between 49% and 51%.

Since it was founded, LANXESS has made substantial progress in its goal of becoming more environmentally friendly. Between 2004 and 2018, we halved our greenhouse gas emissions from around 6.5 million tons of CO_2e to about 3.2 million tons. Moreover, we have already achieved our most recent targets – improving energy efficiency and reducing the associated CO_2 emissions and emissions of volatile organic compounds by 25% compared to 2015 – much earlier than originally planned.

Our Journey to Climate Neutrality

1. We drastically reduce emissions from internal sources.
2. We reduce our specific energy requirement.
3. We purchase very low-emission or climate-neutral energy.

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In light of this, it was time to set new, ambitious targets and thus fulfill our responsibility as a global specialty chemicals company: LANXESS is to be climate neutral by 2040. By 2030, we aim to halve our greenhouse gas emissions again to around 1.6 million tons of CO_2e. We will thus have achieved a 75% reduction compared to the emissions when LANXESS was founded. To measure our emissions, we look at the emissions of greenhouse gases defined in the Kyoto Protocol and calculate their greenhouse effect in comparison to carbon dioxide (CO_2e). We include emissions from our own production (Scope 1) and from external energy sources (Scope 2) in the calculation.

Clear Strategy to Lower Emissions

We are taking a three-pronged approach to achieve our target:

1. **Launch climate protection projects**
   Over the next few years, several special projects will significantly lower greenhouse gases. For example, we are currently building a facility for the decomposition of nitrous oxide at the site in Lillo, Belgium. The new facility will begin operations in 2020 and reduce our annual emissions of this particularly harmful greenhouse gas by around 150,000 tons of CO_2e. After a second expansion in 2023, CO_2e emissions will fall by another 300,000 tons.

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In addition, we are also switching the entire energy supply at our Indian site to renewable energy sources, specifically biomass and solar power. This will cut our CO_2e emissions by a further 150,000 tons from 2024. Under these projects and other measures, we want to decrease our CO_2e emissions by a total of 800,000 tons by 2025. We will invest up to €100 million in order to achieve this.

2. **Break the link between emissions and growth**
   LANXESS is growing. But despite increasing production, emissions of greenhouse gases in our individual business units are set to shrink. In addition to technological efficiency, changes to governance instruments also play a significant role, with the impact on the company's carbon footprint becoming an investment criterion for organic growth and acquisitions. This gives business units that achieve better than average reductions in greenhouse gas emissions a direct financial advantage. Moreover, lowering CO_2e is to be introduced as an assessment criterion in the bonus system for managers and the Board of Management.

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3. **Strengthen process and technological innovations**
   We are revising many of our existing production processes in order to go climate neutral by 2040. For example, we will continue to improve our composite structures, e.g. when it comes to heat exchange between plants and air purification. However, other procedures must first be developed on a large industrial scale. We will therefore focus our research activities more closely on climate-neutral process and technological innovation.

By implementing the above measures, we want to decrease our annual emissions to less than 300,000 tons by 2040. We will neutralize the remaining emissions via appropriate offsetting measures. In this way, we will not only make a significant contribution to climate protection in the years to come, but will also become an even more sustainable partner for our customers.

LANXESS is IN4climate

We have been involved since 2018 as an active partner in the IN4climate.NRW initiative, a new working platform for industry, science and the North Rhine-Westphalian government, the only one of its kind in Germany to date. The aim of the initiative is to devise strategies for how industry in North Rhine-Westphalia can become highly competitive, generate additional growth and play its part in attaining the Paris climate-change targets. Specifically, the partners work together in innovation teams to address how production processes and value chains can be made climate neutral on a long-term basis, or what role industry might play in the development of climate-friendly products. For example, one working group is looking at the infrastructure required for the use of hydrogen as a reducing agent and heating medium. Meanwhile, the "Circular Economy" working group wants to gain access to raw materials for chemistry through thermolysis of plastics. Set up for an initial four years, the project is receiving €16 million in funding from the regional government.

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Uncertainty over National Emissions Trading

In Europe, 13 of our plants and sites are subject to European emissions trading. Trading with CO_2 emissions rights, known as certificates, is intended to reduce emissions of the environmentally harmful gas CO_2 cost-effectively. Because all of our plants covered by emissions trading are state-of-the-art and compete at the international level, we plan to receive enough certificates from free allocation to cover the expected CO_2 emissions by the end of the third trading period in 2020.

However, we cannot precisely estimate the effects of the planned national Emissions Trading System (n-ETS), as the regulations specifying the important details and procedures are not yet available. In particular, the rules for avoiding double counting at plants subject to emissions trading, the carbon-leakage protection for plants in the n-ETS, and the future treatment of hazardous waste have not yet been specified, but may have relevant effects for LANXESS.

CDP Gives LANXESS Top Score

For more than a decade, we have been participating in the international climate protection initiative CDP (formerly the Carbon Disclosure Project), each year sharing data and information on climate protection and the reduction of emissions. We received the best possible score of "A" in the assessment for 2019, which puts LANXESS among the top 2% of more than 8,000 companies examined by the initiative in 2019. These gratifying results gave us encouragement to continue systematically pursuing our climate protection strategy.

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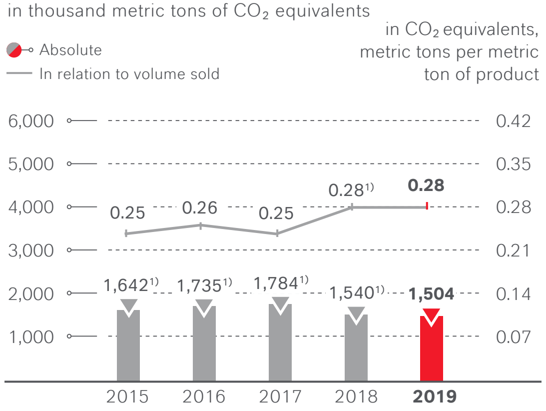
Greenhouse Gas Emissions (Scope 1)

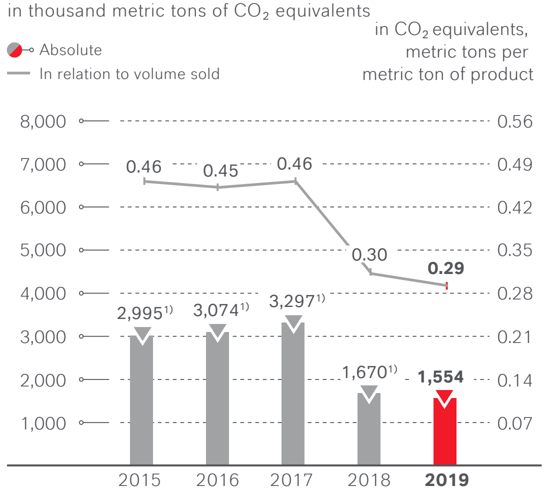
in thousand metric tons of CO_2 equivalents



1) Figure restated

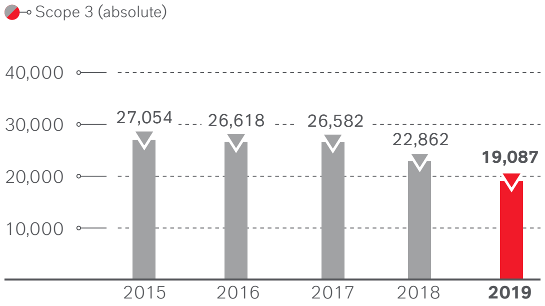
Greenhouse Gas Emissions (Scope 2)

in thousand metric tons of CO_2 equivalents



1) Figure restated

Greenhouse Gas Emissions (Scope 3)
in thousand metric tons of CO_2 equivalents



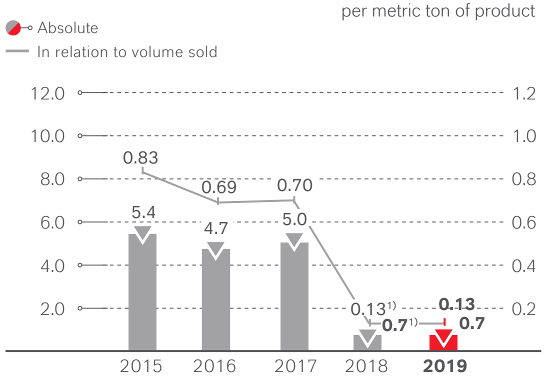
In 2019, we further reduced our absolute Scope 1 emissions. This development was driven primarily by reduced nitrous oxide emissions in Belgium. The use of coal was also reduced further – we even stopped using coal entirely in China. Specific Scope 1 emissions were on a par with the previous year.

Absolute Scope 2 emissions decreased again compared with the previous year. This effect is chiefly attributable to the increased use of natural gas instead of coal by our site operators in the Lower Rhine region. The emission factors have been adjusted accordingly. This also had a positive effect on our specific emissions.

The level of Scope 3 emissions remained roughly stable compared with the previous year.

Other Atmospheric Emissions

VOC Emissions
in metric tons | in VOC, kilograms per metric ton of product



1) Figure restated

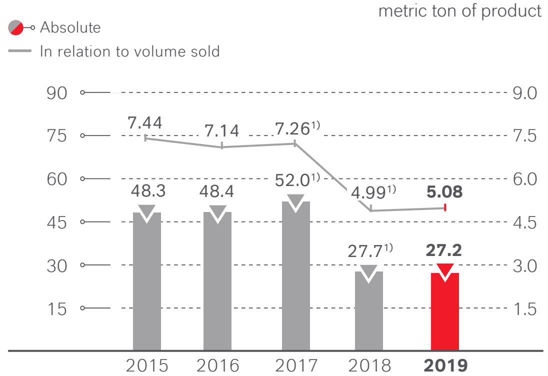
Since the sale of ARLANXEO, LANXESS has been operating with a much lower level of VOC emissions on the whole. In the reporting year, we maintained this level in both absolute and specific terms.

Systematic Energy Management

A high level of energy efficiency improves not just our emissions footprint, but also our cost position, thus ultimately making LANXESS more competitive. Our global energy management promotes projects to increase energy efficiency in our plants. In each business unit, energy officers ensure communication and the ongoing improvement of energy-related performance. Technical experts from the central departments help the local teams to identify and implement effective projects to increase efficiency.

With our Leverkusen, Krefeld-Uerdingen and Dormagen sites in Germany, since the end of 2017, we have been part of the Energy Efficiency Networks Initiative, established by the German federal government and leading industry associations. An Energy Efficiency Network consists of 8 to 15 companies. At the national level, the networks are expected to help save 75 petajoules of primary energy and reduce greenhouse gas emissions by 5 million metric tons. With its partners, the network@CHEMPARK, in which several of our sites are involved, has set a target of making a contribution of 100 gigawatt hours. Further projects were successfully implemented in the reporting year. The network initiative is also supported in other regions with our Mannheim site's participation in the ChePap network and the Bitterfeld site's participation in the new Bitterfeld-Wolfen 2.0 network.

Energy Consumption (Balance Sheet)
in petajoules | in gigajoules per metric ton of product



1) Figure restated

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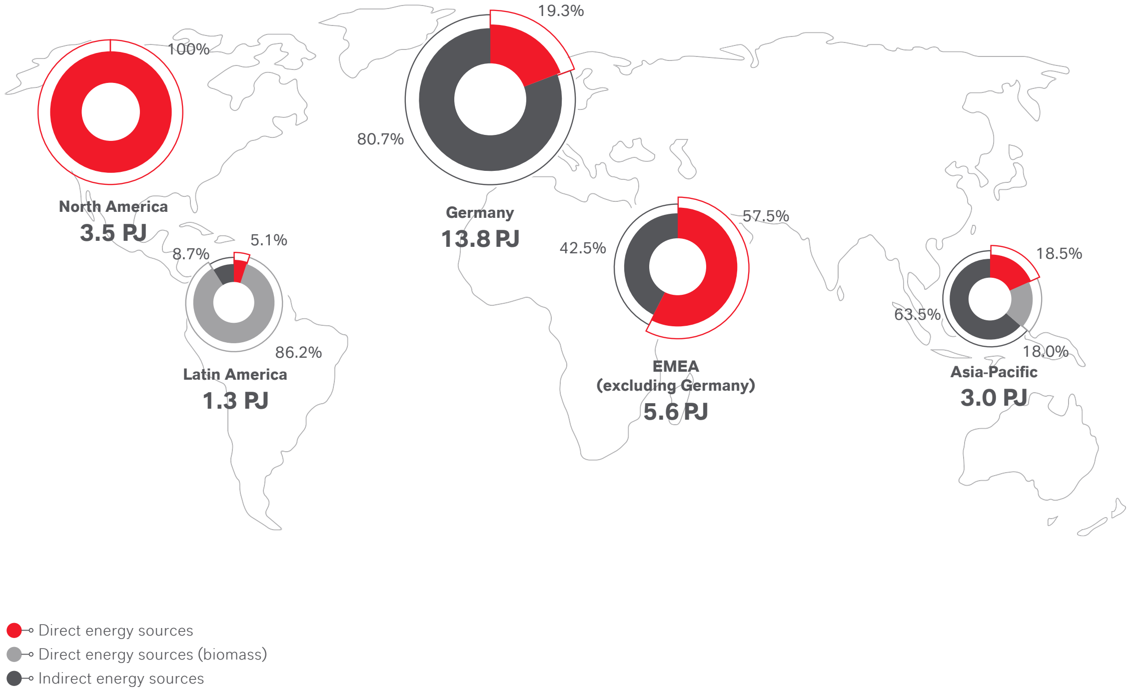
Direct and Indirect Energy Consumption by Region

in petajoules/%



We reduced our absolute energy consumption further in 2019. This is partly attributable to changes in our asset portfolio and lower use of fuels. In specific terms, however, there was a minor deterioration due to the slight decline in our production volumes.

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Sustainable Logistics

We select our transportation solutions individually worldwide in line with the principles of safety, punctuality and cost-efficiency. In doing so, we also take into account the CO_2 emissions resulting from transportation. In particular, we are eager to step up our use of ships. In this context, we are currently making targeted investments in digital solutions that tell us the status of ship transports early on so that we can plan the subsequent land transport with means of transport with the lowest possible emissions in a forward-looking manner. Furthermore, we are increasingly using comparatively low-emission combined-transport options, where most of the distance involved is covered by train, barge or sea vessel, thus keeping initial and final journeys by road to an absolute minimum. Europe in particular has a strong infrastructure for these types of transportation. However, increased use of rail means that combined transport is even an option for long-distance connections to China.

To transport our rail freight in Germany, we continue to use the TÜV SÜD-tested Eco-Plus service of the logistics company DB Cargo. The power required for transportation is obtained from regenerative energy sources. As a result, we can reduce our CO_2 emissions in national rail transportation by approximately 80% compared with conventional options.

SUSTAINABLE PRODUCT PORTFOLIO

In signing the Responsible Care® Global Charter, LANXESS committed itself to comprehensive product responsibility. This initiative launched by the International Council of Chemical Associations (ICCA) made a significant contribution to the development of the "Global Product Strategy" (GPS). It aims to provide basic information and risk assessments of materials in order to minimize harmful effects of chemicals on human health and the environment and to manufacture and distribute products in a way that avoids harm to people and the environment. In line with the above obligations, our product responsibility covers the safe handling of chemical materials and products throughout their lifecycle – from research and development, procurement and production, storage and transportation through to marketing, further processing and disposal.

The "Guideline on Product Safety Management at LANXESS" stipulates how product responsibility is to be exercised throughout the Group and ensures collaboration between all of the parties involved. This particularly applies to substances in our product portfolio that are classified as hazardous. With the "Central Product Monitoring" guideline, we systematically manage the global monitoring of our products and their application with regard to possible health and environmental effects. Our product developers and product safety experts incorporate the experience gathered into their assessments. Our guideline "Development of New or Changed Products, Processes and Applications" stipulates that development ideas already have to be examined systematically with regard to their potential economic, environmental and social impact. In this way, we ensure that unsustainable products, processes or applications no longer occur in our development process.

Particularly in the case of consumer applications – for example, use as an additive in food or animal feed, in contact with drinking water or food, or in cosmetic, pharmaceutical, or medical products – it is extremely important to us that our products meet high national and international standards, certificates, and quality seals. We thereby actively support our customers with the authorization of materials to be used in contact with drinking water, for example, or with further processing of our products into certified goods for end consumers. By intensively exchanging information with our customers and suppliers, we achieve greater transparency and safety throughout the whole product lifecycle.

Management of Chemicals Control Regulations

Complying with global chemicals control regulations is an essential prerequisite for the saleability and safe handling of our chemicals and products across the whole value chain.

LANXESS ensures the implementation of binding and voluntary requirements using an electronic safety data system. Safety data sheets in more than 40 languages provide our customers worldwide with data on the materials and inform them of the protective measures required when handling the respective chemicals. We regularly adapt our electronic safety data system to take account of new features in the GHS (Globally Harmonized System of Classification and Labeling of Chemicals) in the different countries. The GHS is a system under the auspices of the United Nations that aims to globally harmonize existing classification and labeling systems from different sectors such as transportation, consumer protection, employee protection, and environmental protection. We take account of regional aspects in the implementation of the GHS, such as the CLP Regulation (Regulation on Classification, Labeling and Packaging of Substances and Mixtures) in Europe.

We explicitly support the goal of the EU chemicals regulation REACH: to ensure a high level of protection for human health and the environment. We have so far registered all relevant materials for LANXESS that we produce in or import to Europe in quantities of more than one metric ton per year on schedule in line with the REACH process. In the last ten years, approximately 1,000 registration dossiers have been submitted to the central European Chemicals Agency (ECHA). We systematically evaluate all necessary information on our materials and their uses for the registration. In doing so, we consider the whole product lifecycle and determine safe conditions for use.

However, the registration of all phase-in materials is only part of REACH, because REACH means the registration, evaluation, and authorization of chemicals. In the future, new materials must be registered before they are produced or imported. This already applies for quantities of more than one metric ton per year and per LANXESS

Further information on sustainability performance of our products can be found in the Responsibility/Societal Added Value/Product Portfolio Assessment section of the LANXESS website.

company. Existing dossiers must also be updated constantly, as the content requirements will change over time. In this context, we support the voluntary Action Plan of the European Chemical Industry Council (Cefic) and have signed an associated declaration of intent. We are thus committed to re-evaluating all our existing REACH registration dossiers and to updating them according to the latest requirements by 2026 at the latest.

Similar chemicals control regulations to those in the EU now also exist in many other countries, and the number of them is still increasing. Before manufacturing or exporting our products, we therefore check their saleability under the applicable chemicals laws in the countries concerned. We register our materials and products in accordance with local requirements. We support the responsible authorities' material assessment programs by supplying all available information and determining new data where necessary. Here we benefit from our experience from the REACH process. We are currently dealing with increasing requirements particularly in the Republic of Korea, Taiwan, Turkey, the U.S., Russia, and the Eurasian Economic Union.

Comprehensive Analysis of our Product Portfolio from a Sustainability Perspective

In order to take effective sustainable action, we need to know the effects of our business activities – both positive and negative – as precisely as possible. With a specially developed assessment system, we have established a strategic management tool that enables us to systematically assess and improve the sustainability performance of our product portfolio with regard to economic, environmental and social aspects. The system analyzes the effects and benefits of our products based on criteria that we consider relevant for our company and for society as a whole.

Criteria for Our Product Portfolio Analysis

Impact on society	Support for development goals Societal acceptance Safety in end use
Ecological impact	Raw material efficiency in production Energy efficiency in production Emissions and waste balance sheet in production Water risks Impact on the environment during use
Economic impact	Registration, evaluation and approval Profitability Demand trend

Based on this list of criteria, we carry out an annual assessment of our entire product portfolio – followed by a review by an internal panel of experts – as part of our strategy process. This process has revealed which of our products satisfy the sustainability requirements we have defined and can help us to deliver solutions for key sustainability challenges.

Evaluation Processes

Throughout the LANXESS Group, we work intensively with the results of this assessment in order to further improve the sustainability performance of our product portfolio. The increased understanding of our products' capabilities can also provide important impetus for innovation. In addition, it also makes it clear which areas still show a need for action – which can lead to specific improvement processes, but can also be aimed at creating acceptance for a certain topic in stakeholder dialog.

BUSINESS-DRIVEN INNOVATION

Further information on innovations can be found in the Responsibility/ Material Topics/ Business Driven Innovation section of the LANXESS website.

With process-, product-, application- and business model-oriented innovation, we not only make LANXESS more competitive but also help our customers run their businesses successfully and sustainably. We put the needs and expectations of our customers at the center of product and application development and frequently pursue projects together with the customer concerned or other high-powered partners.

For us, innovation also means developing new uses for existing products. Our partner Standard Lithium Ltd. has now completed a pilot facility for the extraction and processing of lithium salt at our site in El Dorado. Lithium salt is required on a large scale for lithium-ion batteries and is therefore a crucial raw material for the desired expansion of electric mobility. LANXESS operates three plants manufacturing bromine products in El Dorado. The bromine is obtained from the brine extracted at the site, which also contains lithium. Our partner Standard Lithium provides the technology for extracting the lithium.

Meanwhile, we are breaking new ground when it comes to the development of customer-specific high-performance plastics. By deploying artificial intelligence (AI), we are looking to drastically cut the amount of time it takes to develop new materials. To this end, we are collaborating with Citrine Informatics, a U.S. AI company specializing in the software-supported development of chemical products. In a pilot project, we are exploring the options for using AI to optimize glass fibers and thus further enhance the properties of our high-performance plastics. It is anticipated that AI will cut development times for the necessary formulations by more than half. Our customers would therefore receive even better, tailor-made products within shorter time frames.

Another AI project with Citrine Informatics is devoted to expanding the range of prepolymer products. LANXESS data specialists and process experts have used the Citrine platform to expand the existing formulation database. This involved an algorithm designed for chemicals accessing existing empirical measurement data, linking them to the knowledge of the process experts and calculating additional figures. This meant that only a few real-life measurements were required to verify the figures already determined with AI. The next step is for our data and process experts to check how reliably optimum formulations can be predicted with the aid of AI so that customer-specific requirements for product characteristics can be met.

We pay particular attention to the development of products that have a tangible benefit for sustainability. For example, our Inorganic Pigments business unit has developed a black pigment that reflects 20% more of the sun's near-infrared radiation (NIR) than conventional products. Plastic roofs and facade elements colored with Bayferrox 303 T heat up much less due to solar radiation, meaning that the building's inside temperature can be reduced. This not only improves the indoor climate but also reduces energy consumption for air conditioning.

At our Belgian site in Lillo, we are developing a new type of catalytic waste gas purification for the reduction of nitrogen oxides and nitrous oxide in the exhaust air generated in connection with the production of caprolactam. The measure is to make an important contribution on our journey to climate neutrality in 2040.

In 2017, we gained promising access to the German start-up scene with a financial investment in the "High-Tech Gründerfonds (HTGF) III." This fund pursues the goal of supporting promising start-ups in the technology sector in order to bring inventions to the stage where they are ready for the market. The fund covers a wide variety of topics: robotics, the Internet of Things (IoT), energy, medical and biotechnology, chemistry and software. This investment helps us gain access to new technologies and identify partners for cooperations.

Together with the Berlin-based chemicals start-up DexLeChem, for example, we support the "Data Analytics for Chemical Engineers and Chemists" course, which is being offered by the Institute for Chemistry and the Chemical Invention Factory at TU Berlin for the first time in the 2019/2020 winter semester. We are thus promoting the education of skilled professionals who can provide both the chemical and the digital expertise required to exploit all the possibilities of digitalization.

Further information on the topic of research and development can be found in the combined management report starting on page 81 of this Annual Report.

VALUING CUSTOMER RELATIONSHIPS

Customer satisfaction and customer loyalty are among our most important measures of success. Via a central inquiry management system, customers can obtain information on our products, their applications and potential risks, and product certificates. Feedback from customers gives us valuable information on how we can further improve our products and processes.

Based on a central CRM system and a uniform complaint management platform, each of our business units has its own market- and customer-oriented complaint management and optimization processes. Shared elements of these processes include clear targets, for example in relation to processing times for customer complaints, a corresponding statistical analysis of the feedback received, and structured monthly reporting to the management of the respective business unit. Various bodies and dialog forums, such as the Marketing & Sales Community that meets quarterly, also guarantee the regular exchange of experiences between our business units and Group functions.

In the case of justified complaints, we always aim to find a sustainable solution to the problem that occurred together with everyone involved. In 2018 and 2019, for example, some customers of our Inorganic Pigments business unit complained about agglutination in red pigments delivered in sacks. This problem was successfully solved by introducing variable compaction pressures to the standard compaction of the pigments as part of the storage process.

Our Lubricant Additives Business business unit introduced another innovative packaging concept together with a Canadian customer: Instead of conventional steel containers, lubricants are now delivered in fluid bags. The latter not only weigh much less, but can also be emptied by the customer practically without residue. Moreover, the material for the fluid bags is recyclable.

In our digitalization offensive, we use software to improve the speed and efficiency of the communication between our customer service teams and their respective customers. In light of the large number of simultaneous orders, it is a major challenge for our customer service employees to keep track of changes across the entire order acceptance, production and delivery process. Here, we are assisted by software solutions that continuously search our ERP systems for changes in order data records, factor in external information and compare it against dynamic specifications. The responsible customer service advisor thus obtains constantly updated information about the key influencing factors and changes that Order Management, for example, has made to the orders – such as postponements of delivery dates or quantity changes. Our customer service is therefore able to inform customers immediately and promptly tackle any problems arising from the changes. We have already been able to measure the positive effect of such technology in our Polymer Additives business unit: Here, the OTIF (on-time-in-full) ratio, which measures the percentage of orders that are shipped on time in full and is thus an important indicator of customer satisfaction, improved by seven percentage points within a year.

Regular customer surveys conducted by an external service provider bring us important findings about our customers' loyalty, their expectations, and their perception of our services in comparison to competitors. LANXESS conducts an anonymous online survey of all relevant customers with and in all business units once every two years. In the 2019/2020 survey, the customer retention index (CRI) score was 77 and thus slightly higher than in the previous year (75). Based on these encouraging results of the customer satisfaction analysis, we will continue to implement targeted measures in the business units in order to at least maintain this very good level of customer satisfaction and keep successfully retaining our customers in the long term.

LANXESS

ON THE CAPITAL MARKET

CONTENTS

LANXESS on the Capital Market

In 2019, the company's positive performance was also reflected in the performance of the LANXESS share: With a gain of 48.8%, it significantly exceeded all benchmark indices. The buyback of own shares announced at the start of the year was completed in the first six months.

The German stock market had a successful year in 2019: After a weak price level to begin with, the leading indices recovered significantly as the year went on. The DAX ultimately ended the year up 25.5% at 13,249 points, exceeded by the MDAX, which grew by 31.2% to 28,312 points. The international, sector-specific benchmark index for LANXESS, the MSCI World Chemicals Index, also put in a good performance with growth of around 21%.

Our share made a weak start to the stock market year and already posted its annual low of €39.47 on January 2. Supported by stable business figures and successful measures for further portfolio optimization, however, it quickly pivoted to an upward trend that continued to an annual high of €64.58 on November 18, 2019. The LANXESS share closed the last trading day of the year at €59.82. Compared to the previous year, its value therefore rose by 48.8%.

The resolution passed by the LANXESS Board of Management on January 10, 2019, to buy back own shares worth up to €200 million was implemented from January 14. Up to June 12, a total of 4,075,084 shares were purchased on the stock exchange at a weighted average price of €49.0787. This equates to 4.453% of the company's capital stock. The planned buyback volume was thus almost completely exhausted. The repurchased shares were withdrawn on July 12, 2019.

LANXESS Stock at a Glance

		2016	2017	2018	2019
Capital stock/no. of shares[1]	€/no. of shares	91,522,936	91,522,936	91,522,936	**87,447,852**
Market capitalization	€ billion	5.71	6.07	3.68	**5.23**
High/low[1]	€	63.53/32.90	70.67/59.89	74.78/39.61	**64.58/39.47**
Closing price	€	62.35	66.29	40.20	**59.82**
Earnings per share adjusted for exceptional items and amortization of intangible assets[2]	€	2.69	3.84	4.48[3]	**4.73[3]**
Dividend per share	€	0.70	0.80	0.90	**0.95[4]**

1) As of end of year (intraday): December 31, 2016; December 31, 2017; December 31, 2018; December 31, 2019.
2) Earnings per share adjusted for exceptional items and amortization of intangible assets: earnings per share disregarding exceptional charges and income, amortization of intangible assets and attributable tax effects.
3) Continuing operations only.
4) Dividend proposal to the Annual Stockholders' Meeting on May 13, 2020.

Capital Market Information

Class	No-par shares
ISIN	DE0005470405
WKN (German securities identification number)	547040
Selective indices	MDAX, Dow Jones STOXX 600 Chemicals[SM], MSCI Germany Standard, MSCI Germany Mid Cap, Dow Jones Sustainability Index World and Europe, FTSE4Good
Investment grade ratings	Standard & Poor's: BBB (stable) Moody's: Baa2 (stable) Scope: BBB+ (stable)

DIVIDEND POLICY

LANXESS has been pursuing a consistent dividend policy for years. Our goal remains to increase the dividend each year or at least to keep it at a stable level. At the Annual Stockholders' Meeting in Cologne on May 13, 2020, the Board of Management and the Supervisory Board will propose a dividend of €0.95 per share.

STOCKHOLDER STRUCTURE

LANXESS's stockholder structure predominantly consists of institutional investors pursuing a growth- or value-oriented investment strategy. As of the end of 2019, the percentage of such investors in the stockholder structure had risen slightly to around 93% (previous year: 92%). The remaining roughly 7% of LANXESS stocks are held by private investors.

As in the past, the regional focus of our institutional investors in 2019 was in the U.S., Germany and Great Britain. The percentage of U.S. stockholders decreased to around 35% (previous year: 41%). As of the reporting date, an increased percentage of around 25% (previous year: 22%) of LANXESS stocks were held in Germany, just like in Great Britain, where the holdings of institutional investors increased to around 14% (previous year: 12%).

The share of institutional investors from elsewhere in Europe grew year-on-year to around 15% (previous year: 13%). By contrast, the share of institutional investors from other regions was down slightly at around 11% (previous year: 12%). An overview of the institutional investors that are required to report a holding of at least 3% of the outstanding LANXESS stocks to us can be found in the Investor Relations section of our website.

BONDS

Securing the Group's liquidity and creditworthiness is an important aim of LANXESS's financial management. With standardized documentation, our debt issuance program offers the opportunity to issue bonds quickly and flexibly. However, we did not use this opportunity in fiscal year 2019.

Therefore, there are still four LANXESS bonds and one hybrid bond on the market at present.

Overview of LANXESS's Main Bonds

ISIN/WKN	Volume	Duration	Coupon
XS1501363425	€500 million	October 7, 2016 – October 7, 2021	0.250%
XS0855167523	€500 million	November 21, 2012 – November 21, 2022	2.625%
XS1820748538	€500 million	May 16, 2018 – May 16, 2025	1.125%
XS1501367921	€500 million	October 7, 2016 – October 7, 2026	1.000%

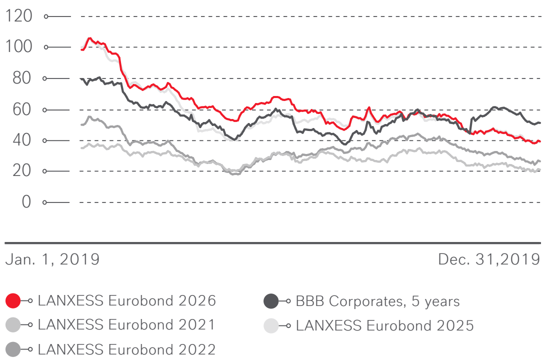
LANXESS Hybrid Bond (Subordinated)[1]

ISIN/WKN	Volume	Duration
XS1405763019	€500 million	December 6, 2016 – December 6, 2076
Coupon		**Redemption options**
4.500% until the first redemption option; subsequent adjustment of interest rate as described in prospectus		First option on June 6, 2023, and thereafter annually; additional redemption rights in defined special circumstances

1) Simplified description; see prospectus for full conditions of the bond and the associated risks.

In addition to the absolute price performance, another important parameter for corporate bonds is the relative measurement of the company-specific credit risk in comparison to a reference interest rate. This credit risk premium is reflected in the credit spread.

LANXESS Eurobond Spreads vs. Corporates Index in the BBB Range[1)]
Basis points



1) The LANXESS hybrid bond that matures in 2076 is not included in the overview

2019 was characterized by recovery on the international capital markets. Risk premiums on LANXESS bonds also profited from this. In the first half of the year, the credit spreads for LANXESS bonds decreased significantly and highlight our very competitive access to capital market finance.

All existing LANXESS Eurobonds are listed on the Luxembourg Stock Exchange. Their respective terms and conditions can be viewed in the Investor Relations section of our website.

RATINGS

Our strategic corporate goal is to maintain an investment-grade rating. LANXESS's creditworthiness has been assessed by the rating agencies Standard & Poor's and Moody's Investors Service for many years already, and by Scope Ratings since 2018.

In the year under review, all three rating agencies confirmed their assessment of LANXESS's creditworthiness. The agencies take a positive view of our continuous transformation into a specialty chemicals company with a focus on stable businesses in small and medium-sized niche markets and the associated reduction in cyclicality. The announced sale of shares in the chemical park operator Currenta served as additional confirmation of the rating agencies' assessment of LANXESS's improved risk profile. Standard & Poor's gives LANXESS a "BBB" rating with a stable outlook, Moody's a "Baa2" rating with a stable outlook, and Scope Ratings a "BBB+" rating likewise with a stable outlook. An overview of the development of LANXESS's ratings and their outlooks since 2015 can be found in the management report on page 99.

Detailed information, downloadable publications, and contacts are always available in the Investor Relations section of the LANXESS website.

CORPORATE GOVERNANCE

Corporate Governance Report

The Board of Management and Supervisory Board of LANXESS are committed to the principles of transparent and responsible corporate governance and control. They place high value on the standards of good corporate governance, with a view to strengthening the trust of investors, customers, employees and the public in LANXESS.

Because of the new version of the German Corporate Governance Code of December 16, 2019, which had not yet taken effect when this Corporate Governance Report was prepared, the Board of Management and Supervisory Board are reporting on corporate governance at LANXESS in accordance with Paragraph 3.10 of the German Corporate Governance Code in the version of February 7, 2017, for the last time. Further information about corporate governance can be found in the Board of Management's declaration on corporate governance pursuant to Sections 289f and 315d of the German Commercial Code. This is published in conjunction with the Corporate Governance Report on the LANXESS website under Investors/Corporate Governance.

The Board of Management and Supervisory Board of LANXESS are committed to the principles of transparent and responsible corporate governance and control. They place high value on the standards of good corporate governance, with a view to strengthening the trust of investors, customers, employees and the public in LANXESS.

IMPLEMENTATION OF THE GERMAN CORPORATE GOVERNANCE CODE

As LANXESS is a stock corporation listed on the German stock exchange, corporate governance at the company is aligned with Germany's securities and capital market legislation, regulations pertaining to codetermination and the German Corporate Governance Code. The latter makes recommendations and suggestions concerning corporate governance. There is no obligation to comply with this code. Pursuant to Section 161 of the German Stock Corporation Act, the Board of Management and Supervisory Board of LANXESS make an annual declaration of compliance, in the past and going forward, with the recommendations and suggestions of the German Corporate Governance Code. The declaration of compliance of March 10, 2020, updated with regard to the last regular declaration of compliance of December 11, 2019, and the other previous declarations are published on the LANXESS website under Investors/Corporate Governance. LANXESS AG complied with all recommendations of the German Corporate Governance Code valid when the current declaration of compliance was issued. In addition, two suggestions were not fully implemented.

CORPORATE CONSTITUTION

LANXESS AG is a stock corporation established under the laws of Germany. One of the fundamental principles of German stock corporation law is the two-tier management system with the governing bodies of management board and supervisory board. This system is characterized by a clear separation between the management board as the body that manages a company and the supervisory board as the body that advises and oversees management. The management board and the supervisory board work closely together in a relationship of mutual trust for the benefit of the company.

Board of Management

The Board of Management of LANXESS AG has five members. Information about the members of the Board of Management is available on the LANXESS website under Company/Management.

The Board of Management is appointed to manage and represent the company. It is responsible for conducting business in the company's interests with the goal of creating sustainable value. The principal tasks of the Board of Management include defining the company's goals and strategic alignment, managing and overseeing the operating units, setting human resources policy, arranging the company's financing, and establishing an effective risk management system. The Board of Management has a duty to ensure compliance with legislation, regulatory requirements and the company's internal directives. It is also responsible for preparing the quarterly and half-year financial statements, the financial statements of LANXESS AG, the consolidated financial statements of the LANXESS Group and the management report for LANXESS AG and the LANXESS Group.

The Chairman coordinates the work of the Board of Management. As a rule, Board of Management decisions are adopted with a simple majority. In the event of a tie, the Chairman has the casting vote. Resolutions of the Board of Management are generally passed at regularly held meetings. The rules of procedure for the Board of Management that are enacted by the Supervisory Board contain further regulations concerning the form of cooperation within the Board of Management, the allocation of duties and the matters requiring resolution by the full Board of Management. The Board of Management has not formed any committees. In deciding the composition of the Board of Management, the Supervisory Board gives consideration to professional suitability, leadership qualities and diversity in line with its regulations. Diversity applies equally to gender. The company's Board of Management has had a female member, namely Dr. Stephanie Coßmann, since January 1, 2020. The Supervisory Board has defined an age limit of 70 years for members of the Board of Management.

In order to implement the law on the equal representation of women and men in management positions in the private and public sectors, which came into force on May 1, 2015, the Supervisory Board set a new a target for the proportion of women on the Board of Management of LANXESS AG for the period starting after June 30, 2017. Accordingly, at least one woman was to be appointed to the Board of Management by June 30, 2022. The company achieved this target ahead of time by appointing Dr. Stephanie Coßmann as a member of the Board of Management and Labor Relations Director with effect as of January 1, 2020.

Supervisory Board

The Supervisory Board of LANXESS AG is composed of twelve members, with equal numbers of stockholder representatives and employee representatives, in accordance with the provisions of the German Codetermination Act of 1976. The stockholder representatives are elected by the Annual Stockholders' Meeting, whereas the employee representatives are elected in accordance with the provisions of the Codetermination Act and its electoral regulations. Supervisory Board members normally serve for a five-year term.

Information about the members of the Supervisory Board is available on the LANXESS website under Investors/Corporate Governance/Supervisory Board.

The Supervisory Board's role is to advise the Board of Management in its management of the company and to monitor its conduct of the business. The Supervisory Board discusses the company's business performance and the Board of Management's planning and strategy at regular intervals. Its responsibilities also include appointing the members of the Board of Management as well as reviewing the financial statements of LANXESS AG and the consolidated financial statements of the LANXESS Group. Moreover, it resolves on the Board of Management's proposal for the appropriation of the distributable profit and reports to the Annual Stockholders' Meeting. The Supervisory Board reaches its decisions with a majority of the votes cast unless a different majority is stipulated by law. In the event of a tie, the Chairman of the Supervisory Board has two votes in a second ballot on the resolution, even if this also results in a tie. The German Codetermination Act contains special requirements concerning resolutions. The Chairman of the Supervisory Board coordinates the work in the Supervisory Board, chairs its meetings and represents the concerns of the body externally. Supervisory Board resolutions are usually adopted at regularly held meetings. An overview of the attendance of Supervisory Board members at meetings of the Supervisory Board and its committees in fiscal year 2019 can be found on the LANXESS website under Investors/Corporate Governance/Work of the Supervisory Board.

The Supervisory Board has issued its own rules of procedure, which, in addition to defining the tasks and responsibilities of the Supervisory Board and the personal qualifications of its members, establish the processes for convening, preparing and chairing meetings as well as the procedures for voting.

The Report of the Supervisory Board details the Supervisory Board's work.

Goals for Composition and Skills Profile of the Supervisory Board

According to Paragraph 5.4.1 of the German Corporate Governance Code, the Supervisory Board should state specific goals for its composition and devise a skills profile for the entire body. The state of achievement of the goals and completion of the skills profile should be published in the Corporate Governance Report. At the same time, the Corporate Governance Report should provide information about what the Supervisory Board regards as the appropriate number of independent Supervisory Board members representing stockholders.

Goals for Composition, Skills Profile

The members of the Supervisory Board of LANXESS AG are expected to possess the necessary expertise, skills and professional experience to perform their duties. They autonomously undertake training and are supported in their efforts by the company. In addition to the requirements applicable to each individual member of the Supervisory Board such as integrity, professionalism and independence, the entire Supervisory Board should be composed in such a way to ensure that the Board of Management receives qualified supervision and advice. The Supervisory Board of LANXESS AG has devised a skills profile which stipulates that in-depth specialist knowledge and experience are represented in the Supervisory Board from fields such as the chemical industry, management of major international companies, production, marketing and sale of chemical products, corporate governance/compliance, M&A, corporate financing, accounting, and digitalization. In its current composition, the entire Supervisory Board fulfills these goals and completes the skills profile. The Supervisory Board members are all familiar with the sector in which LANXESS operates and possess the knowledge, skills and experience that are crucial to the company. In its proposals to the Annual Stockholders' Meeting for filling vacant positions on the Supervisory Board, the Supervisory Board will continue to take account of the targets for the composition of the Supervisory Board and, at the same time, endeavor to complete the skills profile for the entire body.

Independence

The Supervisory Board of LANXESS AG should ensure the provision of impartial advice and supervision to the Board of Management. All current Supervisory Board members are independent in the sense of Paragraph 5.4.2 of the German Corporate Governance Code. In its assessment of employee representatives, the Supervisory Board also assumes that their ability to act independently is not affected by their status as employees of the company or members of labor unions. No member of the Supervisory Board has a personal or business relationship with the company, its executive bodies, a controlling shareholder or any enterprise affiliated with a controlling shareholder that may cause a material and not merely temporary conflict of interest. To further substantiate this independence, the Supervisory Board goes further than the recommendations of the German Corporate Governance Code and states that, for example, that no former members of the Board of Management of LANXESS AG are members of the Supervisory Board. Moreover, no Supervisory Board members have a family relationship with anyone who performs or has performed a Board of Management or executive function at the company or a Group entity. No Supervisory Board members are in a contractual service relationship with the company or its management personnel. In addition, no Supervisory Board members are partners or employees of the audit company working for LANXESS. Furthermore, the Supervisory Board sees no conflicts of interest on the part of any of its members that could cast doubt on their independence. The Supervisory Board also aims for all future members to be independent and free of conflicts of interest.

Age Limit and Length of Membership

The Supervisory Board has defined an age limit for its members, which is contained in the rules of procedure for the Supervisory Board. Supervisory Board members may not currently continue to serve after the end of the Annual Stockholders' Meeting following their 80th birthday. The Supervisory Board will lower the regular age limit to 75 years. This also takes into account the maximum length of membership of the Supervisory Board of generally not more than three full terms of office (15 years) that has been specified by the Supervisory Board. In line with the recommendation of the German Corporate Governance Code in the version of December 16, 2019, which has not yet taken effect, the company will limit the length of Supervisory Board membership to twelve years.

Diversity

In general, the Supervisory Board should be guided by the principles of diversity in its composition. LANXESS is a global company with a correspondingly wide range of customers and suppliers. LANXESS employees come from many different countries. This is why membership of the LANXESS Supervisory Board must also be international. By international, we do not mean merely in the sense of a specific nationality. A different cultural background (ethnicity) also plays a role here. Cross-cultural characteristics and experiences, which can also be acquired through education or professional activity, are crucial. The global reach of LANXESS AG and the different cultural characteristics of Supervisory Board members have been reflected in the composition of the Supervisory Board thus far and will remain a factor in selecting candidates to be proposed to the Annual Stockholders'

Meeting for election to the Supervisory Board. The company's Supervisory Board contains members from three different countries (Germany, Netherlands, and the U.S.), many of whom acquired their experience and skills while working abroad for long periods.

Diversity applies equally to gender. LANXESS AG's twelve-member Supervisory Board currently has four female members: Birgit Bierther, Dr. Heike Hanagarth, Pamela Knapp and Manuela Strauch. This is a ratio of over 30%. The company therefore complies with the legal requirements for gender diversity and will also take these into account when filling positions on the Supervisory Board in future.

Composition and Work of the Supervisory Board Committees

The Supervisory Board has a Presidial Committee, an Audit Committee, a Committee pursuant to Section 27, Paragraph 3 of the German Codetermination Act and a Nominations Committee formed from among its members. The composition of the Supervisory Board committees is shown on the LANXESS website under Investors/Corporate Governance/Work of the Supervisory Board.

The Presidial Committee discusses key issues and prepares the meetings and resolutions of the Supervisory Board. In addition, it makes decisions on transactions requiring approval that are already included in the company's annual planning. The Presidial Committee may also resolve on the exercise of participation rights pursuant to Section 32 of the German Codetermination Act and on transactions requiring approval that cannot be deferred instead of the Supervisory Board. It consults regularly about long-term succession planning for the Board of Management. Furthermore, the Committee also prepares the personnel decisions to be made by the Supervisory Board. The Presidial Committee is chaired by Dr. Matthias L. Wolfgruber. The other members are Birgit Bierther, Manuela Strauch, Dr. Friedrich Janssen, Ralf Sikorski and Theo H. Walthie.

The Audit Committee supports the Supervisory Board in overseeing the conduct of the business and deals with matters relating to the supervision of accounting, the accounting process, effectiveness of the internal control system, the risk management system and the internal auditing system, as well as auditing, including the independence of the auditor and the work additionally performed by the auditor, and compliance. It prepares the Supervisory Board's resolutions concerning the annual financial statements of LANXESS AG and the consolidated financial statements of the LANXESS Group and recommends an auditor who the Supervisory Board then proposes to the Annual Stockholders' Meeting for appointment. Dr. Janssen, the Chairman of the Audit Committee, is an independent financial expert and has specialist knowledge and experience in the field of accounting acquired through his professional activities. The Audit Committee also comprises Pamela Knapp, Werner Czaplik, Dr. Hans-Dieter Gerriets, Thomas Meiers and Lawrence A. Rosen.

The Committee pursuant to Section 27, Paragraph 3 of the German Codetermination Act performs the tasks described in Section 31, Paragraph 3 of the German Codetermination Act. The Chairman is Dr. Matthias L. Wolfgruber. The other Committee members are Dr. Heike Hanagarth, Werner Czaplik and Ralf Sikorski.

The Nominations Committee comprises solely stockholder representatives and proposes candidates for the Supervisory Board to nominate for election as new members of the Supervisory Board by the Annual Stockholders' Meeting. The members of the Nominations Committee are Dr. Matthias L. Wolfgruber (Chairman), Lawrence A. Rosen and Theo H. Walthie.

The respective committee chairmen report regularly to the Supervisory Board on the work of the committees.

STOCKHOLDERS AND STOCKHOLDERS' MEETINGS

The stockholders of LANXESS AG exercise their rights at the Annual Stockholders' Meeting, where they can vote on the resolutions submitted. The Annual Stockholders' Meeting resolves on all matters reserved for its decision by law, with binding effect on the stockholders and the company. Each share confers one vote.

The items resolved on by the Annual Stockholders' Meeting include appropriation of the distributable profit, ratification of the actions taken by the members of the Board of Management and the Supervisory Board, appointment of the auditors and election of the stockholder representatives to the Supervisory Board. The Annual Stockholders' Meeting also resolves on amendments to the articles of association, measures affecting the company's capital and the approval of intercompany agreements. Each year there is an Annual Stockholders' Meeting at which the Board of Management and Supervisory Board give an account of the last fiscal year. The German Stock Corporation Act requires the convening of an Extraordinary Stockholders' Meeting in certain situations.

All stockholders who register in time and prove their eligibility to attend the Annual Stockholders' Meeting and exercise their voting rights shall be allowed to participate in the Annual Stockholders' Meeting. Stockholders may exercise their voting rights at the Annual Stockholders' Meeting in person, through a proxy of their own choosing or through a company-nominated proxy who acts according to their instructions.

COMPENSATION REPORT

The compensation report, which describes the compensation system and the amount of compensation paid to the members of the Board of Management and Supervisory Board for their service in fiscal year 2019, is part of the combined management report for LANXESS AG and the LANXESS Group.

REPORTABLE SECURITIES TRANSACTIONS

Members of the Board of Management and Supervisory Board and persons closely related to them are required to disclose transactions in shares or debt securities of LANXESS AG or associated financial instruments if the total volume of such transactions in any given calendar year equals or exceeds €20,000. Reportable securities transactions are published on the LANXESS website.

The total number of shares of LANXESS AG held by members of the Board of Management and Supervisory Board as of December 31, 2019, was less than 1% of all shares issued by the company.

RISK MANAGEMENT AND COMPLIANCE

Key characteristics of the risk management system and internal control system as well as information on compliance can be found in the combined management report for LANXESS AG and the LANXESS Group.

ACCOUNTING AND AUDITING

LANXESS AG prepares its consolidated financial statements and interim financial statements in line with the International Financial Reporting Standards (IFRS), as applicable in the European Union. The annual financial statements of LANXESS AG are prepared in accordance with the provisions of the German Commercial Code. After being adopted and approved by the Supervisory Board, the annual financial statements and consolidated financial statements of LANXESS AG as well as the combined management report are published within 90 days after the end of the fiscal year. The company's accounting for fiscal year 2019 was audited by the auditor PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft ("PwC"), elected by the 2019 Annual Stockholders' Meeting. The condensed financial statements and interim management report included in the 2019 half-year financial report were also reviewed by PwC. PwC was appointed following an external tender procedure, which last took place in 2016. Mr. Jörg Sechser has been the responsible auditor since 2017. The audits are conducted in line with German auditing regulations and in compliance with the German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (IDW). The statutory requirements and rotation obligations in Sections 319 and 319a of the German Commercial Code are fulfilled. The auditor has agreed to immediately inform the Supervisory Board of any possible reasons for disqualification or conflicts that may arise, as well as any material findings or events in the course of the audit.

OFFICES HELD BY BOARD OF MANAGEMENT MEMBERS

Offices Held by Serving Board of Management Members (as of December 31, 2019)

Member of the Board of Management	External offices	Offices within the LANXESS Group
Matthias Zachert		
Chairman of the Board of Management	• Member of the Supervisory Board of Siemens AG, Berlin and Munich	• Chairman of the Executive Board of LANXESS Deutschland GmbH
Dr. Anno Borkowsky		
Member of the Board of Management (since June 1, 2019)		• Member of the Executive Board of LANXESS Deutschland GmbH • Member of the Board of Directors of LANXESS Additives Taiwan Ltd. (until September 1, 2019) • Chairman of the Board of Directors of LANXESS Hong Kong Ltd. (since January 1, 2020) • Chairman of the Board of Directors of LANXESS Corp. (since January 1, 2020) • Chairman of the Board of Directors of LANXESS Chemical (China) Co. Ltd. (since January 1, 2020) • Chairman of the Board of Directors of LANXESS India Private Ltd. (since January 1, 2020) • Member of the Board of Directors of LANXESS Solutions US Inc. (since January 1, 2020)
Dr. Hubert Fink		
Member of the Board of Management		• Member of the Executive Board of LANXESS Deutschland GmbH • Chairman of the Supervisory Board of Saltigo GmbH • Executive member of the Board of Administration of LANXESS N.V. (since January 1, 2020)
Michael Pontzen		
Member of the Board of Management and Chief Financial Officer		• Member of the Executive Board of LANXESS Deutschland GmbH • Member of the Board of Directors of LANXESS Corp. • Member of the Board of Directors of LANXESS Solutions Korea Inc. • Member of the Board of Directors of LANXESS Solutions US Inc.
Dr. Stephanie Coßmann		
Member of the Board of Management and Labor Relations Director (since January 1, 2020)		• Member of the Executive Board of LANXESS Deutschland GmbH (since January 1, 2020) • Member of the Board of Administration of LANXESS N.V. (since February 1, 2020)

Offices Held by Serving Board of Management Members (as of December 31, 2019)

Dr. Rainier van Roessel		
Member of the Board of Management and Labor Relations Director (Left the Board of Management as of the end of December 31, 2019)	• Member of the Supervisory Board of CURRENTA Geschäftsführungs-GmbH, Leverkusen	• Member of the Executive Board of LANXESS Deutschland GmbH (until December 31, 2019) • Chairman of the Board of Directors of LANXESS S.A. de C.V. (until July 15, 2019) • Executive member of the Board of Administration of LANXESS N.V. (until December 31, 2019) • Chairman of the Board of Directors of LANXESS Hong Kong Ltd. (until December 31, 2019) • Chairman of the Board of Directors of LANXESS Pte. Ltd. (until June 1, 2019) • Chairman of the Board of Directors of LANXESS Corp. (until December 31, 2019) • Chairman of the Board of Directors of LANXESS Chemical (China) Co. Ltd. (until December 31, 2019) • Chairman of the Board of Directors of LANXESS India Private Ltd. (until December 31, 2019) • Chairman of the Board of Directors of LANXESS K.K. (until July 16, 2019) • Member of the Board of Directors of LANXESS Thai Co., Ltd. (until May 28, 2019) • Member of the Board of Directors of LANXESS Solutions US Inc. (until December 31, 2019) • Member of the Board of Directors of LANXESS Solutions Korea Inc. (until June 27, 2019) • Member of the Board of Directors of LANXESS Solutions Japan Ltd. (until July 16, 2019)

SUPERVISORY BOARD OF LANXESS AG

Serving Members

Dr. Matthias L. Wolfgruber (Chairman)
- Self-employed consultant
- Former Chairman of the Management Board of ALTANA AG

Further offices:
- LANXESS Deutschland GmbH, Cologne[1)]
- ALTANA AG, Wesel[1)]
- Grillo Werke AG, Duisburg[1)]
- ARDEX GmbH, Witten (Chairman of the Advisory Board)
- Cabot Corporation, Boston, Massachusetts, U.S.

Birgit Bierther
- Chairwoman of the LANXESS Works Council at the Cologne site

Further offices:
- LANXESS Deutschland GmbH, Cologne[1)]

Werner Czaplik
- 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[1)]

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[1)]

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[1)]
- aichele GROUP GmbH & Co. KG, Bretten (Advisory Board)
- Gilde Buy Out Partners BV, Utrecht, Netherlands
- NXT Boardroom GmbH, Munich (Advisory Board)

Serving Members

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[1)]
- Hoberg & Driesch GmbH, Düsseldorf (Chairman of the Advisory Committee)

Pamela Knapp
- 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) (until August 8, 2019)
- 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) (until October 15, 2019)

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[1)]
- INEOS Deutschland Holding GmbH, Cologne[1)]
- INEOS Köln GmbH, Cologne[1)]

Lawrence A. Rosen
- Member of the Supervisory Boards of various commercial enterprises
- Former member of the Board of Management of Deutsche Post AG, Bonn

Further offices:
- LANXESS Deutschland GmbH, Cologne[1)]
- Qiagen N.V., Venlo, Netherlands

Serving Members

Ralf Sikorski

- Vice Chairman of the German Mining, Chemical and Energy Industrial Union, Hanover

Further offices:

- LANXESS Deutschland GmbH, Cologne[1] (Vice Chairman)
- Chemie Pensionsfonds AG, Munich[1] (Chair)
- RAG AG, Herne[1]
- RWE AG, Essen[1]
- RWE Power AG, Cologne and Essen[1] (Vice Chairman)
- RWE Generation SE, Essen[1]
- KSBG – Kommunale Verwaltungsgesellschaft GmbH, Essen[1] (Vice Chairman)

Manuela Strauch

- Chairwoman of the LANXESS Works Council at the Uerdingen site
- Member of the LANXESS Central Works Council
- Vice Chairwoman of the LANXESS Group Works Council

Further offices:

- LANXESS Deutschland GmbH, Cologne[1]

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[1]
- NBE Therapeutics AG, Basel, Switzerland (Chairman of the Board of Directors)

1) Statutory supervisory boards.

The information about offices held refers to memberships in other supervisory boards and comparable supervisory bodies of companies in Germany and abroad (as of December 31, 2019).

Report of the Supervisory Board

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 resolved to appoint Dr. Anno Borkowsky as an additional member of the Board of Management for the period from June 1, 2019, to May 31, 2022, and to conclude a Board of Management service contract for Dr. Borkowsky. At the same time, the allocation of responsibilities within the Board of Management was changed. In addition to a full report on environmental protection and occupational and plant safety, which was subsequently discussed by the full Supervisory Board, the company's Investor Relations department gave us a comprehensive update on the perception of LANXESS on the capital market.

The meeting immediately before the Annual Stockholders' Meeting on May 23, 2019, served to prepare the Meeting.

At the meeting on August 1, 2019, we chiefly dealt with a significant M&A project at the company. The outcome of the detailed discussions and extensive deliberations was the Supervisory Board's approval of the sale of LANXESS's 40% capital share in Currenta to Macquarie Infrastructure & Real Assets. In addition, the Board of Management informed us about a Group-wide project as part of the digital transformation at LANXESS, which includes the implementation of a standardized process and system landscape. Finally, the Supervisory Board resolved to amend the wording of the articles of association with regard to the Board of Management's decision to reduce the company's capital stock by withdrawing the treasury shares repurchased in 2019.

The meeting on November 12, 2019, focused on the review of the efficiency of the Supervisory Board performed by an international HR consulting firm. We listened to an explanation of the results and discussed them at length. The review reaffirmed the excellent and constructive cooperation within the Supervisory Board and with the Board of Management. Suggestions for improvement were taken on board. The Board of Management also gave us a report on LANXESS's research and development activities.

At its meeting on December 11, 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

COMBINED MANAGEMENT REPORT

GROUP STRUCTURE

Legal structure

LANXESS AG is the parent company of the LANXESS Group and functions largely as a management holding company. LANXESS Deutschland GmbH is a wholly owned subsidiary of LANXESS AG and in turn controls the other domestic and foreign subsidiaries and affiliates.

The following are the principal companies wholly owned by LANXESS AG directly or indirectly:

Principal Direct or Indirect Subsidiaries of LANXESS AG

Company Name and Domicile	Function	Segments
LANXESS Deutschland GmbH, Cologne, Germany	Production and sales	Advanced Intermediates/ Specialty Additives/ Performance Chemicals/ Engineering Materials
LANXESS Solutions US Inc., Middlebury, USA	Production and sales	Advanced Intermediates/ Specialty Additives/ Engineering Materials
LANXESS Corporation, Pittsburgh, USA	Production and sales	Advanced Intermediates/ Specialty Additives/ Performance Chemicals/ Engineering Materials
Saltigo GmbH, Leverkusen, Germany	Production and sales	Advanced Intermediates
LANXESS N.V., Antwerp, Belgium	Production and sales	Advanced Intermediates/ Engineering Materials
LANXESS Sales Netherlands B.V., Amsterdam, Netherlands	Sales organization	Specialty Additives
LANXESS India Private Limited, Thane, India	Production and sales	Advanced Intermediates/ Performance Chemicals/ Engineering Materials
Great Lakes Chemical Corporation, Wilmington, USA	Production	Specialty Additives

Management and control organization

LANXESS AG has a two-tier management structure consisting of the Board of Management, which manages the company, and the Supervisory Board, which oversees the Board of Management with the support of an Audit Committee formed from among its members to advise on financial matters. The Board of Management shapes Group strategy and manages resource allocation, infrastructure and organization. As the Group management company, LANXESS AG is responsible for financing and for communication with the company's key stakeholders.

BUSINESS ACTIVITIES

Business organization and material changes in the Group portfolio

As part of the strategic realignment of the LANXESS Group, we decided to sell all operations of the Leather business unit, comprising chrome chemicals, the chrome ore mine and organic leather chemicals. The disposal of all operations of the Leather business unit, which was previously part of the Performance Chemicals segment, is expected to be fully completed by the end of 2020, so these operations were recognized as discontinued operations as of December 31, 2019.

On August 12, 2019, LANXESS agreed to sell its *chrome chemicals* business to Brother Enterprises, a Chinese manufacturer of leather chemicals. The sale was completed on January 10, 2020. On November 15, 2019, LANXESS and Clover Alloys, a South African provider of chrome sands and concentrates, signed an agreement regarding the sale of our 74% share in LANXESS Chrome Mining (Pty) Ltd., Modderfontein, South Africa, which operates a *chrome ore mine* in Rustenburg, South Africa. This transaction is expected to be completed by the end of 2020. Furthermore, we are at an advanced stage in the offer and sale process for the third operation of the Leather business unit, the *organic leather chemicals* business, and likewise expect this transaction to be completed by December 31, 2020.

In accordance with International Financial Reporting Standards (IFRS 5), the income statements of previous periods were restated and earnings from discontinued operations shown in a separate line. The statements of financial position were not restated for reporting dates before December 31, 2019. The Leather business unit's intangible assets and property, plant and equipment are not subject to any further amortization or depreciation and are recognized at the lower of carrying amount and fair value less costs to sell. In the disclosures below, we generally do not point out that prior-year figures have been restated in this context. In places where this is not the case, this is indicated accordingly.

Further information on the accounting and the income statement of the discontinued operation and the main items of its statement of financial position can be found in the “Discontinued operations” section of the notes to the consolidated financial statements as of December 31, 2019.

On August 6, 2019, LANXESS signed an agreement to sell its 40% stake in Currenta GmbH & Co. OHG, Leverkusen, Germany. Currenta GmbH & Co. OHG operates the chemical parks in Leverkusen, Dormagen and Krefeld-Uerdingen (all Germany). The buyers are investment funds managed by Macquarie Infrastructure and Real Assets (MIRA). We expect the transaction to be completed at the end of April 2020.

In connection with the sale, the 40% stake in Currenta GmbH & Co. OHG held by LANXESS is valued at an equity value (enterprise value less net debt and pension liabilities) of approximately €780 million before income taxes. In addition, LANXESS receives a profit share until the completion of the sale.

We have also agreed service and supply contracts with MIRA for the three chemical parks in question, initially for ten years. This long-term contract package secures us reliable infrastructure at competitive conditions into the future, and the sale of the investment gives us additional financial flexibility.

In the LANXESS consolidated financial statements, the investment in Currenta GmbH & Co. OHG continues to be recognized at a carrying amount of €0 and classified as assets held for sale as of the reporting date.

We completed the sale of our 50% interest in ARLANXEO to the Saudi Aramco subsidiary Aramco Overseas Holdings Coöperatief U.A., The Hague, Netherlands, on December 31, 2018. We had been reporting ARLANXEO as a discontinued operation in accordance with IFRS 5 since April 1, 2018. We received a payment of approximately €1.4 billion from Saudi Aramco for our share in ARLANXEO. Pension assets were increased by €200 million from these funds as of the end of the previous year and debt was reduced as a result. In the first half of 2019, own shares were purchased on the stock exchange for another €200 million (not including incidental expenses), which were canceled in July 2019.

The Supervisory Board of LANXESS AG has appointed Dr. Anno Borkowsky and Dr. Stephanie Coßmann as new members of the Board of Management.

Effective June 1, 2019, the appointment of Dr. Borkowsky expanded the Board of Management to five members. Dr. Borkowsky, formerly Head of the Additives business unit, is taking over the management of the Specialty Additives segment as part of his Board of Management role. At the same time, the Additives business unit assigned to this segment has been split into the two business units Polymer Additives and Lubricant Additives Business. The Specialty Additives segment, which also includes the Rhein Chemie business unit, has therefore comprised three business units since June 1, 2019.

Dr. Coßmann, formerly head of the Human Resources Group function, succeeded Dr. Rainier van Roessel as a member of the Board of Management effective January 1, 2020. Dr. van Roessel retired at the end of the year.

Dr. van Roessel’s departure also resulted in changes in the allocation of responsibilities within the Board of Management. Alongside her role as member of the Board of Management and Labor Relations Director, Dr. Coßmann has also taken over responsibility for the Human Resources Group function from Dr. van Roessel. In addition, she has assumed responsibility for the Legal and Compliance Group function, which previously lay with Chairman of the Board of Management, Mr. Matthias Zachert. Mr. Zachert has taken over responsibility for the Liquid Purification Technologies and Material Protection Products business units from Dr. van Roessel. Responsibility for the Inorganic Pigments business unit has been transferred to Board of Management member Dr. Hubert Fink. Dr. Borkowsky has taken over the coordination of LANXESS’s regional and country organizations. There was no change in responsibilities for Mr. Michael Pontzen, who had taken responsibility for the new Global Business Services Group function in fall 2019.

The segments in brief

The business activities that LANXESS combines in its Advanced Intermediates segment make it one of the world's leading suppliers of industrial chemical intermediates and a key player in the custom synthesis and manufacturing of chemical precursors and specialty active ingredients.

Advanced Intermediates

Business units	Advanced Industrial Intermediates
	Saltigo
Sites	Antwerpen, Belgium
	Liyang, China
	Bergkamen, Brunsbüttel, Dormagen, Krefeld-Uerdingen, Leverkusen, Germany
	Jhagadia, Nagda, India
	Pyeongtaek, Republic of Korea[1]
	Baytown, Bushy Park, Mapleton, USA
Applications	Agrochemicals
	Automotive
	Construction
	Aromas and flavors
	Pharmaceuticals
	Rubber chemicals
	Semiconductors and photovoltaics

1) Site disposed of as part of the sale of the business with gallium-based organometallics as of January 31, 2020.

Our solutions based on specialty additive chemicals are combined in the Specialty Additives segment.

Specialty Additives

Business units	Polymer Additives
	Lubricant Additives Business
	Rhein Chemie
Sites	Burzaco, Merlo, Argentina
	Porto Feliz, Brazil
	Nantong, Qingdao, China
	Krefeld-Uerdingen, Leverkusen and Mannhein, Germany
	Epierre, France
	Trafford Park, Great Britain
	Jhagadia, India
	Latina, Italy
	Toyohashi, Japan
	Elmira, West Hill, Canada
	Altamira, Mexico
	Lipetsk, Russia
	Kaohsiung, Taiwan
	Chardon, Charleston, East Hanover, El Dorado, Fords, Greensboro, Little Rock, USA)
Applications	Phosphorous-based or brominated flame retardants
	Lubricants
	Colorants, polymer additives

We report our application-oriented process and functional chemicals operations in the Performance Chemicals segment.

Performance Chemicals

Business units	Inorganic Pigments
	Material Protection Products
	Liquid Purification Technologies
Sites	Sydney, Australia
	Porto Feliz, Brazil
	Changzhou, Shanghai, Ningbo, China
	Bitterfeld, Dormagen, Krefeld-Uerdingen and Leverkusen, Germany
	Branston, Sudbury, Great Britain
	Jhagadia, India
	Singapur
	Vilassar de Mar, Spain
	Burgettstown, Memphis, Pittsburgh, USA
Applications	Color pigments
	Disinfection, Preservation and Material Protection Products
	Products for water treatment

We have combined our engineering plastics activities in the Engineering Materials segment.

Engineering Materials

Business units	High Performance Materials
	Urethane Systems
Sites	Antwerp, Belgium
	Porto Feliz, Brazil
	Nantong, Wuxi, China
	Brilon, Hamm-Uentrop and Krefeld-Uerdingen, Germany
	Baxenden, Great Britain
	Jhagadia, India
	Latina, Italy
	Gastonia, Perth Amboy, U.S.
Applications	Automotive
	Electrical/electronics
	Construction
	Medical equipment
	Mining
	Tires and wheels
	Oil and gas
	Industrial and mechanical goods

STRATEGY

Value-based, responsible and reliable action, combined with clear strategic guidelines, serves as LANXESS's strategic compass. We build on integrated value chains, sustainable, competitive products and sites, and on our strengths in mid-sized markets with generally above-average growth rates.

Our portfolio adjustments followed a clear strategic direction, with the successful reduction of the formerly very high automotive portion in favor of consumer applications and the expansion of our presence in medium-sized, partially regulated, and thus protected markets for specialty businesses. This balanced structure of our customer markets is intended to provide us with stability, especially in phases of economic downturn. The strengthening of our business with disinfectants and preservatives is driving profitability and growth. However, our strategy also entails separating from businesses for which we no longer see long-term development prospects at LANXESS.

We invest in our businesses in order to promote organic growth. Our focus is on expanding capacity and making additions to existing facilities and plants. We regard targeted investments in our research and development activities as another driver of long-term growth. Our innovation strategy is based on three pillars: product research closely aligned to the market and customer requirements, centrally managed process research focusing on energy and raw material efficiency, and agile digitalization projects.

Clear financial targets for 2021

The targets we have set for 2021 envisage an average operating earnings margin – measured in terms of EBITDA pre exceptionals – of between 14% and 18% over the course of a business cycle. Moreover, the margin should move around the average level by no more than two to three percentage points in the future. A sound investment-grade rating remains a strict goal of our conservative financial policy.

Clear commitment to sustainability

LANXESS intends to drive the change as a sustainable chemicals company with long-term success. We clearly expressed this ambition in our new climate protection targets, which we set in 2019. By 2030, we want to reduce greenhouse gas emissions from our production and emissions from the energy generation required for our production by another 50%, so that LANXESS will have reduced its emissions by 75% compared to 2004, the year it was founded. In 2040, we ultimately plan to be climate neutral by neutralizing the emissions still remaining at that date via appropriate offsetting measures. Our engagement for sustainable development is also demonstrated by the fact that ESG ("environmental, social and governance") criteria are accounted for in our chief credit facility for the first time. The interest rate terms of the syndicated credit facility signed in December 2019 of €1 billion depend in part on the successful reduction of our greenhouse gas emissions and the increase in the proportion of women at the top three levels of management.

VALUE MANAGEMENT AND CONTROL SYSTEM

Value Management and Control System

		2015	2016	2017	2018	2019
EBITDA pre exceptionals[1]	€ million	885	995	925	986	1,019
EBITDA margin pre exceptionals[1]	%	11.2	12.9	14.2	14.4	15.0
Capital employed[2]	€ million	5,043	7,479	7,463	5,204	5,588
ROCE	%	8.4	6.9	9.3	11.4	10.0
Days of sales in inventory (DSI)	Days	67.2	67.2	64.7	68.6	65.7
Days of sales outstanding (DSO)	Days	47.6	51.1	50.7	46.0	42.3
Net financial liabilities	Mio. €	1,211	2,394	2,252	1,923	2,522
Net financial liabilities after deduction of short-term money market investments and securities	€ million	1,211	269	2,252	1,381	1,742
Net financial debt ratio		1.4x	0.3x	1.7x	1.4x	1.7x
Investment ratio[1]	%	5.5	5.7	6.1	7.0	7.5

1) Figures restated and as in reporting year 2018 not including ARLANXEO.
2) Capital employed as of December 31, 2018 and of December 31, 2019, adjusted. See “Profitability” for details.

To achieve our strategic goals, we need indicators that we can use to measure the outcomes of our activities. The most important indicator of our financial performance – and thus the company’s key controlling indicator – is EBITDA (operating earnings before depreciation, amortization, write-downs, and reversals) pre exceptionals. We view other financial performance ratios such as return on capital employed (ROCE), days of sales in inventory (DSI), days of sales outstanding (DSO) and the net financial debt ratio as company-specific leading indicators or as a basis for monitoring.

Our success is largely reflected by our earning power, hence our control system is focused on steering this metric.

Earning power

The key indicator for steering the earning power of the LANXESS Group and the individual segments is EBITDA pre exceptionals. It is calculated from EBIT by adding back depreciation and impairments of property, plant and equipment as well as amortization and impairments of intangible assets, subtracting reversals of impairment charges on property, plant, equipment and intangible assets, and excluding exceptional items. The latter are effects that, by nature or extent, have a significant impact on the earnings position, but for which inclusion in the evaluation of business performance over several reporting periods does not seem to be appropriate. Exceptional items may include write-downs, reversals of impairment charges or the proceeds from the disposal of assets, certain expenses for strategic projects in the fields of IT and digitalization, restructuring expenses and income from the reversal of provisions established in this connection, and reductions in earnings resulting from portfolio adjustments or purchase price allocations. Grants and subsidies from third parties for the acquisition and construction of property, plant and equipment are accounted for as deferred income using the gross method. In this respect, no adjustments other than for gross depreciation and amortization are made when calculating EBITDA pre exceptionals.

Every operational decision or achievement is judged in the short and long term by its sustainable impact on EBITDA pre exceptionals. As part of the annual budget and planning process, targets are set for this benchmark of our company’s success, which are then taken into account in determining employees’ variable income components.

Simple revenue data such as net sales are not among the Group’s controlling parameters because they do not permit any direct conclusions about our profitability. Volatile raw material prices are a hallmark of our industry and their fluctuation throughout the year impacts our selling prices. This influences sales but, other than through short-term alignment effects, generally has no impact on the absolute margins that are significant to our profitability. We therefore set sales targets for neither the short nor medium term.

The earnings margins are calculated from the ratios of the respective earnings indicators to sales. For example, the EBITDA margin (pre exceptionals) is calculated as the ratio of EBITDA (pre exceptionals) to sales and serves as an indicator of relative earning power at Group level and for the individual segments.

Company-specific leading indicators

Leading indicators support the timely identification of material changes in the company's earnings, asset and financial position and the initiation of appropriate measures.

Our annual budget and planning process delivers key values for the Group's earning power and our ability to finance operations from our own funds as the starting point for steering the company. This information is used, for example, to make financing and capital expenditure decisions. To ensure a timely response to changes in market conditions and the competitive environment, we prepare operational forecasts twice each fiscal year as the basis for updating the full-year budget and the associated key values used to control the Group. In addition, regular forecasts of the key values for our earning power are prepared.

Certain parameters used in budgets and forecasts are defined centrally and applied uniformly as they have a major influence on the key values. Strategic raw materials have a crucial role in forecasting. The development of procurement prices is significant to the timely adjustment of selling prices. Even regional differences in the availability of raw materials over a specific period of time may become significant. Given the regional diversification of our production sites and customer markets, exchange rate development also affects the earning power resulting from sales and cost trends, with corresponding repercussions for pricing and hedging strategies. In addition, we draw on continuously updated growth forecasts for our customer industries and the regions where we do business in order to prepare and review sales and capital expenditure decisions.

Profitability

Return on capital employed (ROCE) has been implemented as a profitability ratio at Group level which indicates how efficiently we utilize our capital. This makes it an important criterion in capital expenditure decisions, for example.

$$\text{ROCE} = \frac{\text{EBIT pre exceptionals}}{\text{Capital employed}}$$

Capital employed = Total assets
Less deferred tax assets
Less interest-free liabilities

Interest-free liabilities comprise provisions (except those for pensions and other post-employment benefits), income tax liabilities, trade payables and items included under "other non-financial liabilities." In addition, we use a simplified variant of ROCE, called "business ROCE," to evaluate the contribution of our business units.

In the 2019 reporting year, ROCE was 10.0% and thus above our weighted average cost of capital (WACC) after adjustment for comparability. In the previous year, ROCE was 11.4%. The capital employed of the reporting year was adjusted for an amount of around €985 million. This resulted from unused financial resources invested in short-term securities and the assets not allocated to continuing operations in the statement of financial position. The capital employed of fiscal year 2018 was adjusted for an amount of around €1.2 billion. This resulted from the financial resources received on December 31, 2018, for the sale of the 50% interest in ARLANXEO less the additional pension funding in Germany.

Cost of capital

Borrowing costs are calculated from risk-free interest, i.e. in our case, from the return on a long-term German government bond plus a risk premium for industrial companies in the same risk category as LANXESS. The cost of equity reflects the return expected by investors from an investment in LANXESS shares. Equity investors demand a risk premium because of the greater risk involved in acquiring shares rather than buying government bonds. This is known as a market risk premium and is calculated using the long-term excess return generated by a stock investment over an investment in government bonds and adjusted by the beta factor denoting the relative risk of an investment in LANXESS stock compared with that of the market as a whole.

Capital employment

To optimize our working capital at the operational level, we use two key performance indicators: DSO (days of sales outstanding) and DSI (days of sales in inventory). These show receivables and inventories in relation to sales for the previous quarter. In fiscal year 2019, DSI was at 65.7 days (previous year: 68.6 days) and DSO at 42.3 days (previous year: 46.0 days).

Expenditures for property, plant and equipment are subject to rigorous capital discipline and are systematically aligned with the product areas that show the greatest potential for success. We prioritize investment projects on the basis of financial indicators such as pay-back period, net present value and ROCE. The investment rate is an indicator that describes cash outflows for capital expenditures divided by sales.

Debt

Net financial liabilities are the total of current and non-current financial liabilities less liabilities for accrued interest, cash, cash equivalents and near-cash assets and amounted to €2,522 million. After the further deduction of short-term money market investments and securities, net financial liabilities as of December 31, 2019, amounted to €1,742 million, compared with €1,381 million at the end of the previous year. The increase was influenced by the outflow of cash funds for the stock repurchase and by the recognition of additional lease liabilities compared with the previous year.

The net financial debt ratio, which we use solely at Group level, is defined as net financial liabilities divided by EBITDA pre exceptionals. On the basis of net financial liabilities after deduction of short-term money market investments and securities, the net financial debt ratio as of December 31, 2019, increased to 1.7 from 1.4 at the previous year's reporting date.

At Group level, we also consider provisions for pensions and other post-employment benefits to be components of debt. Compared with the end of 2018, they increased by €95 million to €1,178 million. Including this additional component of debt, adjusted for related deferred tax assets of €288 million (previous year: €279 million) and reduced by the receivables relating to pension obligations recognized under other non-current assets of €78 million (previous year: €75 million), the total net debt ratio in relation to EBITDA pre exceptionals was 2.5, compared with 2.1 at the previous year's reporting date.

Net Financial Liabilities

€ million	2015	2016	2017	2018	2019
Non-current financial liabilities	1,258	2,734	2,242	2,686	2,777
Current financial liabilities	443	78	633	59	66
Less:					
Liabilities for accrued interest	(24)	(23)	(35)	(25)	(25)
Cash and cash equivalents	(366)	(355)	(538)	(797)	(296)
Near-cash assets	(100)	(40)	(50)	0	0
Net financial liabilities	1,211	2,394	2,252	1,923	2,522
after deduction of short-term money market investments and securities	0	(2,125)	0	(542)	(780)
Net financial liabilities after deduction of short-term money market investments and securities	**1,211**	**269**	**2,252**	**1,381**	**1,742**

BUSINESS PROCESSES AND EMPLOYEES

Procurement

LANXESS uses its centrally managed global procurement organization – Global Procurement & Logistics – to ensure a reliable supply of raw and other materials and services. "Global Categories" closely coordinate with our business units to pool their requirements in the raw materials, technical goods, packaging materials, energy, services and logistics segments. Our worldwide procurement network facilitates purchasing synergies, so that we can move efficiently in the market and exploit price advantages. We avoid delivery bottlenecks or reliance on individual suppliers using strategies like multiple sourcing. As a result, there were no delivery shortfalls or bottlenecks in the reporting period that had a material effect on our business development.

Procuring chemical raw materials is a high priority at LANXESS. Our aim is to secure our supplies on the basis of long-term contracts. The availability of raw materials has always been a crucial factor in facility location decisions. We procure key raw materials and utilities in the form of steam and biomass from the immediate vicinity at several of our production sites. In this way, we not only minimize the costs and environmental impact of our transportation activities, but also reduce the risk of delivery shortfalls caused by transportation issues in particular.

Our biggest suppliers of chemical raw materials in 2019 included BASF, BP, Chevron, Covestro, ExxonMobil, INEOS, OXEA, Sasol, Shell Chemicals and TOTAL.

Among the most important strategic raw materials by far for our production operations in 2019 were ammonia, benzene, chlorine, cyclohexane, cyclohexanone, sulfur and toluene. In all, strategic raw materials accounted for a procurement volume of approximately €1.5 billion in fiscal year 2019 (previous year: approximately €1.6 billion). This equates to around 53% of our total procurement spend for raw materials and goods in 2019, which amounted to approximately €2.8 billion (previous year: €3.0 billion). Our total procurement spend in 2019 was around €4.8 billion (previous year: around €4.9 billion).

Production

LANXESS is a global producer of specialty chemicals. Our production facilities make anywhere from very small batches of custom-synthesized products to basic, specialty and fine chemicals as well as polymers in quantities of several ten thousand metric tons.

Our production facilities are organizationally assigned to individual business units. The most important production sites are located in Leverkusen, Dormagen, the Uerdingen district of Krefeld and Bergkamen, Germany; Antwerp, Belgium; Trafford Park, Great Britain; Latina, Italy; Baytown, El Dorado and Perth Amboy, U.S.; Elmira, Canada; Jhagadia and Nagda, India; and Changzhou, Nantong and Ningbo, China. For a detailed breakdown of our production sites by segment, please see “The segments in brief” in this combined management report.

Sales organization

We sell our products globally, to several thousand customers in around 150 countries across all continents. LANXESS’s longstanding customer base includes leaders in each of its user industries. We have well-established customer relationships in all sales regions. To meet our customers’ needs, we have set up flexible marketing and sales structures. We manage our sales throughout the world through 52 companies owned by LANXESS itself. In countries where we do not yet have our own company, we work with local sales partners.

To keep as close as possible to customers and ensure they receive individual support, each of our business units manages its own sales organization. Another competitive advantage is derived from having 55 of our own production sites in 18 countries. Wherever possible, customers are supplied from production sites in the same region, yielding advantages in terms of time and costs.

Sales markets

Because of our broad offering, we have business relationships with a large number of customers all over the world. These customers need an individualized, well-focused approach, which we are able to provide because our sales organizations are managed through business units.

LANXESS serves the following industries in particular: chemicals, automotive, construction, electronics, agrochemicals, plastics, pharmaceuticals, food, water treatment and furniture.

Shares of Sales by Industry Sector

%	2019
Chemicals	~ 30
Automotive	~ 20
Construction and electrical/electronics	~ 20
Agrochemicals	~ 10
Others (cumulative share)	~ 20

In fiscal year 2019, our top ten customers accounted for about 19% (previous year: 18%) of total sales. None of our customers accounted for more than 10% of Group sales. 44 (previous year: 41) customers accounted for annual sales in excess of €20 million. The number of customers in each segment varies widely. The comparatively low sales per customer in the Performance Chemicals segment, as well as its broad customer base, reflect the way in which its business often involves custom-tailored solutions in specialty chemicals. By contrast, the substantially lower numbers of customers in the Engineering Materials segment, which nonetheless generate relatively high sales, are typical of the high-performance plastics business. No segment can be considered dependent on just a few customers.

Research and development

Research and development makes an important contribution toward increasing our competitiveness and expanding our product portfolio through the development of innovative products and processes as well as the ongoing optimization of existing production processes.

Organizational focus

Our research programs are aligned with the needs of customers in the end markets. We have therefore consolidated our product innovation activities in the respective business units.

The business units focus their activities on optimizing products and product quality, as well as on developing new products. The Global Technology & Innovation department within our Production, Technology, Safety & Environment Group function supports and complements the business units' research and development activities, with the focus on process innovation. The emphasis here is on planning new processes and integrating new technologies into our existing production processes with the aim of achieving cost and technology leadership. Our main research and development units are at the sites in Leverkusen, Dormagen, the Uerdingen district of Krefeld and Mannheim, Germany, and Naugatuck, U.S. We also operate a center for engineering plastics in Hong Kong. At our research and development sites, we test materials such as innovative flame retardants and engineering plastics for lightweight automotive engineering applications.

Cost trend and employees

Research and development expenses in 2019 totaled €114 million, or 1.7% of sales (previous year: €109 million or 1.6%). The High Performance Materials, Material Protection Products, Lubricant Additives Business and Polymer Additives business units together accounted for the largest share of these expenses. Material Protection Products, Urethane Systems, Liquid Purification Technologies and Saltigo were the business units with the highest research intensity as measured by the ratio of research and development expenses to sales.

Research and Development Expenses

	2015	2016	2017	2018	2019
Research and development expenses (€ million)	130	131	103	109	114
% of sales	1.6	1.7	1.6	1.6	1.7

Figures from 2017 not including ARLANXEO and from 2018 not including the Leather business unit.

At the end of 2019, we employed 516 people – against 496 in the previous year – in our research and development laboratories worldwide.

Number of Employees in Research and Development

	2015	2016	2017	2018	2019
Year end	585	589	521	496	516
% of Group employees	3.6	3.5	3.4	3.5	3.6

Figures from 2017 not including ARLANXEO and from 2018 not including the Leather business unit.

Fields of activity and patent strategy

We focus our research and development activities on market-driven projects with a short- to medium-term time horizon. The total number of projects in 2019 was 182 after 186 in the previous year, 114 (previous year: 108) of which aimed to develop new products and applications or improve existing ones. The remaining 68 projects (previous year: 78) concerned process technology issues with a view to reducing costs, improving efficiency or increasing capacity.

The results of our activities are protected by patents, where this is possible and expedient. In the course of 2019, we submitted 44 priority applications worldwide. As of December 31, 2019, the full patent portfolio included approximately 718 patent families covering around 5,220 property rights.

Employees

As of December 31, 2019, the LANXESS Group had a total of 15,479 employees, against 15,441 at the closing date of the previous year. There were 14,304 employees in continuing operations as of the reporting date after 14,252 in the previous year.

As of December 31, 2019, the LANXESS Group had 1,806 employees in continuing operations in the EMEA region (excluding Germany), against 1,792 in the previous year. In Germany, headcount rose from 7,352 to 7,558. The number of employees in the North America region amounted to 2,031 after 2,044 as of December 31, 2018, while the workforce in Latin America amounted to 716 after 704 in the previous year. At the reporting date, we employed 2,193 people in the Asia-Pacific region, which was 167 fewer than at the closing date of the previous year.

Personnel expenses in fiscal year 2019 totaled €1,345 million (previous year: €1,258 million). Wages and salaries, at €1,080 million (previous year: €1,009 million), accounted for the greater part of this figure. Social security contributions amounted to €162 million (previous year: €151 million), while pension plan expenses were €90 million (previous year: €86 million) and social assistance benefits €13 million (previous year: €12 million).

LEGAL ENVIRONMENT

There were no changes in the legal environment in fiscal year 2019 that would have had a material impact on the earnings, asset and financial position of the LANXESS Group or LANXESS AG.

BUSINESS CONDITIONS

The economic environment

Fiscal year 2019 was characterized by a weakening economic environment. Increasing populist or protectionist tendencies and trade conflicts, especially between the U.S. and China, had detrimental effects in some areas.

In a generally strained environment, the global economic growth of 2.5% was driven primarily by the Asia-Pacific region.

GDP and Chemical Production in 2019

Change vs. prior year in real terms (%)	Gross domestic product	Chemical production
USMCA (formerly NAFTA)	2.0	(0.5)
Latin America	(2.0)	(0.5)
EMEA (incl. Germany)	1.0	0.0
Germany	0.5	(3.5)
Asia-Pacific	4.5	3.5
World	**2.5**	**2.0**

Source for 2019 growth rates: IHS Markit

One euro was worth US$1.12 at the end of 2019. The value of the U.S. currency thus grew by 2.6% on the closing price of US$1.15 at the end of 2018. The U.S. dollar was also stronger on average over the year at US$1.12, against US$1.18 in the previous year. Due to the regional positioning of our business, a stronger U.S. dollar generally has a positive effect on our earnings. Centralized hedging activities limit any impact that cannot be neutralized by ensuring that production and sales take place in the same currency area.

Compared with the previous year, procurement prices for raw materials largely declined, with this development generally being more distinct for aromatics.

The chemical industry

Global chemical production was up 2.0% in financial year 2019, driven by the Asia-Pacific region. In Germany, there was a decline of 3.5%.

Evolution of major user industries

Global automobile production was down 4.0% year-on-year in the reporting year. The development in Europe was negative overall because of declining sales figures in Germany. A decline of 5.0% was seen in Asia-Pacific, which was chiefly attributable to the slump in demand in China in the second half of the year. Latin America grew slightly, but had little impact on the global trend as it is less significant than other regions.

Agrochemicals saw growth of 1.5%, driven in particular by growth in Latin America, but also by a positive trend in EMEA and Asia-Pacific. The USMCA economic area posted a decline.

The global construction industry grew by 2.0%. This development stemmed mainly from Asia-Pacific and EMEA.

Development in the customer industries fell short of expectations, especially in the automotive sector. Thanks to the balanced portfolio, however, this had little influence on business as a whole.

Evolution of Major User Industries in 2019

Change vs. prior year in real terms (%)	Automotive	Agrochemicals	Construction
USMCA (formerly NAFTA)	(2.0)	(0.5)	(1.0)
Latin America	0.5	7.5	(1.5)
EMEA (incl. Germany)	(4.5)	1.5	2.0
Germany	(10.5)	0.5	3.0
Asia-Pacific	(5.0)	1.0	3.0
World	**(4.0)**	**1.5**	**2.0**

Source for 2019 growth rates: IHS Markit

KEY EVENTS INFLUENCING THE COMPANY'S BUSINESS

The generally positive business performance was mainly influenced by the operating strength of the Advanced Intermediates and Performance Chemicals segments, which compensated for weak demand from the automotive industry, especially in the Engineering Materials segment. The advantageous change in exchange rates, especially of the U.S. dollar, had a positive influence in all segments. The generally lower procurement prices for raw materials and energy were passed on to customers via lower selling prices.

COMPARISON OF FORECAST AND ACTUAL BUSINESS

Comparison of Forecast and Actual Business 2019

	Forecast for 2019 in Annual Report 2018	Actual 2019
Business development: Group		
EBITDA pre exceptionals	• Around the previous year's level (€1,016 million) • Previous year's figure and previous year's forecast including the Leather business unit, now recognized as discontinued operations • This includes a positive low-double-digit million earnings effect in euros arising from the application of the new accounting standard for leases, IFRS 16, effective from January 1, 2019	• EBITDA pre exceptionals from continuing operations: €1,019 million
Business development: segments		
Advanced Intermediates	• Business development slightly above the previous year • Slight improvement in demand for agrochemicals business over the course of 2019	• EBITDA pre exceptionals well up on the previous year: €389 million (previous year: €359 million) • Good project business in agrochemicals
Specialty Additives	• Business development on a par with or slightly above the previous year • Ongoing realization of synergies from the integration of the Chemtura businesses acquired in 2017 will contribute to this development	• EBITDA pre exceptionals up slightly on the previous year: €353 million (previous year: €343 million) • The improvement in earnings was also due to the realization of cost synergies from the integration of Chemtura
Performance Chemicals	• Business development on a par with the previous year	• EBITDA pre exceptionals well up on the previous year: €192 million (previous year: €156 million) • Previous year's forecast still included the Leather business unit, now recognized as discontinued operations
Engineering Materials	• Slightly weaker development than in the previous year • Demand will drop, at least temporarily, in the automotive industry in particular	• EBITDA pre exceptionals well below the previous year: €238 million (previous year: €267 million) • Weak demand from the automotive industry led to a decline in earnings driven by volumes
Reconciliation	• Considerable deterioration of earnings against previous year • Reason: general inflation of the cost base and remnant costs from the full sale of the synthetic rubber business	• EBITDA pre exceptionals considerably deteriorated against previous year: minus €153 million (previous year: minus €139 million) • This change was due partly to results from hedging currency risks, costs remaining after the disposal of ARLANXEO, and a general cost increase
Capital expenditures		
Cash outflows for capital expenditures	• Around €500 million	• €508 million

In the combined management report for fiscal year 2018, we predicted that EBITDA pre exceptionals would be around the previous year's level in 2019 (€1,016 million). We specified our expectation over the course of fiscal year 2019 to EBITDA pre exceptionals of between €1,000 million and €1,050 million and thus stable earnings. The actual earnings from continuing operations amounted to €1,019 million.

We had expected LANXESS AG's net income according to German commercial law in the reporting year to be substantially lower than in the previous year, which was influenced by the effects of the disposal of the 50% interest in ARLANXEO. Largely due to the disclosure of hidden reserves in connection with the planned sale of the interest in Currenta GmbH & Co. OHG and the resulting sharp rise in income from affiliated companies, net income totaled €463 million after €85 million in the prior-year period.

BUSINESS PERFORMANCE OF THE LANXESS GROUP

- Strong operating development of the Advanced Intermediates and Performance Chemicals segments
- Stable business performance of the Specialty Additives segment in a difficult market environment
- Positive currency effects largely compensate volume and price decline in sales
- Group sales on a par with the previous year at €6,802 million
- Improvement of EBITDA pre exceptionals by 3.3% to €1,019 million
- Earnings per share from continuing operations pre exceptionals and amortization of intangible assets increased from €4.48 to €4.73
- The presentation of business performance was adjusted for the discontinued operations of the Leather business unit

Key Financial Data

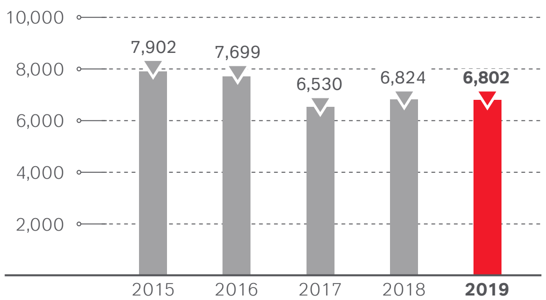
€ million	2018	2019	Change %
Sales	6,824	6,802	(0.3)
Gross profit	1,738	1,759	1.2
EBITDA pre exceptionals	986	1,019	3.3
EBITDA margin pre exceptionals	14.4%	15.0%	–
EBITDA	906	910	0.4
Operating result (EBIT) pre exceptionals	581	557	(4.1)
Operating result (EBIT)	491	407	(17.1)
EBIT margin	7.2%	6.0%	–
Financial result	(110)	(61)	44.5
Income before income taxes	381	346	(9.2)
Net income from continuing operations	282	240	(14.9)
Net income from discontinued operations	149	(35)	<(100)
Net income	431	205	(52.4)
Earnings per share (€)	4.71	2.32	(50.7)
Earnings per share from continuing operations adjusted for exceptional items and amortization of intangible assets (€)	4.48	4.73	5.6

Sales and earnings

Sales of the LANXESS Group in the reporting period amounted to €6,802 million, which was at the previous year's level. In the previous year, the sales amounted to €6,824 million. The effect of lower sales volumes and reduced selling prices was nearly offset in particular by the beneficial development in exchange rates and the contribution from the U.S. phosphorus additives business acquired from the Belgian chemicals group Solvay in February 2018. Adjusted for currency and portfolio effects, the LANXESS Group recorded a 2.7% decrease in operational sales in fiscal year 2019.

Group Sales

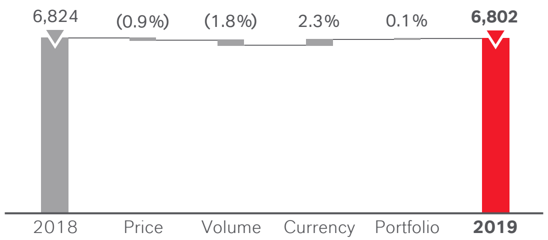
€ million



Figures from 2017 not including ARLANXEO and from 2018 not including the Leather business unit.

Effects on Sales

€ million/%



Sales by Segment

€ million	2018	2019	Change %	Proportion of Group sales %
Advanced Intermediates	2,207	2,249	1.9	33.0
Specialty Additives	1,980	1,965	(0.8)	28.9
Performance Chemicals	976	1,052	7.8	15.5
Engineering Materials	1,576	1,450	(8.0)	21.3
Reconciliation	85	86	1.2	1.3
	6,824	**6,802**	**(0.3)**	**100.0**

Order book status

Most of our business is not subject to long-term agreements on fixed volumes or prices. Instead, our business is characterized by long-standing relationships with customers and revolving master agreements. Our activities are focused on demand-driven orders with relatively short lead times which do not provide a basis for long-term forward-looking statements about our capacity utilization or volumes. The business is managed primarily on the basis of regular Group-wide forecasts of the Group's operating result. For additional information, please see "Company-specific leading indicators" in this management report.

Any disclosure of the Group's order book status at a given reporting date therefore would not be indicative of the Group's short- or medium-term earning power. For this reason, no such disclosure is made in this report.

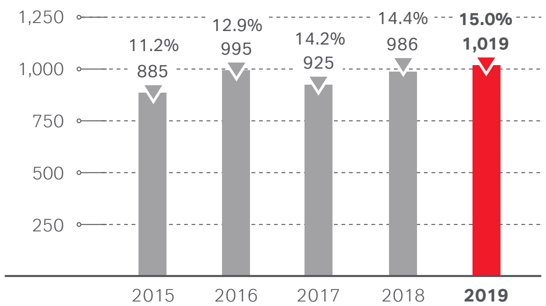
Gross profit

The cost of sales decreased at a slightly faster rate than sales, falling by 0.8% to €5,043 million. The decline resulted primarily from lower sales volumes and reduced procurement prices for raw materials and energy. By contrast, the movement in exchange rates, particularly of the U.S. dollar, led to higher costs. Capacity utilization of 78% was 4 percentage points below the previous year.

Gross profit was €1,759 million, up by €21 million or 1.2% against the previous year. The positive effect from the change in exchange rates was offset by lower sales volumes, lower capacity utilization and associated idle costs. Lower procurement prices for raw materials and energy were largely passed on to the market by adjusting selling prices. The gross profit margin was accordingly higher at 25.9% compared to 25.5%.

EBITDA pre exceptionals and operating result (EBIT)

EBITDA and EBITDA Margin Pre Exceptionals
€ million



Figures from 2017 not including ARLANXEO and from 2018 not including the Leather business unit.

In a challenging economic environment, the operating result before depreciation, amortization, write-downs and reversals (EBITDA) pre exceptionals increased by €33 million, or 3.3%, to €1,019 million in fiscal year 2019, after €986 million in the previous year. The positive overall earnings performance at Group level primarily resulted from the operating strength of the Advanced Intermediates and Performance Chemicals segments, which compensated for weak demand from the automotive industry, especially in the Engineering Materials segment. The advantageous change in exchange rates, especially of the U.S. dollar, had a positive influence in all segments. In addition, the generally lower procurement prices for raw materials and energy were passed on to the market by adjusting selling prices. In addition, the application of the new accounting standard for leases, IFRS 16, resulted in a positive earnings effect of €42 million.

Due to higher freight costs and exchange rate effects, selling expenses rose by 7.0% to €812 million. Research and development expenses amounted to €114 million after €109 million in the previous year. General administration expenses decreased by €21 million to €274 million due partly to lower provisions for variable compensation and lower costs of the former Chemtura businesses than in the previous year as a result of synergies. The Group EBITDA margin pre exceptionals came in at 15.0%, against 14.4% in the previous year.

Please see the table below and "Segment Data" for details on the individual segments.

EBITDA Pre Exceptionals by Segment

€ million	2018	2019	Change %
Advanced Intermediates	359	389	8.4
Specialty Additives	343	353	2.9
Performance Chemicals	156	192	23.1
Engineering Materials	267	238	(10.9)
Reconciliation	(139)	(153)	(10.1)
	986	**1,019**	**3.3**

The operating result (EBIT) of the Group totaled €407 million compared with €491 million in the previous year. The decrease is primarily attributable to the considerable €60 million rise in exceptionals to €150 million (previous year: €90 million). Depreciation, amortization and write-downs rose by €88 million to €504 million (previous year: €416 million), due in roughly equal parts to the changed lease accounting and to write-downs, of which €41 million constituted exceptional items. The latter relate to the sale of the business and the intended end to production of tin-based organometallics at the site in Bergkamen, Germany, and to the sale of the business with gallium-based organometallics in Pyeongtaek, South Korea, in January 2020. Write-downs for the previous year amounted to €15 million, €10 million of which were exceptional items, relating to the closure of pigment production at the Jinshan site in Shanghai, China, in fiscal year 2019. On the other hand, reversals of write-downs totaling €1 million (previous year: €1 million) were recognized.

Other operating result, which is the balance between other operating income and expenses, amounted to minus €152 million compared with minus €84 million in the previous year. Adjusted for exceptional items, it came to minus €2 million, which was €8 million lower than in the previous year.

There were net negative exceptional items of €150 million in the reporting year. They resulted from negative exceptional items of €158 million and positive exceptional items of €8 million, which impacted EBITDA. The negative exceptional items, of which €117 million impacted EBITDA and €41 million did not impact EBITDA, largely related to expenses in connection with the sale of the business and the intended end to production of tin-based organometallics at the site in Bergkamen, Germany, the sale of the business with gallium-based organometallics in Pyeongtaek, South Korea, in January 2020, strategic IT projects, digitalization projects, measures to realize remaining synergies in connection with the integration of Chemtura and M&A activities. In the previous year, net negative exceptional items of €90 million resulted from negative exceptional items of €106 million and positive exceptional items of €16 million. The exceptional items primarily related to the strategic realignment of the

LANXESS Group, digitalization projects, and the closure of pigment production at the Jinshan site in Shanghai, China, in fiscal year 2019.

Please see "Notes on EBIT and EBITDA (Pre Exceptionals)" for details about exceptional items.

The reconciliation of EBITDA pre exceptionals to the operating result (EBIT) was as follows:

Reconciliation of EBITDA Pre Exceptionals to Operating Result (EBIT)

€ million	2018	2019	Change %
EBITDA pre exceptionals	**986**	**1,019**	**3.3**
Depreciation and amortization/reversals of impairment charges	(415)	(503)	(21.2)
Exceptional items in EBITDA	(80)	(109)	(36.3)
Operating result (EBIT)	**491**	**407**	**(17.1)**

Financial result

The financial result came in at minus €61 million in fiscal year 2019, compared with minus €110 million for the previous year. The net interest result improved year-on-year by €15 million to minus €54 million due to interest income from advance payments of income taxes and the refinancing of a bond that matured in May 2018 on more favorable terms. As in the previous year, companies accounted for using the equity method did not generate an earnings contribution. The other financial result was minus €7 million, compared with minus €41 million in the previous year. The improvement in earnings primarily resulted from the payment of a higher dividend by Currenta GmbH & Co. OHG, Leverkusen, Germany. This amounted to €21 million in the reporting year after €9 million in the previous year. In addition, the adjustment of the internal financing of subsidiaries and the associated currency hedging had a positive impact on the financial result.

Income before income taxes

Due to the development of the operating result, income before income taxes deteriorated by €35 million to €346 million.

Income taxes

In fiscal year 2019, tax expense amounted to €105 million, compared with €99 million the year before. The Group's tax rate was 30.3%, after 26.0% in the previous year.

Net income

Net income for the reporting year amounted to €205 million, of which €240 million was attributable to continuing operations. It was reduced by expenses relating to the strategic realignment of the organometallics business. In the previous year, €282 million of the net income of €431 million was allocable to continuing operations. In fiscal year 2019, net income included earnings attributable to non-controlling interests of minus €14 million, compared with plus €92 million in the previous year. While earnings attributable to non-controlling interests in the reporting year were mainly attributable to the non-controlling interests in our South African mine company, in the previous year they resulted almost exclusively from Saudi Aramco's interest in ARLANXEO. Net income from discontinued operations amounted to minus €35 million in the reporting year and resulted from the accounting in accordance with IFRS 5, according to which the Leather business unit was recognized as a discontinued operation. Of the previous year's net income from discontinued operations of €149 million, €154 million was attributable to ARLANXEO and minus €5 million to the Leather business unit.

Reconciliation of EBIT to Net Income

€ million	2018	2019	Change %
Operating result (EBIT)	**491**	**407**	**(17.1)**
Income from investments accounted for using the equity method	0	0	–
Net interest expense	(69)	(54)	21.7
Other financial income and expense	(41)	(7)	82.9
Financial result	**(110)**	**(61)**	**44.5**
Income before income taxes	**381**	**346**	**(9.2)**
Income taxes	(99)	(105)	(6.1)
Income after income taxes from continuing operations	**282**	**241[3]**	**(14.5)**
Income after income taxes from discontinued operations[1]	**241**	**(50)**	**<(100)**
Income after income taxes	**523**	**191**	**(63.5)**
Income attributable to non-controlling interests	92	(14)	< (100)
Net income from continuing operations	**282**	**240**	**(14.9)**
Net income from discontinued operations[2]	**149**	**(35)**	**<(100)**
Net income	**431**	**205**	**(52.4)**

1) In fiscal year 2019, the entire earnings contribution was attributable to the Leather business unit. In the previous year, €251 million was attributable to ARLANXEO and minus €10 million to the Leather business unit.
2) In fiscal year 2019, the entire earnings contribution was attributable to the Leather business unit. In the previous year, €154 million was attributable to ARLANXEO and minus €5 million to the Leather business unit.
3) Including income attributable to non-controlling interests of €1 million.

Earnings per share/earnings per share from continuing operations adjusted for exceptional items and amortization of intangible assets

Earnings per share are calculated by dividing net income by the weighted average number of LANXESS shares outstanding during the reporting period. Earnings per share were €2.32, well below the €4.71 recorded in the previous year. Earnings per share from continuing operations were €2.72 against €3.08 in the previous year. Earnings per share from discontinued operations were minus €0.40 against €1.63 in the previous year. A total of 4,075,084 own shares were acquired as part of the stock repurchase, which were canceled on July 9, 2019. The stock repurchase was taken into account pro rata temporis in the calculation of the average number of shares outstanding. This results in a weighted average number of shares outstanding of 88,334,641 after 91,522,936 in the previous year.

Earnings per Share

	2018	2019
Net income (€ million)	**431**	**205**
from continuing operations	282	240
from discontinued operations	149	(35)
Weighted average number of shares outstanding	91,522,936	88,334,641
Earnings per share (€)	**4.71**	**2.32**
from continuing operations (€)	3.08	2.72
from discontinued operations (€)	1.63	(0.40)

We also calculate earnings per share from continuing operations pre exceptionals and amortization of intangible assets, which are not defined by International Financial Reporting Standards. This value was calculated from the earnings per share from continuing operations adjusted for exceptional items, amortization of intangible assets and attributable tax effects.

Earnings per share from continuing operations adjusted for exceptional items and amortization of intangible assets were €4.73 against €4.48 in the previous year.

Reconciliation to Earnings per Share from Continuing Operations Adjusted for Exceptional Items and Amortization of Intangible Assets

€ million	2018	2019
Net income from continuing operations	**282**	**240**
Exceptional items[1]	90	150
Amortization of intangible assets/reversal of impairment charges[1]	84	86
Income taxes[1]	(46)	(59)
Net income from continuing operations adjusted for exceptional items and amortization of intangible assets	**410**	**417**
Weighted average number of shares outstanding	91,522,936	88,334,641
Earnings per share from continuing operations adjusted for exceptional items and amortization of intangible assets (€)	**4.48**	**4.72**

1) Excluding items attributable to non-controlling interests

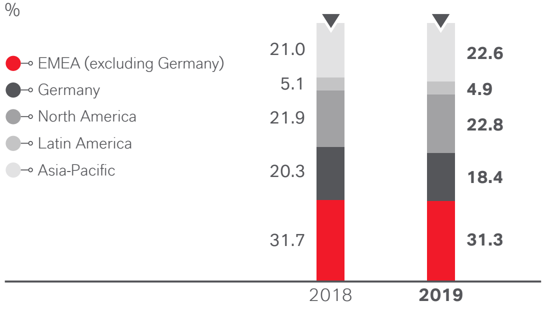
BUSINESS TRENDS BY REGION

Sales by Market

	2018		2019		Change
	€ million	%	€ million	%	%
EMEA (excluding Germany)	2,167	31.7	2,128	31.3	(1.8)
Germany	1,386	20.3	1,251	18.4	(9.7)
North America	1,494	21.9	1,554	22.8	4.0
Latin America	346	5.1	331	4.9	(4.3)
Asia-Pacific	1,431	21.0	1,538	22.6	7.5
	6,824	**100.0**	**6,802**	**100.0**	**(0.3)**

Sales by Market

%



In the reporting period, there were minor portfolio effects from the acquisition of the U.S. phosphorus chemicals business from the Belgian chemicals group Solvay in the previous year, which primarily affected the North America region.

EMEA (excluding Germany)

Sales in the EMEA region (excluding Germany) fell by €39 million, or 1.8%, to €2,128 million. After adjustment for currency effects, sales decreased by 2.1%. The Engineering Materials segment's sales declined by a low doubt-digit percentage, while the Specialty Additives segment posted low single-digit losses. This was countered by the business expansion in the Advanced Intermediates and Performance Chemicals segments, whose growth rates were both in the mid-single-figures. The decline in the region resulted primarily from the business performance in Belgium, Italy and Spain.

Germany

In Germany, the Group generated sales of €1,251 million in fiscal year 2019, down by €135 million, or 9.7%, on the previous year. After adjustment for minor currency effects, sales declined by 10.0%. Business declined in all segments, but especially the Advanced Intermediates and Engineering Materials segments.

North America

Sales in this region came to €1,554 million, up by €60 million, or 4.0%, on the previous year. After adjustment for appreciable currency effects and minor portfolio effects, sales were down by 1.4%. The declining business in the Specialty Additives and Engineering Materials segments was only partly compensated for by the sales growth in the Advanced Intermediates and Performance Chemicals segments.

Latin America

In the Latin America region, sales fell by €15 million, or 4.3%, to €331 million. Adjusted for currency effects, there was a decline of 8.1%. Business declined in all segments. The Specialty Additives and Advanced Intermediates segments in particular posted a low double-digit percentage drop in sales. The situation in the region was mainly hampered by development in Mexico.

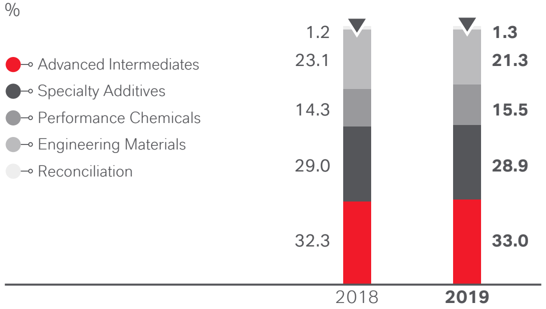
Asia-Pacific

Sales in the Asia-Pacific region increased by €107 million, or 7.5%, to €1,538 million in fiscal year 2019. Adjusted for currency effects, there was growth of 3.6%. This business performance was driven by the Performance Chemicals and Specialty Additives segments. The Engineering Materials segment also contributed to the growth, while the Advanced Intermediates segment's sales fell slightly short of the previous year's figure. The main positive contributions in the region came from China.

SEGMENT INFORMATION

- Advanced Intermediates: Considerable earnings improvement, thanks especially to Saltigo business unit's strong project business
- Specialty Additives: Earnings improved; sales close to previous year's level
- Performance Chemicals: Considerable earnings and margin increase
- Engineering Materials: Sales and earnings fall short of the strong previous year due to weak demand from the automotive industry

Sales by Segment
%



Advanced Intermediates

Overview of Key Data

	2018		2019		
	€ million	Margin %	€ million	Margin %	Change %
Sales	2,207		2,249		1.9
EBITDA pre exceptionals	359	16.3	389	17.3	8.4
EBITDA	359	16.3	376	16.7	4.7
Operating result (EBIT) pre exceptionals	232	10.5	239	10.6	3.0
Operating result (EBIT)	232	10.5	191	8.5	(17.7)
Cash outflows for capital expenditures	155		162		4.5
Depreciation and amortization	127		185		45.7
Employees as of Dec. 31	3,687		3,708		0.6

Our Advanced Intermediates segment recorded sales of €2,249 million in fiscal year 2019, 1.9% or €42 million more than in the previous year. This was particularly attributable to the positive development in the Saltigo business unit, which achieved both higher sales volumes and selling prices due to particularly well developed project business in agrochemicals. Selling prices in the Advanced Industrial Intermediates business unit were below the previous year's level because lower raw material prices were passed on. Overall, there was a negative price effect on sales of 2.7% at segment level. Shifts in exchange rates had a positive effect on both business units and increased sales by 1.7% in total. With the exception of Germany and Latin America, the segment reported higher sales than in the previous year across all regions.

EBITDA pre exceptionals in the Advanced Intermediates segment was €389 million, €30 million, or 8.4%, above the prior-year level. Higher sales volumes in both business units of the segment as well as good project business and higher selling prices in the Saltigo business unit had a positive effect on earnings. In the Advanced Industrial Intermediates business unit, the positive effect of lower procurement prices for raw materials and energy was countered by lower selling prices. Earnings were improved by advantageous currency effects. The EBITDA margin pre exceptionals increased from 16.3% to 17.3%.

In fiscal year 2019, net negative exceptional items amounted to €48 million, resulting from negative exceptional items of €49 million and positive exceptional items of €1 million. The negative exceptional items related to the strategic realignment of the organometallics business and the associated sale of the business and the intended end to production of tin-based organometallics at the site in Bergkamen, Germany, as well as the sale of the business with gallium-based organometallics in Pyeongtaek, South Korea, in January 2020, and constituted exceptional items of which €14 million impacted EBITDA and €35 million did not impact EBITDA. The positive exceptional items fully impacted EBITDA. Please see "Notes on EBIT and EBITDA (Pre Exceptionals)" for details.

Specialty Additives

Overview of Key Data

	2018		2019		
	€ million	Margin %	€ million	Margin %	Change %
Sales	1,980		1,965		(0.8)
EBITDA pre exceptionals	343	17.3	353	18.0	2.9
EBITDA	340	17.2	337	17.2	(0.9)
Operating result (EBIT) pre exceptionals	207	10.5	197	10.0	(4.8)
Operating result (EBIT)	204	10.3	179	9.1	(12.3)
Cash outflows for capital expenditures	141		120		(14.9)
Depreciation and amortization	136[1]		158[1]		16.2
Employees as of Dec. 31	2,953		2,942		(0.4)

1) Net of reversals of write-downs of €1 million

Our Specialty Additives segment posted sales of €1,965 million in fiscal year 2019, close to the previous year's figure of €1,980 million. The volume decline, which reduced sales in the segment by 5.2%, was largely offset by the positive development of exchange rates, higher selling prices, and the U.S. phosphorus additives business acquired from the Belgian chemicals group Solvay in the first quarter of 2018. While sales volumes in the Polymer Additives business unit exceeded the previous year's level, volumes declined in the Lubricant Additives business unit due among other things to the termination of unfavorable customer contracts. In addition, sales were reduced in the Lubricant Additives Business and Rhein Chemie business units due to the weak demand from the automotive industry. In all the segment's business units, the development of exchange rates, especially of the U.S. dollar, had a positive impact and increased sales by 3.4%. Compared with the previous year, selling prices were higher in the Polymer Additives and Rhein Chemie business units. They were lower in the Lubricant Additives business unit because lower procurement prices for raw materials were passed on. Overall, this had a slightly positive effect of 0.7% on sales at segment level. The phosphorus additives business acquired in the previous year also made a positive sales contribution of 0.3%. Segment sales were increased in the Asia-Pacific region. In all other regions, the segment recorded lower sales than in the previous year.

EBITDA pre exceptionals for the Specialty Additives segment was €353 million, €10 million, or 2.9%, above the prior-year level. The improvement in earnings was due to good development of the Polymer Additives business unit and the realization of cost synergies from the integration of Chemtura. In addition, earnings were increased in particular by advantageous exchange rate effects, especially a stronger U.S. dollar. The change in procurement prices for raw materials and energy was offset in all three business units of the segment by a parallel adjustment of selling prices. Lower sales volumes in the Lubricant Additives Business and Rhein Chemie business units, partly due to weak demand from the automotive industry, had a negative impact on earnings. The EBITDA margin pre exceptionals improved from 17.3% in the previous year to 18.0%.

In fiscal year 2019, net negative exceptional items amounted to €18 million, resulting from negative exceptional items of €19 million and positive exceptional items of €1 million, which impacted EBITDA. Of the negative exceptional items, which mainly related to measures to realize remaining synergies in connection with the integration of Chemtura, €17 million impacted EBITDA and €2 million did not. In the previous year, the segment's exceptional items amounted to €3 million, resulting from negative exceptional items of €15 million and positive exceptional items of €12 million. Of the negative exceptional items, which mainly related to the strategic realignment of the LANXESS Group, €14 million impacted EBITDA and €1 million did not. Of the positive exceptional items, which related to the discontinuation of production at the Ankerweg site in Amsterdam, Netherlands, €11 million impacted EBITDA and €1 million did not. Please see "Notes on EBIT and EBITDA (Pre Exceptionals)" for details.

Performance Chemicals

As of December 31, 2019, the Leather business unit is recognized as a discontinued operation in accordance with IFRS 5 and is therefore no longer part of the Performance Chemicals segment. The previous year's figures have been restated accordingly.

Overview of Key Data

	2018		2019		
	€ million	Margin %	€ million	Margin %	Change %
Sales	976		1,052		7.8
EBITDA pre exceptionals	156	16.0	192	18.3	23.1
EBITDA	154	15.8	190	18.1	23.4
Operating result (EBIT) pre exceptionals	98	10.0	125	11.9	27.6
Operating result (EBIT)	86	8.8	123	11.7	43.0
Cash outflows for capital expenditures	61		60		(1.6)
Depreciation and amortization	68		67		(1.5)
Employees as of Dec. 31	2,557		2,409		(5.8)

Sales in the Performance Chemicals segment in fiscal year 2019 rose by €76 million, or 7.8%, to €1,052 million. Higher sales volumes, especially in the Material Protection Products and Liquid Purification Technologies business units, had a positive effect on sales and resulted in sales growth of 4.3% at segment level. Shifts in exchange rates also had a positive effect on sales in all business units. Overall, there was a positive impact of 2.3% at segment level. Compared with the previous year, selling prices were higher in the Material Protection Products and Liquid Purification Technologies business units and slightly lower in the Inorganic Pigments business unit. The change in selling prices increased the segment's sales by 1.2%. With the exception of Germany, the segment reported higher sales than in the previous year across all regions.

EBITDA pre exceptionals for the Performance Chemicals segment was €192 million, a significant €36 million, or 23.1%, above the prior-year level. Higher sales volumes in particular contributed to the positive earnings trend. The change in exchange rates and the overall effect of the changes in raw material, energy and selling prices also made a positive impact. The EBITDA margin pre exceptionals increased from 16.0% to 18.3%.

In the reporting year, negative exceptional items of €2 million, all of which impacted EBITDA, were attributable to the segment. In the previous year, negative exceptional items amounted to €12 million, of which €2 million affected EBITDA and €10 million did not, and primarily related to the closure of the Inorganic Pigments business unit's production line at the Jinshan site in Shanghai, China. Please see "Notes on EBIT and EBITDA (Pre Exceptionals)" for details.

Engineering Materials

Overview of Key Data

	2018		2019		Change
	€ million	Margin %	€ million	Margin %	%
Sales	1,576		1,450		(8.0)
EBITDA pre exceptionals	267	16.9	238	16.4	(10.9)
EBITDA	266	16.9	238	16.4	(10.5)
Operating result (EBIT) pre exceptionals	206	13.1	172	11.9	(16.5)
Operating result (EBIT)	205	13.0	172	11.9	(16.1)
Cash outflows for capital expenditures	76		104		36.8
Depreciation and amortization	61		66		8.2
Employees as of Dec. 31	2,105		2,203		4.7

Sales in our Engineering Materials segment decreased by 8.0% year-on-year to €1,450 million in fiscal year 2019. The decline in sales was particularly attributable to the High Performance Materials business unit with weak demand from the automotive industry. Sales volumes in both of the segment's business units were below the previous year's level and reduced sales by 8.2%. In addition, the selling prices were below the previous year's level because lower raw material prices were passed on. Overall, there was a negative price effect on sales of 1.6% at segment level. In contrast, the change in exchange rates had a positive influence in both business units and increased the segment's sales by 1.8%. While higher sales were achieved in the Asia-Pacific and Latin America regions, the segment posted lower sales in the other regions.

The Engineering Materials segment's EBITDA pre exceptionals fell by €29 million, or 10.9%, to €238 million. In particular, the weak demand from the automotive industry led to a decline in earnings driven by volumes. Lower raw material and energy prices were passed on to the market by adjusting selling prices. In addition, earnings were improved by advantageous exchange rate effects, chiefly a strong U.S. dollar. The segment's EBITDA margin pre exceptionals came in at 16.4%, against 16.9% a year ago.

No exceptional items were recorded in the segment in fiscal year 2019. In the previous year, negative exceptional items of €1 million were incurred, which fully impacted EBITDA. Please see "Notes on EBIT and EBITDA (Pre Exceptionals)" for details.

Reconciliation

Overview of Key Data

€ million	2018	2019	Change %
Sales	85	86	1.2
EBITDA pre exceptionals	(139)	(153)	(10.1)
EBITDA	(213)	(231)	(8.5)
Operating result (EBIT) pre exceptionals	(162)	(176)	(8.6)
Operating result (EBIT)	(236)	(258)	(9.3)
Cash outflows for capital expenditures	49	62	26.5
Depreciation and amortization	23	27	17.4
Employees as of Dec. 31	2,950	3,042	3.1

EBITDA pre exceptionals for the reconciliation came to minus €153 million, compared with minus €139 million in the previous year. This change was due partly to results from hedging currency risks, costs remaining after the disposal of ARLANXEO, and a general cost increase. There were net negative exceptional items of €82 million in the reconciliation in the reporting year. They resulted from negative exceptional items of €84 million and positive exceptional items of €2 million, which impacted EBITDA. The negative exceptional items, of which €80 million impacted EBITDA and €4 million did not impact EBITDA, primarily related to expenses in connection with the strategic realignment of the LANXESS Group, strategic IT projects, digitalization projects and M&A costs. In the previous year, net negative exceptional items of €74 million, which fully impacted EBITDA, resulted from negative exceptional items of €78 million and positive exceptional items of €4 million. Please see "Notes on EBIT and EBITDA (Pre Exceptionals)" for details.

NOTES ON EBIT AND EBITDA (PRE EXCEPTIONALS)

In order to better assess our operational business and to steer earning power at Group level and for the individual segments, we additionally calculate the earnings indicators EBITDA, and EBITDA and EBIT pre exceptionals, none of which are defined by International Financial Reporting Standards. These indicators are viewed as supplementary to the data prepared according to IFRS; they are not a substitute.

Reconciliation to EBIT/EBITDA

€ million	EBIT 2018	EBIT 2019	EBITDA 2018	EBITDA 2019
EBIT/EBITDA pre exceptionals	**581**	**557**	**986**	**1,019**
Advanced Intermediates	**0**	**(48)**	**0**	**(13)**
Strategic realignment[1]	0	(48)	0	(13)
Specialty Additives	**(3)**	**(18)**	**(3)**	**(16)**
Strategic realignment[2]	(11)	(19)	(10)	(17)
Adjustment of the production network[3]	8	1	7	1
Performance Chemicals	**(12)**	**(2)**	**(2)**	**(2)**
Adjustment of the production network[4]	(12)	(2)	(2)	(2)
Engineering Materials	**(1)**	**0**	**(1)**	**0**
Strategic realignment	(1)	0	(1)	0
Reconciliation	**(74)**	**(82)**	**(74)**	**(78)**
Strategic realignment	(17)	(8)	(17)	(6)
Strategic IT projects	(19)	(25)	(19)	(24)
Digitalization, M&A expenses and other	(38)	(49)	(38)	(48)
Total exceptional items	**(90)**	**(150)**	**(80)**	**(109)**
EBIT/EBITDA	**491**	**407**	**906**	**910**

1) The exceptional items mainly related to the sale of the business and the intended end to production of tin-based organometallics at the site in Bergkamen, Germany, and to the sale of the business with gallium-based organometallics in Pyeongtaek, South Korea, in January 2020.
2) The exceptional items mainly related to the integration of Chemtura.
3) The exceptional items mainly related to the consolidation of the production of lubricant precursors and the discontinuation of production at the Ankerweg site in Amsterdam, Netherlands.
4) The exceptional items mainly related to the closure of production at the Jinshan site in Shanghai, China.

EBITDA is calculated from the operating result (EBIT) by adding back depreciation and impairments of property, plant and equipment as well as amortization and impairments of intangible assets and subtracting reversals of impairment charges on property, plant, equipment and intangible assets.

EBIT pre exceptionals and *EBITDA pre exceptionals* are EBIT and EBITDA before exceptional items.

STATEMENT OF FINANCIAL POSITION AND FINANCIAL CONDITION

Assets and liabilities

› Total assets of €8,695 million as of December 31, 2019, close to the previous year's figure of €8,687 million
› Increase in net financial liabilities after deduction of short-term money market investments and securities from €1,381 million to €1,742 million
› Equity ratio down from 31.9% to 30.4%

Structure of the Statement of Financial Position

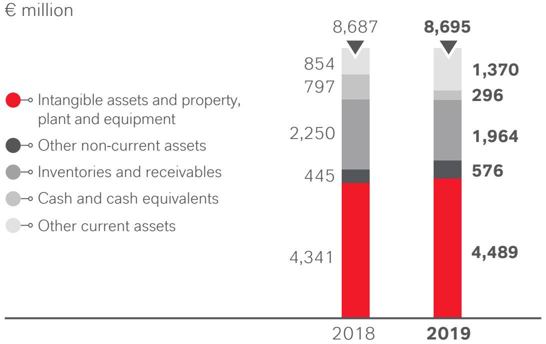
	Dec. 31, 2018		Dec. 31, 2019		Change
	€ million	%	€ million	%	%
ASSETS					
Non-current assets	4,786	55.1	5,065	58.3	5.8
Current assets	3,901	44.9	3,630	41.7	(6.9)
Total assets	**8,687**	**100.0**	**8,695**	**100.0**	**0.1**
EQUITY AND LIABILITIES					
Equity (including non-controlling interests)	2,773	31.9	2,647	30.4	(4.5)
Non-current liabilities	4,395	50.6	4,566	52.5	3.9
Current liabilities	1,519	17.5	1,482	17.1	(2.4)
Total equity and liabilities	**8,687**	**100.0**	**8,695**	**100.0**	**0.1**

Structure of the statement of financial position

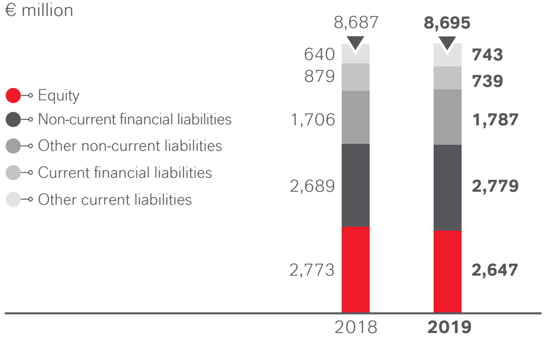
As of December 31, 2019, the LANXESS Group's total assets stood at €8,695 million, €8 million or 0.1% higher than at the end of the previous year. As of December 31, 2019, LANXESS recognizes the Leather business unit as a discontinued operation in accordance with IFRS 5. Assets and liabilities assigned to discontinued operations were reclassified to "Assets held for sale and discontinued operations" and "Liabilities directly attributable to assets held for sale and discontinued operations."

Non-current assets increased by €279 million to €5,065 million. Property, plant and equipment increased from €2,577 million to €2,724 million. Alongside additions from capital expenditures, this rise resulted mainly from the introduction of IFRS 16, the new standard for lease accounting, and the right-of-use assets recognized in this context. Right-of-use assets of €148 million were recognized as of December 31, 2019. Property, plant and equipment were reduced by the reclassification of the assets from discontinued operations. There were also write-downs relating to the sale of the business and the intended end to production of tin-based organometallics at the site in Bergkamen, Germany, and to the sale of the business with gallium-based organometallics in Pyeongtaek, South Korea, in January 2020. Intangible assets were on a par with the previous year at €1,765 million as of December 31, 2019.

Structure of the Statement of Financial Position – Assets
€ million



Structure of the Statement of Financial Position – Equity and Liabilities
€ million



Cash outflows for purchases of property, plant and equipment and intangible assets amounted to €508 million, up on the prior-year figure of €482 million. Net of reversals of write-downs of €1 million (previous year: €1 million), depreciation and amortization rose by €88 million from the previous year's figure of €415 million to €503 million. This rise is attributable in roughly equal parts to IFRS 16, the new standard for lease accounting, and to write-downs, which primarily related to the strategic realignment of our organometallics business. Depreciation on the right-of-use assets from leases amounted to €49 million in the current fiscal year. Depreciation of €5 million was recognized on assets from finance leases in the previous year. At €324 million, deferred tax assets were up €37 million on the previous year. The ratio of non-current assets to total assets increased from 55.1% to 58.3% as of December 31, 2019.

Current assets decreased by €271 million, or 6.9%, compared with December 31, 2018, to €3,630 million. The €134 million or 14.8% decline in trade receivables to €769 million resulted in part from adjustments in selling prices driven by raw materials. At 42.3, days of sales outstanding (DSO) were below the previous year's figure of 46.0 days. Inventories were down by €152 million, or 11.3%, to €1,195 million, partly as a result of lower volumes. At 65.7, days of sales in inventory (DSI) were below the previous year's figure of 68.6 days. The reclassification of the assets from discontinued operations also affected the decline of trade receivables and inventories.

Cash and cash equivalents fell from €797 million to €296 million, due in particular to short-term money market investments and investments in securities, the acquisition of own shares worth €200 million, and the dividend payment of €79 million in May 2019. Current financial assets rose from €598 million to €864 million in the reporting period. The increase was due to the above-mentioned short-term money market investments and investments in securities. The ratio of current assets to total assets was 41.7%, compared with 44.9% as of December 31, 2018.

Equity fell by €126 million, or 4.5%, to €2,647 million compared with December 31, 2018. The decline resulted primarily from the buyback of own shares and the dividend payment in 2019. The ratio of equity to the Group's total assets was 30.4% as of December 31, 2019, compared with 31.9% in the previous year.

Non-current liabilities increased by €171 million to €4,566 million. Provisions for pensions and other post-employment benefits increased by €95 million to €1,178 million. The effect of lower discount rates for pension obligations (decline from 2.0% to 1.3% in Germany) was partially offset by the reclassification of the provisions from discontinued operations.

Other non-current provisions amounted to €337 million, coming close to the previous year's figure of €338 million. Other non-current financial liabilities rose by €91 million from €2,686 million to €2,777 million, primarily due to the introduction of the new standard for lease accounting and the associated recognition of lease liabilities. Non-current lease liabilities increased from €12 million to €100 million. The ratio of non-current liabilities to total assets was 52.5%, compared with 50.6% as of December 31, 2018.

Current liabilities came to €1,482 million, down by €37 million, or 2.4%, compared with December 31, 2018. Other current financial liabilities increased from €59 million to €66 million. The increase resulted from a rise in lease liabilities, which offset a decline in liabilities to banks. In addition, other current provisions fell by €56 million to €409 million. Trade payables declined by a total of €139 million to €656 million due partly to raw material prices and the reclassification of liabilities from discontinued operations. The ratio of current liabilities to total assets was 17.1% as of December 31, 2019, after 17.5% at the end of 2018.

At €2,522 million, net financial liabilities were up on the figure as of December 31, 2018, of €1,923 million. After deduction of short-term money market investments and securities, they declined to €1,742 million as of December 31, 2019. The invested funds originally came from the purchase price payment received for the 50% interest in ARLANXEO at the end of the previous year.

The Group's key ratios developed as follows:

Ratios

%		2015	2016	2017	2018	2019
Equity ratio	Equity[1] / Total assets	32.2	37.7	32.8	31.9	30.4
Non-current asset ratio	Non-current assets / Total assets	57.9	45.8	62.0	55.1	58.3
Asset coverage I	Equity[1] / Non-current assets	55.6	82.5	52.9	57.9	52.3
Asset coverage II	Equity[1] and non-current liabilities / Non-current assets	125.8	182.4	123.2	149.8	142.4
Funding structure	Current liabilities / Total liabilities	40.0	26.6	35.1	25.7	24.5

1) Equity includes non-controlling interests.

Capital expenditures

In 2019, our capital expenditures for property, plant and equipment and intangible assets amounted to €578 million, against €501 million in the previous year. Cash outflows made up €508 million of this total (previous year: €482 million). In the same period, depreciation and amortization totaled €504 million (previous year: €416 million), with depreciation and amortization being mitigated by reversals of write-downs of €1 million (previous year: €1 million). The increase in non-cash capital expenditures and depreciation and amortization is primarily attributable to the application of the new leasing standard, IFRS 16, from January 1, 2019. In addition, the figure for depreciation and amortization in 2019 included write-downs of €44 million (previous year: €15 million), which primarily related to the strategic realignment of our organometallics business.

In the reporting year, capital expenditures focused on the following areas:

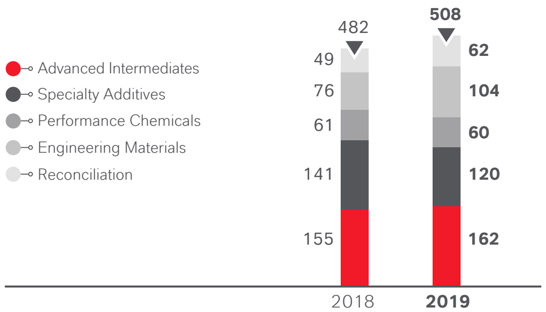
- Expansion and maintenance of existing facilities, construction of new facilities
- Measures to increase plant availability
- Projects to improve plant safety, enhance quality and comply with environmental protection requirements

Around one-third of the capital expenditures in 2019 went toward expansion or efficiency improvement measures, while the rest went to maintain existing facilities.

In regional terms, 57% of our capital expenditures in the reporting period were made in Germany, 21% in North America, 14% in the EMEA region (excluding Germany), 6% in Asia-Pacific and 2% in Latin America. Capital expenditures in Germany mostly comprised our investments to increase capacity and modernize facilities in all segments, but especially investments in the High Performance Materials, Advanced Industrial Intermediates and Saltigo business units, with the latter making a large number of smaller investments. Capital expenditures in EMEA (excluding Germany) were partly attributable to investments to modernize facilities at the sites in Antwerp, Belgium, and Latina, Italy. A portion of the capital expenditures in the Asia-Pacific region related to the construction of a new production line for high-performance plastics of the Durethan and Pocan brands at the site in Changzhou, China, which was completed in 2019.

Cash Outflows for Capital Expenditures by Segment

€ million



Capital expenditures in the Advanced Intermediates segment amounted to €204 million (previous year: €168 million). At €162 million (previous year: €155 million), cash outflows were lower than the depreciation and amortization of €185 million (previous year: €127 million). These included cash outflows in connection with the capacity expansion of special-amine production in the Advanced Industrial Intermediates business unit at the Leverkusen site in Germany, which was completed in the first half of 2019. In addition, production capacity for hexanediol and menthol in the Advanced Industrial Intermediates business unit is being expanded at the site in Krefeld-Uerdingen, Germany. These expansion measures have an investment volume totaling €60 million.

Capital expenditures of €128 million were made in the Specialty Additives segment (previous year: €144 million). Cash outflows made up €120 million of this total (previous year: €141 million). By contrast, depreciation and amortization stood at €158 million (previous year: €136 million). A significant portion of the capital expenditures went toward the production network for flame retardants in the Polymer Additives business unit. In addition, the Rhein Chemie business unit invested in capacity expansion for dyes of the Macrolex brand. The expanded facility was commissioned in 2019.

In the Performance Chemicals segment, capital expenditures came to €64 million (previous year: €63 million), €60 million (previous year: €61 million) of which were cash outflows. By contrast, depreciation and amortization stood at €67 million (previous year: €68 million). For example, the capital expenditures related to the Liquid Purification Technologies business unit's ion exchanger production. There were also various process modifications and smaller capacity increases in the Material Protection Products and Inorganic Pigments business units.

In the Engineering Materials segment, capital expenditures totaled €111 million (previous year: €77 million), €104 million (previous year: €76 million) of which were cash outflows. Depreciation and amortization came to €66 million (previous year: €61 million). A high eight-figure sum in euros of the capital expenditures in this segment was invested in new production capacity for high-performance plastics of the Durethan and Pocan brands in the High Performance Materials business unit. These brands are used in particular in the IT and electrical/electronics industries and in the field of electric mobility. In addition, Durethan is used as a base resin in the production of continuous-fiber-reinforced thermoplastic composites of the LANXESS brand Tepex. As well as the construction of a new production facility at the site in Krefeld-Uerdingen, Germany, a new compounding facility at the site in Changzhou, China, was commissioned in September. In addition, the High Performance Materials business unit invested a total of around €10 million in two new production lines in Brilon, Germany, which were commissioned in the third quarter of 2019.

The Urethane Systems business unit also invested in production capacity for pre-polymers at the Porto Feliz site in Brazil. The facility was commissioned in mid-2019.

Financial position

- Operating cash flow supported by reduction in net working capital
- Stock repurchase influences net cash used in financing activities
- Liquidity position remains solid

The statement of cash flows shows inflows and outflows of cash and cash equivalents by type of business operation.

Cash Flow Statement

€ million	2018	2019	Change
Income before income taxes	381	346	(35)
Depreciation and amortization/ reversals of impairment charges	415	503	88
Other items	(176)	(283)	(107)
Net cash provided by operating activities – continuing operations before change in net working capital	**620**	**566**	**(54)**
Change in net working capital	(179)	68	247
Net cash provided by operating activities – continuing operations	**441**	**634**	**193**
Net cash (used in) provided by investing activities – continuing operations	**80**	**(697)**	**(777)**
Net cash used in financing activities – continuing operations	**(160)**	**(431)**	**(271)**
Change in cash and cash equivalents from continuing operations	361	(494)	(855)
Change in cash and cash equivalents from discontinued operations	(96)	(8)	88
Cash and cash equivalents as of December 31	**797**	**296**	**(501)**
of which continuing operations	797	296	(501)
of which discontinued operations	0	0	0

The following comments on the statement of cash flows relate to LANXESS's continuing operations.

Cash provided by operating activities, before changes in net working capital, decreased by €54 million to €566 million in fiscal year 2019. The starting point was income before income taxes of €346 million, which was down €35 million year-on-year. Net of reversals of write-downs, the depreciation and amortization of €503 million were up €88 million on the previous year's figure of €415 million. This rise was attributable in roughly equal parts to the introduction of IFRS 16, the new standard for lease accounting, and to write-downs primarily in connection with the strategic realignment of our organometallics business. Depreciation on the right-of-use assets from leases amounted to €49 million in the current fiscal year. In the previous year, depreciation of €5 million was recognized on assets from finance leases. The other items in the reporting year included tax payments, effects from currency hedging of intercompany loans, and cash outflows for variable compensation as well as restructuring measures.

The change in net working capital against December 31, 2018, resulted in a cash inflow of €68 million after a cash outflow of €179 million in the previous year. The inflow in the reporting period resulted in particular from the decrease in inventories and trade receivables, while the decline in trade payables had a countervailing effect. Therefore, the net cash provided by operating activities totaled €634 million, up on the previous year's figure of €441 million.

Investing activities resulted in a cash outflow of €697 million in fiscal year 2019, compared with a cash inflow of €80 million in the prior-year period. The previous year's cash inflow resulted from the financial resources of €1,427 million received from the sale of the 50% interest in ARLANXEO less divested cash and cash equivalents of €123 million. This was countered in the previous year by the investment in time deposits and securities as well as the addition to pension assets. The net cash outflow in the reporting period resulted in particular from cash outflows for financial assets in connection with the investment of the financial resources received at the end of the previous year from the sale of the 50% interest in ARLANXEO. Cash inflows from financial assets due to the maturity of short-term money market investments had an opposing effect. In addition, the sale of the business with tin-based organometallics resulted in cash inflows of €20 million. In contrast, cash outflows for purchases of intangible assets and property, plant and equipment increased as planned from €482 million to €508 million. Interest and dividends received totaled €26 million, up €11 million on the previous year's figure, driven primarily by the payment of a higher profit distribution by Currenta GmbH & Co. OHG, Leverkusen, Germany.

Net cash used in financing activities came to €431 million, against €160 million the year before. A new Eurobond with a volume of €500 million was placed in the previous year. The cash outflow in the reporting period was primarily due to payments for stock repurchases of €200 million and the dividend payment of €79 million to LANXESS shareholders. The repayment of borrowings amounted to €90 million, and interest payments and other financial disbursements amounted to €66 million. While lease payments were previously shown in cash flow from operating activities, these items have included both the repayment and interest portion of lease payments since the introduction of IFRS 16, the new standard for lease accounting. In contrast, short-term leases and leases for low-value assets continue to be expensed immediately and reduce net cash provided by operating activities.

The net decrease in cash and cash equivalents from continuing operations in fiscal year 2019 was €494 million, after an increase of €361 million in the previous year. After taking into account currency-related and other changes in cash and cash equivalents of €1 million, cash and cash equivalents at the closing date amounted to €296 million, against €797 million at the previous year's closing date. On December 31, 2019, the Group continued to have a solid liquidity position.

Free cash flow – the difference between the cash inflows from operating activities and the cash used for capital expenditures for property, plant and equipment and intangible assets – increased by €167 million to €126 million.

Principles and objectives of financial management

LANXESS pursues a conservative financial policy characterized by the forward-looking management of financial risks. Our aim is to be able to provide sufficient liquidity to our business operations at all times, regardless of cyclical fluctuations in the real economy or financial markets. The debt level is largely aligned with the ratio systems of the leading rating agencies for investment-grade companies and, along with free cash flow, is the focus of financial management. In addition to liquidity risk, financial management also covers other financial risks, such as interest and foreign exchange risks. Here too, we aim to mitigate the financial risks that arise and thereby increase planning reliability, partly by using derivative financial instruments. Detailed information about the management of these risks is contained in the "Opportunity and risk report."

LANXESS Group ratings

Access to the capital markets and good relations with German and international commercial banks are essential for achieving our financial management objectives. Accordingly, ongoing dialog and communication with banks, investors and rating agencies are of crucial importance. In 2019, all three rating agencies confirmed their assessment of LANXESS's creditworthiness. The rating agencies take a positive view of LANXESS's continuous transformation into a specialty chemicals company with a focus on stable businesses in small and medium-sized niche markets. The agreed sale of shares in the chemical park operator Currenta serves as confirmation of the rating agencies' assessment of LANXESS's improved risk profile. Standard & Poor's gives LANXESS a "BBB" rating with a stable outlook, Moody's a "Baa2" rating with a stable outlook, and Scope Ratings a "BBB+" rating likewise with a stable outlook.

Development of LANXESS Ratings and Rating Outlook Since 2015

	2015	2016	2017	2018	2019
Standard & Poor's	BBB–/positive Sep. 24, 2015	BBB–/negative Sep. 26, 2016	BBB–/stable Jul. 31, 2017	BBB/stable Oct. 16, 2018	BBB/stable Sep. 5, 2019
Moody's Investors Service	Baa3/stable Jul. 2, 2015	Baa3/stable Sep. 26, 2016	Baa3/stable Oct. 20, 2017	Baa2/stable Aug. 23, 2018	Baa2/stable Aug. 26, 2019
Scope Ratings				BBB+/stable Aug. 15, 2018	BBB+/stable Jul. 23, 2019

Financing analysis

In fiscal year 2019, LANXESS retained a balanced financing structure and a solid liquidity position. The next bond will mature in October 2021. The existing debt issuance program allows the very flexible placement of bonds on the capital market. As of December 31, 2019, around €2.2 billion of the €5.0 billion financing facility had been utilized to issue bonds and private placements. The volume of the debt issuance program can be adjusted flexibly in line with future requirements so as to ensure financial headroom. Capital market financing is a central component in LANXESS's financing mix, which is subject to regular review to ensure the adequate diversification of our financing sources and our strategic alignment.

Other current financial liabilities increased from €59 million in the previous year to €66 million. The increase resulted primarily from the introduction of the new leasing standard, IFRS 16, and the associated increase in lease liabilities. In the previous year, liabilities were only recognized from finance leases, which were used only to a limited extent in the LANXESS Group. The introduction of IFRS 16 means that, in addition to finance leases, payment obligations under contracts previously classified as operating leases are also recognized as lease liabilities. As of December 31, 2019, total lease liabilities were up to €141 million from €17 million in the previous year, due primarily to the introduction of IFRS 16. Liabilities to banks decreased.

On December 31, 2019, LANXESS had a small amount of financing items that were not reported in the statement of financial position in the form of short-term leases and leases of low value.

The Group's total financial liabilities, net of accrued interest, increased from €2,720 million in 2018 to €2,818 million as of December 31, 2019. Net financial liabilities – defined as total financial liabilities net of cash, cash equivalents, accrued interest and near-cash assets – amounted to €2,522 million at the end of the reporting year, up from €1,923 million as of December 31, 2018. As of December 31, 2019, moreover, short-term money market investments and securities were held totaling €780 million. Net financial liabilities after deduction of short-term money market investments and securities amounted to €1,742 million at the end of 2019. Of the total financial liabilities, almost 100% bear a fixed interest rate over the term of the financing, which is unchanged from the previous year. Interest rate changes do not have a material effect on LANXESS's financial condition considering the current financing structure. The proportion of loans and bonds denominated in euros averaged 100% in the reporting year, up slightly on the prior-year level of 99%. The weighted average interest rate for our financial liabilities in euros of 2.0% at year-end 2019 was on a par with the previous year.

The following overview shows LANXESS's financing structure as of December 31, 2019, in detail, including its principal liquidity reserves.

Financing Structure

Instrument	Amount € million	Term	Interest rate %	Financial covenant
Eurobond 2016/2021 (€500 million)	498	October 2021	0.250	no
Eurobond 2012/2022 (€500 million)	498	November 2022	2.625	no
Eurobond 2018/2025 (€500 million)	494	May 2025	1.125	no
Eurobond 2016/2026 (€500 million)	494	October 2026	1.000	no
Hybrid bond 2016/2076 (€500 million)	490	December 2076	4.500	no
Private placement 2012/2022 (€100 million)	100	April 2022	3.500	no
Private placement 2012/2027 (€100 million)	99	April 2027	3.950	no
Other loans	4	n/a		no
Finance lease	141	n/a		no
Total financial liabilities	**2,818**			
Cash and cash equivalents	296	≤ 3 months		
Near-cash assets	0	≤ 3 months		
Total liquidity	**296**			
Net financial liabilities	**2,522**			
less short-term money market investments and securities	780			
Net financial liabilities after deduction of short-term money market investments and securities	**1,742**			

The other loans relate mainly to a financial commitment to the "High-Tech Gründerfonds III." No refinancing risks existed at the time these financial statements were prepared.

Liquidity analysis

Around 60% of our cash and cash equivalents of €296 million are held in Group companies in countries with no restrictions on foreign exchange and capital transfers. The remaining approximately 40% are held in companies in regulated capital markets where cash transfers are restricted. In addition to cash and cash equivalents, LANXESS holds short-term money market investments and securities of €780 million. There are also additional liquidity reserves in the form of undrawn credit lines. Money market investments are largely held at banks.

Thanks to our good liquidity position, our solvency was assured at all times in fiscal year 2019.

By far the most important of LANXESS's credit lines is the syndicated credit facility of €1.0 billion, which was signed in December 2019 and has a basic term until December

2024. The credit facility is tied to ESG ("environmental, social and governance") criteria. The interest rate terms depend in part on the successful reduction of Scope 1 greenhouse gas emissions and the increase in the proportion of women at the top three levels of management. The credit line replaced the syndicated credit facility of €1.25 billion originally expiring in May 2023 at an early stage and at better terms.

The credit facility remains undrawn to date. It is designed as an operating line of credit and to provide funds for capital investment and complies with the market requirements of the European syndicated loan market for investment-grade companies with a BBB rating. None of our major loan agreements contains a financial covenant. In total, we had undrawn credit facilities of €1.0 billion as of December 31, 2019.

The total of liquid assets, short-term money market investments and securities, and undrawn credit lines gives us available liquidity of around €2.1 billion.

MANAGEMENT'S SUMMARY OF BUSINESS DEVELOPMENT AND THE FISCAL YEAR

Sales of the LANXESS Group in the reporting period amounted to €6,802 million, which was at the previous year's level. While higher sales were posted in the Performance Chemicals and Advanced Intermediates segments, they fell short of the previous year in the Engineering Materials and Specialty Additives segments, due partly to weak demand in the automotive industry. Shifts in exchange rates had a positive influence on sales development in all segments. In addition, the U.S. phosphorus additives business acquired from the Belgian chemicals group Solvay in the previous year had a slightly positive portfolio effect on sales.

EBITDA pre exceptionals in 2019 increased by €33 million from €986 million to €1,019 million. Three of our four segments contributed to this positive development.

Net income and earnings per share declined considerably year-on-year from €431 million to €205 million and from €4.71 to €2.32, respectively. The declines were mainly due to the development of income from discontinued operations: Net income from discontinued operations decreased from €149 million to minus €35 million, earnings per share from discontinued operations from €1.63 to minus €0.40. In addition, the sum of exceptional items increased from minus €90 million to minus €150 million.

We upheld our conservative accounting and financing policy in 2019 as well. In accordance with the consistency principle, we essentially applied the same measurement methods and exercised the same discretion as in the previous year. Information on the effects of the new accounting standard for leases, IFRS 16, can be found under "Financial Reporting Standards and Interpretations Applied" in the notes to the 2019 consolidated financial statements.

The equity ratio fell from 31.9% to 30.4%. Total assets increased from €8,687 million to €8,695 million.

Our statement of financial position shows that our liquidity position remains solid. Additional substantial liquidity reserves in the form of undrawn credit lines are also available. Of the total financial liabilities, almost 100% bear a fixed interest rate over the term of the financing, which is unchanged from the previous year. Our financial liabilities are free of financial covenants.

Our net financial liabilities increased after deduction of short-term money market investments and securities by €361 million to €1,742 million. In fiscal year 2019, the rating agencies Standard & Poor's, Moody's and Scope Ratings confirmed their assessments of our credit rating. Standard & Poor's gives LANXESS a "BBB" rating, Moody's a "Baa2" rating, and Scope Ratings a "BBB+" rating. All three rating agencies continue to assume a stable outlook.

We see the earnings performance of the past fiscal year and our economic situation as positive overall. We still believe we are on track to become a much more stable specialty chemicals company, with stronger cash flow and a more balanced and sustainable portfolio.

KEY BUSINESS DATA – MULTI-PERIOD OVERVIEW

Indicators

€ million	2015	2016	2017	2018	2019
Earnings performance					
Sales	7,902	7,699	6,530	6,824	6,802
EBITDA pre exceptionals	885	995	925	986	1,019
EBITDA margin pre exceptionals	11.2%	12.9%	14.2%	14.4%	15.0%
EBITDA	833	945	709	906	910
Operating result (EBIT) pre exceptionals	422	514	558	581	557
Operating result (EBIT)	415	464	299	491	407
EBIT margin	5.3%	6.0%	4.6%	7.2%	6.0%
Net income	165	192	87	431	205
Average number of shares outstanding	91,522,936	91,522,936	91,522,936	91,522,936	88,334,641
Earnings per share (€)	1.80	2.10	0.95	4.71	2.32
Financial position					
Cash flow from operating activities	692	689	568	441	634
Depreciation and amortization/ reversals of impairment charges	418	481	410	415	503
Cash outflows for capital expenditures	434	439	397	482	508
Net financial liabilities	1,211	2,394	2,252	1,923	2,522
Net financial liabilities after deduction of short-term money market investments and securities	1,211	269	2,252	1,381	1,742
Assets and liabilities					
Total assets	7,219	9,877	10,411[1]	8,687	8,695
Non-current assets	4,180	4,519	6,454[1]	4,786	5,065
Current assets	3,039	5,358	3,957	3,901	3,630
Net working capital	1,526	1,628	1,948	1,455	1,308
Equity (including non-controlling interests)	2,323	3,728	3,413	2,773	2,647
Provisions for pensions and other post-employment benefits	1,215	1,249	1,490	1,083	1,178
Indicators					
ROCE	8.4%	6.9%	9.3%	11.4%[1]	10.0%[1]
Equity ratio	32.2%	37.7%	32.8%	31.9%	30.4%
Non-current asset ratio	57.9%	45.8%	62.0%	55.1%	58.3%
Asset coverage I	55.6%	82.5%	52.9%	57.9%	52.3%
Net working capital/sales	19.3%	21.1%	20.2%	20.2%	19.2%
Employees (as of December 31)	16,225	16,721	19,029	15,441	14,304

Figures from 2017 not including ARLANXEO, and key figures for 2017 on this basis.
1) Capital employed as of December 31, 2018, and as of December 31, 2019, adjusted. See "Profitability" for details.

EARNINGS, ASSET AND FINANCIAL POSITION OF LANXESS AG

LANXESS AG serves primarily as the management holding company for the LANXESS Group. The principal management functions for the entire Group are performed by the Board of Management. The Board of Management shapes Group strategy and manages resource allocation, infrastructure and organization. The Group management company is also responsible for financing and communication with LANXESS's key stakeholders. The economic performance of LANXESS AG depends principally on the operating business entities in the LANXESS Group and on the development of the chemical industry. The balance of income and losses from investments in affiliated companies resulting from profit or loss transfers and dividends from affiliated companies is of key importance for the future ability of LANXESS AG to pay a dividend. Therefore, especially the statements made in the "Opportunity and risk report" in this management report apply in principle to LANXESS AG as well.

The financial statements of LANXESS AG are prepared in accordance with the German Commercial Code (HGB) and the German Stock Corporation Act (AktG).

Sales and earnings of LANXESS AG

LANXESS AG Income Statement in Accordance with the German Commercial Code (HGB) – Abridged

€ million	2018	2019	Change %
Sales	**7**	**5**	**(28.6)**
Cost of sales	(7)	(5)	28.6
Gross profit	**0**	**0**	**–**
General administration expenses	(48)	(60)	(25.0)
Other operating income	2	1	(50.0)
Other operating expenses	0	0	–
Operating result	**(46)**	**(59)**	**(28.3)**
Income from investments in affiliated companies	318	752	> 100
Income from loans held as financial assets	9	9	0.0
Net interest expense	(69)	(63)	8.7
Write-downs on securities classified as current assets	(1)	0	100.0
Other financial income and expenses – net	(17)	(18)	(5.9)
Financial result	**240**	**680**	**> 100**
Income taxes	(109)	(158)	(45.0)
Income after income taxes	**85**	**463**	**> 100**
Net income	**85**	**463**	**> 100**
Carryforward to new account	42	48	14.3
Withdrawal from other retained earnings	0	–232	–
Distributable profit	**127**	**279**	**> 100**

The earnings of LANXESS AG are largely determined by profit or loss transfers from LANXESS Deutschland GmbH, net interest and general administration expenses.

Sales at LANXESS AG stood at €5 million, which was lower than in the previous year. They related mainly to services provided to LANXESS Deutschland GmbH. A balanced result remained after deducting the cost of sales, which consisted mostly of personnel expenses and appropriate shares of the general administration expenses.

General administration expenses increased year-on-year by €12 million, or 25.0%, to €60 million. They principally comprised personnel and other business expenses not directly related to the services provided to Group companies. The operating result amounted to minus €59 million, €13 million below the previous year's figure.

The financial result, which comprises the balance of income and losses from investments in affiliated companies, the net interest position, income from loans included in financial non-current assets, write-downs on securities classified as current assets, and other financial income and expense, rose from €240 million to €680 million. The change resulted chiefly from the profit transfer from LANXESS Deutschland GmbH, which, due primarily to the disclosure of hidden reserves in connection with the planned sale of the interest in Currenta GmbH & Co. OHG, increased by €434 year-on-year to €752 million. The financial result was likewise positively influenced by the €6 million improvement in the net interest position to minus €63 million.

Income taxes resulted in expenses of €158 million. These were comprised of tax expenses of €35 million for the reporting period and €123 million for previous years. Net income for fiscal year 2019 was €463 million after €85 million in the previous year.

As of December 31, 2019, the company reported a distributable profit of €279 million taking into account the allocation of €232 million (previous year: €0 million) to other retained earnings and the profit carryforward of €48 million. In the previous year, a distributable profit of €127 million was posted.

Asset and capital structure of LANXESS AG

LANXESS AG Statement of Financial Position in Accordance with the German Commercial Code (HGB) – Abridged

	Dec. 31, 2018		Dec. 31, 2019		Change
	€ million	%	€ million	%	%
ASSETS					
Financial assets	997	18.3	997	15.1	0.0
Non-current assets	**997**	**18.3**	**997**	**15.1**	**0.0**
Receivables from affiliated companies	3,061	56.3	4,514	68.4	47.5
Other assets	245	4.5	558	8.5	> 100
Liquid assets and securities	1,103	20.3	500	7.6	(54.7)
Current assets	**4,409**	**81.1**	**5,572**	**84.5**	**26.4**
Prepaid expenses	**31**	**0.6**	**26**	**0.4**	**(16.1)**
Total assets	**5,437**	**100.0**	**6,595**	**100.0**	**21.3**
EQUITY AND LIABILITIES					
Equity	**2,011**	**37.0**	**2,195**	**33.3**	**9.1**
Provisions	**167**	**3.1**	**258**	**3.9**	**54.5**
Bonds	2,700	49.7	2,700	40.9	0.0
Liabilities to banks	29	0.5	25	0.4	(13.8)
Payables to affiliated companies	527	9.7	1,416	21.5	> 100
Other liabilities	3	0.1	1	0.0	(66.7)
Liabilities	**3,259**	**59.9**	**4,142**	**62.8**	**27.1**
Total assets	**5,437**	**100.0**	**6,595**	**100.0**	**21.3**

In view of its function as a strategic holding company, the statement of financial position of LANXESS AG is dominated by financial assets and liabilities and by receivables from, and payables to, subsidiaries.

LANXESS AG had total assets of €6,595 million as of December 31, 2019, which was €1,158 million, or 21.3%, above the prior-year figure. Non-current assets were unchanged at €997 million and primarily included the carrying amount of the investment in LANXESS Deutschland GmbH, which stands at €739 million, and loans to subsidiaries of €198 million. The share of non-current assets in total assets decreased from 18.3% to 15.1%. Current assets increased by €1,163 million, or 26.4%, to €5,572 million and accounted for 84.5% of total assets, compared with 81.1% in the previous year. Receivables from subsidiaries accounted for 68.4% of total assets and related principally to short-term loans, financial transactions and claims to profit or loss transfers. Other receivables largely consisted of non-disposable money market investments and accounted for 8.5% of total assets compared with 4.5% in the previous year. The share of bank balances and securities in total assets decreased from 20.3% to 7.6%.

Equity increased by €184 million to €2,195 million, largely due to net income of €463 million. This was offset by the dividend payment for 2018 and the purchase and cancellation of treasury shares in the amount of €200 million. The equity ratio was 33.3%, after 37.0% at the end of 2018.

The provisions increased by €91 million to €258 million and related in particular to commitments to employees, statutory and contractual obligations, and income taxes. Liabilities increased by €883 million to €4,142 million. This was mainly because of the year-on-year increase in payables to affiliated companies of €889 million to €1,416 million.

COMPENSATION REPORT

This compensation report complies with statutory requirements and the recommendations of the German Corporate Governance Code. It describes and explains in detail the compensation system for the Board of Management and Supervisory Board of LANXESS AG and the compensation of the individual members of the Board of Management and Supervisory Board. For LANXESS, transparent and understandable reporting on these topics is a key element of good corporate governance.

Compensation of the Board of Management

Compensation system

The structure of the compensation system and the level of compensation for the members of the Board of Management are determined by the Supervisory Board, after preparation by the Presidial Committee. The appropriateness of the compensation is regularly reviewed by an external personnel consulting company. Such a review was conducted again in fiscal year 2019. In this review, the compensation of the Board of Management was compared with that of the companies listed in the MDAX and with that of a group of selected chemicals companies[1]. The criteria for determining the appropriateness of the compensation for an individual Board of Management member include, in particular, his duties, his personal performance, the economic situation, and the success and sustainable growth of the LANXESS Group. In addition, consideration is also given to compensation at comparable companies and the company's overall compensation structure with regard to the ratio between the compensation of the Board of Management and that of LANXESS's senior executives and the rest of the workforce, both overall and in terms of time.

1) The reference group comprises the following companies: AkzoNobel, Beiersdorf, Clariant, Covestro, Evonik, Henkel, K+S, Linde, Lonza, Merck, Royal DSM, Solvay, Symrise, Wacker Chemie.

The aim of the compensation system is to support successful and sustainable corporate governance. LANXESS's compensation structure is therefore designed to provide the motivation to successfully work toward sustainable corporate development. Two of the three variable components are measured according to corporate performance over several years, and thus set long-term incentives. Because one of these multi-year compensation components measures stock price development, the management's objectives are aligned with the direct interests of the shareholders.

The compensation system that was introduced for members of the Board of Management in 2010 was approved by the Annual Stockholders' Meeting of LANXESS AG on May 28, 2010, with a majority of 99.10% of the capital represented.

Components of the compensation system

The components of the compensation for members of the Board of Management are the base salary; the short-term and long-term variable components, which are the Annual Performance Payment (APP), the Long-Term Stock Performance Plan (LTSP) and the Long-Term Performance Bonus (LTPB); and a retirement pension. The three variable components APP, LTSP and LTPB are linked to LANXESS's annual performance and performance over a number of years and thus reward the sustainable, value-oriented development of the company. The average compensation mix of 32% annual base salary and 68% variable compensation components, assuming 100% target attainment, is strongly aligned with the company's performance and long-term value creation.

In order to give Board of Management compensation a more long-term basis and to meet the expected requirements of the legislative procedure regarding the Second Shareholder Rights Directive Implementation Act (ARUG II), which was still ongoing at the time, and to comply with certain recommendations of the proposed new version of the GCGC, the Supervisory Board adjusted the Board of Management members' service contracts in fiscal year 2019 with retroactive effect as of January 1, 2019. The following changes were made:

- The total compensation for the members of the Board of Management was capped.
- The size of the contributions to the company pension plan and the size of compensation in kind were capped to a certain percentage of the annual base salary.
- The Supervisory Board's granting of an ad hoc discretionary bonus to recognize special achievements or to create an additional performance incentive was limited to a maximum amount.
- The LTPB was altered to assess target attainment over three consecutive fiscal years instead of two.
- The Supervisory Board reserves the right to withhold or reclaim ("claw-back") the granted variable compensation in full or in part in the event of grave dereliction of duty.

Now that the legislative procedure regarding ARUG II has been concluded and on the basis of the new version of the GCGC of December 16, 2019, published in this context but not yet in force, the Supervisory Board will revise the compensation system over the course of 2020 and present it for the approval of the 2021 Annual Stockholders' Meeting in accordance with the requirements of ARUG II ("say on pay").

Fixed compensation

The fixed compensation comprises the annual base salary and compensation in kind, the latter consisting mainly of the tax value of perquisites, such as the use of a company car. The annual base salary of the members of the Board of Management is market-oriented and in line with the above-mentioned reference group. It is paid each month pro rata as salary.

Variable compensation

Annual Performance Payment (APP)

The annual performance-related component of variable compensation is the Annual Performance Payment. It is based on corporate business targets, such as attainment of predefined targets for the LANXESS Group's EBITDA pre exceptionals, and applies in identical form for most non-managerial and managerial staff around the world. In the case of 100% target attainment, the individual APP budget for fiscal year 2019 for Mr. Zachert is 125% and for the other members of the Board of Management 100% of their respective annual base salaries. The target and threshold values applicable to the payment level are set each year by the Supervisory Board before the start of a new fiscal year. There is no payment of a minimum amount. For fiscal year 2019, the maximum payment is capped at 200% of the individual budget in line with the caps applied for non-managerial and managerial staff. If targets are missed to a considerable degree, it is possible that no APP payment (0%) will be made. In addition, the Supervisory Board reserves the right to reduce the APP in the event of serious occupational safety and/or environmental problems.

Long-Term Stock Plan (LTSP)

The Long-Term Stock Performance Plan over several years is another element of variable compensation. This stock-based compensation component is based on the performance of LANXESS stock against a reference index. This reference index is the MSCI World Chemicals Index, which was first used as a basis for the LTSP 2014–2017 established in 2014.

The LTSP 2018–2021, in place since 2018, is divided into four four-year tranches. The rights granted are exercised immediately at the end of the four-year vesting period. Assuming 100% target attainment, the LTSP programs provide for a possible payment per tranche of 30% of the individual target income. The maximum payment is 60% of the individual target income if the average performance of the stock relative to the reference index is 115%. The payment can be canceled if the stock performance relative to the index is less than 100%, and must be canceled if it is less than 85%. The individual target income is the fixed annual base salary plus the APP on the basis of 100% target attainment.

In parallel with the introduction of the LTSP 2018–2021, the Share Ownership Guideline (SOG) was established in 2018. Continuously over a period of four years, the members of the Board of Management are obliged to verifiably acquire and a minimum amount of shares in LANXESS AG and hold them until the end of their service contract (SOG target). The amount is reviewed annually. The SOG target is 150% of annual base salary for the Chairman of the Board of Management and 100% of annual base salary for the other members of the Board of Management. The number of shares to be acquired is calculated on the basis of the average price of the LANXESS share over the last ten trading days and the first ten trading days of the current year.

The condition for participation in LTSP 2014–2017 and earlier LTSP programs was a prior personal investment each year in LANXESS shares of 5% of the annual base salary. These shares have a lock-up period of four years (LTSP 2014–2017). The rights granted by the LTSP may be exercised at the end of the four-year vesting period. The exercise period is three years in general, but five years for the 2012 and 2013 tranches, which are the only outstanding tranches from earlier programs (LTSP 2010–2013).

For more information, particularly regarding the valuation parameters applied, please see Note [15] to the consolidated financial statements.

For fiscal year 2019, the share-based compensation resulted in an expense of €2,143 thousand for Mr. Zachert (previous year: €58 thousand), expense of €57 thousand for Dr. Borkowsky (previous year: €0 thousand), expense of €644 thousand for Dr. Fink (previous year: income of €113 thousand), expense of €644 thousand for Mr. Pontzen (previous year: income of €113 thousand) and an expense of €1,030 thousand for Dr. van Roessel (previous year: €87 thousand).

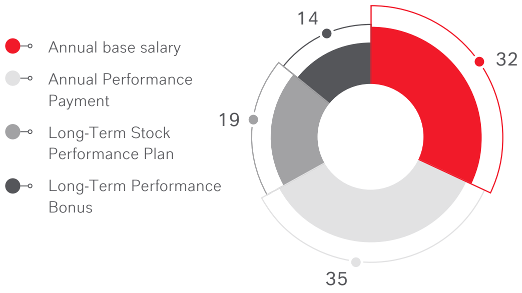
Long-Term Performance Bonus (LTPB)

The Long-Term Performance Bonus, which is the third variable component, is likewise aligned with long-term corporate performance. It rewards target attainment only after three consecutive fiscal years. The basis for calculating the LTPB is the individual APP target attainment for the fiscal years in question. The exact amount of the LTPB results from the average individual APP target attainment for the three fiscal years. The LTPB for the Board of Management is set by the Supervisory Board and amounts to 45% of fixed annual compensation in the event of average APP target attainment of 100%.

The individual components of the compensation system break down as follows:

Compensation Mix for Members of the Board of Management

in %



The following table shows the total compensation of the Board of Management for fiscal year 2019:

Compensation of the Board of Management

		Fixed compensation		Variable compensation				Payments from LTSP rights	
€ thousand	Year	Annual base salary	Compen-sation in kind	Perfor-mance bonus[4]	LTPB (multi-year)	Payment for previ-ous years	Total cash compen-sation	Fair values	Total
Matthias Zachert	**2019**	**1,313**	**79**	**1,553**	**1,132**[2]	**(15)**[3]	**4,062**	**810**	**4,872**
	2018	1,200	757	1,950	702[1]	–	4,609	810	5,419
Dr. Anno Borkowsky (since June 1, 2019)	**2019**	**292**	**29**	**268**	**121**[2]	**–**	**710**	**175**	**885**
	2018	–	–	–	–	–	–	–	–
Dr. Hubert Fink	**2019**	**550**	**53**	**506**	**443**[2]	**(6)**[3]	**1,546**	**330**	**1,876**
	2018	550	53	715	322[1]	–	1,640	330	1,970
Michael Pontzen	**2019**	**550**	**50**	**506**	**443**[2]	**(6)**[3]	**1,543**	**330**	**1,873**
	2018	550	187	715	322[1]	–	1,774	330	2,104
Dr. Rainier van Roessel (until December 31, 2019)	**2019**	**650**	**52**	**650**	**549**[2]	**(7)**[3]	**1,894**	**390**	**2,284**
	2018	650	51	845	380[1]	–	1,926	390	2,316
Former Board member									
Stephen C. Forsyth (until May 31, 2018)	**2019**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2018	188	–	186	–	–	374	–	374
Total	**2019**	**3,355**	**263**	**3,483**	**2,688**	**(34)**	**9,755**	**2,035**	**11,790**
	2018	3,138	1,048	4,411	1,726	–	10,323	1,860	12,183

1) Payment in 2019 and 2020, respectively. 2) Payment in 2020, 2021 and 2022, respectively. Also takes into account the alteration to assess LTPB target attainment over three consecutive fiscal years instead of two. 3) Payment in 2019, 2020 and 2021, respectively. 4) Payment in 2019 and 2020, respectively.

The aggregate compensation for the Board of Management was €11,790 thousand (previous year: €12,183 thousand), comprising €3,618 thousand (previous year: €4,186 thousand) in non-performance-related components, €6,137 thousand (previous year: €6,137 thousand) in performance-related components and €2,035 thousand (previous year: €1,860 thousand) in components with a long-term incentive effect. In fiscal year 2019, the performance-related components were based on the EBITDA pre exceptionals achieved of €1,019 million and the resulting APP target attainment of 92%. APP target attainment would have been 100% for fiscal year 2019 if EBITDA pre exceptionals had been €1,045 million. In the context of the LTSP, a total of 2,035,000 rights were granted to the members of the Board of Management (previous year: 1,860,000). Regarding the fair value per right of the individual tranches on the reporting date, please see Note [15] to the consolidated financial statements.

In the previous fiscal year 2018, the comparatively high compensation in kind for Mr. Zachert and Mr. Pontzen resulted from the security measures in their homes approved by the Supervisory Board of LANXESS AG.

Retirement pensions

On termination of their service contracts, the members of the Board of Management receive benefits under the company pension plan. These benefits are paid when the beneficiary reaches the age of 60 or 62 or if the beneficiary is permanently unable to work. They are paid to surviving dependents in the event of the beneficiary's death.

The pension plan for the members of the Board of Management is a defined contribution plan stipulating a basic contribution to be made by the company equal to 50% or 56.25% of the annual base salary. Moreover, the members of the Board of Management must themselves pay an amount from deferred compensation amounting to 12.5% of the APP. The members of the Board of Management may increase their personal contribution to up to 25% of the APP. Regardless of actual target attainment, the contribution is calculated on the basis of 100% target attainment. The sum of the contributions is capped. From the date of entitlement, up to 30% of the accumulated capital – including the interest thereon – may be converted to a pension benefit. There are claims arising from provisions in place before 2006 that are granted as vested rights to individual members of the Board of Management. If the service contract ends before the beneficiary reaches the age of 60 or 62, the company pays certain additional benefits up to a defined ceiling.

LANXESS has established provisions for the future claims of Board of Management members. The service costs recognized under IFRS accounting rules for this purpose, the net expense recognized under HGB accounting rules for this purpose and the present value of the obligations under IFRS and HGB accounting rules can be found in the following table:

Pension Claims

		IFRS		HGB	
€ thousand	Year	Service costs	Present value of the obligations	Net expense for pension entitlements	Present value of the obligations
Matthias Zachert	**2019**	**759**	**7,894**	**1,122**	**6,207**
	2018	749	6,251	979	5,085
Dr. Anno Borkowsky	**2019**	**56**	**2,548**	**2,029**	**2,029**
	2018	–	–	–	–
Dr. Hubert Fink	**2019**	**308**	**5,229**	**815**	**4,121**
	2018	311	4,058	639	3,306
Michael Pontzen	**2019**	**318**	**2,898**	**367**	**2,135**
	2018	323	2,298	346	1,768
Dr. Rainier van Roessel (until December 31, 2019)	**2019**	**158**	**8,330**	**761**	**7,460**
	2018	158	7,370	617	6,699
Total	**2019**	**1,599**	**26,899**	**5,094**	**21,952**
	2018	1,541	19,977	2,581	16,858

As of December 31, 2019, obligations to former members of the Board of Management totaled €34,629 thousand (previous year: €35,261 thousand) under IFRS accounting rules and €27,904 thousand (previous year: €30,089 thousand) under HGB accounting rules.

Benefits associated with and following termination of service on the Board of Management

The members of the Board of Management have indemnification rights should their service contracts be terminated for defined reasons at the instigation of the company or in the event of a material change of control over the company. The terms depend on the respective circumstances and include severance payments amounting to up to twice the annual base salary or, in the event of a change of control, three times the annual base salary, plus the APP and LTPB. In the event of departure, LTSP rights are compensated in accordance with the terms and conditions of the plan.

No additional benefits have been pledged to any member of the Board of Management in the event of termination of their service.

Payments totaling €7,070 thousand (previous year: €473 thousand) were made to former members of the Board of Management in fiscal year 2019, of which €6,459 thousand (previous year: €0 thousand) related to one-time capital payments.

Other

Dr. Rainier van Roessel left the Board of Management as planned on December 31, 2019, and retired at the end of the year. For fiscal year 2019, target attainment of 100% was set for the performance-related variable compensation components APP and LTPB. The payments for APP and LTPB will be made on the usual payment dates. In deviation from the terms of the program, the 2012 and 2013 tranches of the LTSP 2010 to 2013 and the 2016 and 2017 tranches of the LTSP 2014 to 2017 will not be settled. Instead, Dr. van Roessel can continue to exercise them. In accordance with the terms of the program, the rights from the 2018 and 2019 tranches of the LTSP 2018 to 2021 are unchanged after termination of the service contract and will be paid out on maturity according to the actual performance determined at that time.

In the past fiscal year, no member of the Board of Management received substantial benefits or assurances of benefits from third parties with respect to their duties as members of the Board of Management.

No loans were granted to members of the Board of Management in fiscal year 2019.

Individual compensation in line with the recommendations of the German Corporate Governance Code

The following tables list the compensation, additional benefits and allocations (payments) for 2018 and 2019, in line with the recommendations of the German Corporate Governance Code. The variable compensation components differ depending on the reference period. The amounts of compensation shown also include the maximum and minimum attainable compensation.

Compensation Granted

	Matthias Zachert Chairman of the Board of Management				Dr. Anno Borkowsky Member of the Board of Management Appointed June 1, 2019				Dr. Hubert Fink Member of the Board of Management			
€ thousand	**Target value 2018**	**Target value 2019**	**2019 (min.)**	**2019 (max.)**	**Target value 2018**	**Target value 2019**	**2019 (min.)**	**2019 (max.)**	**Target value 2018**	**Target value 2019**	**2019 (min.)**	**2019 (max.)**
Annual base salary	1,200	1,313	1,313	1,313	–	292	292	292	550	550	550	550
Compensation in kind	757	79	79	79	–	29	29	29	53	53	53	53
Total	**1,957**	**1,392**	**1,392**	**1,392**	**–**	**321**	**321**	**321**	**603**	**603**	**603**	**603**
Annual Performance Payment (APP)	**1,500**	**1,688**	**0**	**3,375**	**–**	**292**	**0**	**583**	**550**	**550**	**0**	**1,100**
Multi-year variable compensation	**1,350**	**2,181**	**335**	**4,025**	**–**	**474**	**0**	**948**	**578**	**849**	**106**	**1,591**
LTPB (tranche 2017–2019)	540	97	74	119	–	44	0	88	248	–	–	–
LTPB (tranche 2018–2020)	–	666	261	1,071	–	119	0	238	–	271	106	436
LTPB (tranche 2019–2021)	–	608	0	1,215	–	225	0	450	–	248	0	495
LTSP 2018–2021 (tranche 2018)	810	–	–	–	–	–	–	–	330	–	–	–
LTSP 2018–2021 (tranche 2019)	–	810	0	1,620	–	175	–	350	–	330	0	660
Total	**4,807**	**5,261**	**1,727**	**8,792**	**–**	**1,087**	**321**	**1,852**	**1,731**	**2,002**	**709**	**3,294**
Service cost	749	759	759	759	–	56	56	56	311	308	308	308
Total compensation	**5,556**	**6,020**	**2,486**	**9,551**	**–**	**1,143**	**377**	**1,908**	**2,042**	**2,310**	**1,017**	**3,602**

Compensation Granted

€ thousand	Michael Pontzen Chief Financial Officer				Dr. Rainier van Roessel Member of the Board of Management Resigned Dec. 31, 2019				Stephen C. Forsyth Member of the Board of Management Resigned May 31, 2018			
	Target value 2018	**Target value 2019**	**2019 (min.)**	**2019 (max.)**	**Target value 2018**	**Target value 2019**	**2019 (min.)**	**2019 (max.)**	**Target value 2018**	**Target value 2019**	**2019 (min.)**	**2019 (max.)**
Annual base salary	550	550	550	550	650	650	650	650	188	–	–	–
Compensation in kind	187	50	50	50	51	52	52	52	–	–	–	–
Total	**737**	**600**	**600**	**600**	**701**	**702**	**702**	**702**	**188**	**–**	**–**	**–**
Annual Performance Payment (APP)	**550**	**550**	**0**	**1,100**	**650**	**650**	**–**	**1,300**	**186**	**–**	**–**	**–**
Multi-year variable compensation	**578**	**849**	**106**	**1,591**	**683**	**711**	**126**	**1,296**	**–**	**–**	**–**	**–**
LTPB (tranche 2017–2019)	248	–	–	–	293	–	–	–	–	–	–	–
LTPB (tranche 2018–2020)	–	271	106	436	–	223	126	321	–	–	–	–
LTPB (tranche 2019–2021)	–	248	0	495	–	98	0	195	–	–	–	–
LTSP 2018–2021 (tranche 2018)	330	–	–	–	390	–	–	–	–	–	–	–
LTSP 2018–2021 (tranche 2019)	–	330	0	660	–	390	0	780	–	–	–	–
Total	**1,865**	**1,999**	**706**	**3,291**	**2,034**	**2,063**	**828**	**3,298**	**374**	**–**	**–**	**–**
Service cost	323	318	318	318	158	158	158	158	–	–	–	–
Total compensation	**2,188**	**2,317**	**1,024**	**3,609**	**2,192**	**2,221**	**986**	**3,456**	**374**	**–**	**–**	**–**

Allocations

€ thousand	Matthias Zachert Chairman of the Board of Management		Dr. Anno Borkowsky Member of the Board of Management Appointed June 1, 2019		Dr. Hubert Fink Member of the Board of Management	
	2018	**2019**	**2018**	**2019**	**2018**	**2019**
Annual base salary	1,200	1,313	–	292	550	550
Compensation in kind	757	79	–	29	53	53
Total	**1,957**	**1,392**	**–**	**321**	**603**	**603**
Annual Performance Payment (APP)	**1,950**	**1,538**	**–**	**268**	**715**	**500**
Multi-year variable compensation	**2,333**	**2,470**	**–**	**40**	**408**	**346**
LTPB (tranche 2017–2018)	891	(3)	–		408	(1)
LTPB (tranche 2017–2019)	–	853	–	40	–	347
LTSP 2010–2013	–	–	–	–	–	–
LTSP 2014–2017	1,442[1]	1,620[2]	–	–	–	–
Total	**6,240**	**5,400**	**–**	**629**	**1,726**	**1,449**
Service cost	749	759	–	56	311	308
Total compensation	**6,989**	**6,159**	**–**	**685**	**2,037**	**1,757**

1) Exercise of LTSP tranche 2014 2) Exercise of LTSP tranche 2015

Allocations

	Michael Pontzen Chief Financial Officer		Dr. Rainier van Roessel Member of the Board of Management Resigned Dec. 31, 2019		Stephen C. Forsyth Member of the Board of Management Resigned May 31, 2018	
€ thousand	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**
Annual base salary	550	550	650	650	188	–
Compensation in kind	187	50	51	52	–	–
Total	**737**	**600**	**701**	**702**	**188**	**–**
Annual Performance Payment (APP)	**715**	**500**	**845**	**643**	**186**	**–**
Multi-year variable compensation	**408**	**346**	**1,244**	**1,197**	**–**	**–**
LTPB (tranche 2017–2018)	408	(1)	483	(1)	–	–
LTPB (tranche 2017–2019)	–	347	–	418	–	–
LTSP 2010–2013	–	–	–	–	–	–
LTSP 2014–2017	–	–	761[1]	780[2]	–	–
Total	**1,860**	**1,446**	**2,790**	**2,542**	**374**	**–**
Service cost	323	318	158	158	–	–
Total compensation	**2,183**	**1,764**	**2,948**	**2,700**	**374**	**–**

1) Exercise of LTSP tranche 2014 2) Exercise of LTSP tranche 2015

Compensation of the Supervisory Board

The compensation of the Supervisory Board is governed by Section 12 of the company's articles of association. The members of the Supervisory Board of LANXESS AG receive fixed compensation of €80 thousand per year. The Chairman of the Supervisory Board receives three times, and the Vice Chairman one and a half times, this amount. Serving as the chair or a member of Supervisory Board committees is compensated separately in accordance with the German Corporate Governance Code. Supervisory Board members who belong to a committee receive one half of the fixed compensation amount in addition. The chair of the Audit Committee receives a further half. Supervisory Board members who chair a committee other than the Audit Committee receive a further quarter. However, no member may receive in total more than three times the fixed compensation amount.

Supervisory Board members are reimbursed for their expenses in addition and also receive an attendance allowance of €1.5 thousand for each Supervisory Board meeting and each committee meeting they attend, with the exception of meetings of the Committee formed pursuant to Section 27, Paragraph 3 of the German Codetermination Act and meetings of the Nominations Committee. With respect to their membership on the supervisory boards of LANXESS Group companies, the members of the Supervisory Board are remunerated only for their service on the Supervisory Board of LANXESS Deutschland GmbH in the amount of €5 thousand each.

Until the end of the 2020 Annual Stockholders' Meeting, the Supervisory Board members also receive a long-term incentive based on the company's performance during the standard term of an individual's membership on the Supervisory Board (five years). Unlike the fixed compensation component, this variable compensation component is not paid every year, but only once at the end of the standard term of office. The current assessment period for calculating variable compensation ends at the end of the 2020 Annual Stockholders' Meeting. If a Supervisory Board member serves a shorter term, the amount is prorated.

Payment of the variable compensation depends on how LANXESS's stock performs relative to the Dow Jones STOXX 600 ChemicalsSM during a member's five-year term. The average price of LANXESS stock and the average level of the index during the 90 trading days prior to the Annual Stockholders' Meeting at which the Supervisory Board members were elected are each compared with the respective average for the 90 trading days prior to the Annual Stockholders' Meeting at the conclusion of which the members' terms end. The variable compensation is only payable if the stock has outperformed the benchmark index. The exact amount of the variable compensation depends on the extent to which the stock price outperformed the benchmark index in the preceding five years. If LANXESS stock has outperformed the Dow Jones STOXX 600 ChemicalsSM by up to ten percentage points, the variable compensation amounts to €50 thousand for this five-year period; if it has outperformed the index by between 10 and 20 percentage points, €100 thousand is paid, and if the degree of outperformance is greater than this, the compensation is €150 thousand.

LANXESS AG's Annual Stockholders' Meeting on May 23, 2019, resolved to change the Supervisory Board compensation to fixed compensation only. The former performance-based variable compensation, for which the relevant assessment period ends at the end of the company's Annual Stockholders' Meeting in 2020, was abolished. Despite the discontinuation of the performance-based compensation, the fixed compensation was not increased.

No variable compensation was paid out in fiscal year 2019.

The expected compensation payable for the current terms of office of Supervisory Board members was valued at €1,670 thousand (previous year: €1,310 thousand) as of December 31, 2019, and recognized as a provision.

None of the members of the Supervisory Board received benefits for services provided personally during the reporting period. No loans or advances were granted to members of the Supervisory Board during the reporting year.

The following table breaks down the compensation received by each member of the Supervisory Board for their work on the Supervisory Board.

Compensation of the Supervisory Board

€[1]	Year	**Fixed compensation** LANXESS AG	**Compensation as committee member** LANXESS AG	**Attendance allowance**	**Fixed compensation** LANXESS Deutschland GmbH	**Total**
Dr. Matthias L. Wolfgruber, Chairman (Chairman as of May 15, 2018)	**2019**	**240,000**	**–**	**16,500**	**5,000**	**261,500**
	2018	181,015	52,626	19,500	5,000	258,141
Dr. Rolf Stomberg, former Chairman (resigned May 15, 2018)	**2019**	**–**	**–**	**–**	**–**	**–**
	2018	88,478	22,120	7,500	1,843	119,941
Ralf Sikorski, Vice Chairman	**2019**	**120,000**	**40,000**	**10,500**	**5,000**	**175,500**
	2018	120,000	40,000	16,500	5,000	181,500
Birgit Bierther (appointed January 25, 2019)	**2019**	**74,740**	**32,438**	**16,500**	**4,671**	**128,349**
	2018	–	–	–	–	–
Werner Czaplik	**2019**	**80,000**	**40,000**	**15,000**	**5,000**	**140,000**
	2018	80,000	40,000	18,000	5,000	143,000
Dr. Hans-Dieter Gerriets	**2019**	**80,000**	**40,000**	**15,000**	**5,000**	**140,000**
	2018	80,000	40,000	18,000	5,000	143,000
Dr. Heike Hanagarth	**2019**	**80,000**	**–**	**9,000**	**5,000**	**94,000**
	2018	80,000	–	12,000	5,000	97,000
Dr. Friedrich Janssen	**2019**	**80,000**	**120,000**	**22,500**	**5,000**	**227,500**
	2018	80,000	105,254	22,500	5,000	212,754
Pamela Knapp (appointed May 15, 2018)	**2019**	**80,000**	**40,000**	**13,500**	**5,000**	**138,500**
	2018	50,507	25,254	10,500	3,157	89,418
Thomas Meiers	**2019**	**80,000**	**40,000**	**13,500**	**5,000**	**138,500**
	2018	80,000	40,000	16,500	5,000	141,500
Lawrence A. Rosen	**2019**	**80,000**	**40,000**	**15,000**	**5,000**	**140,000**
	2018	80,000	40,000	18,000	5,000	143,000
Manuela Strauch	**2019**	**80,000**	**40,000**	**16,500**	**5,000**	**141,500**
	2018	80,000	40,000	19,500	5,000	144,500
Ifraim Tairi (resigned December 31, 2018)	**2019**	**–**	**–**	**–**	**–**	**–**
	2018	80,000	40,000	19,500	5,000	144,500
Theo H. Walthie	**2019**	**80,000**	**40,000**	**13,500**	**5,000**	**138,500**
	2018	80,000	54,746	22,500	5,000	162,246
Total	**2019**	**1,154,740**	**472,438**	**177,000**	**59,671**	**1,863,849**
	2018	1,160,000	540,000	220,500	60,000	1,980,500

1) Figures exclude value-added tax.

REPORT PURSUANT TO SECTIONS 289A, 315A OF THE GERMAN COMMERCIAL CODE (HGB)

Pursuant to Section 289a, Sentence 1, Nos. 1 to 9, and Section 315a, Sentence 1, Nos. 1 to 9, of the German Commercial Code, we hereby make the following declarations:

1. The capital stock of LANXESS AG amounted to €87,447,852 as of December 31, 2019, and is composed of 87,447,852 no-par bearer shares. On the basis of a Board of Management resolution dated July 9, 2019, the company, after implementing a stock repurchase, resolved to reduce the capital stock by way of simplified capital reduction in accordance with Section 71, Paragraph 1, No. 8, Sentence 6 of the German Stock Corporation Act by €4,075,084 from €91,522,936 to €87,447,852 by canceling 4,075,084 no-par bearer shares with a notional share in the capital stock of €1.00 per share. All shares carry the same rights and obligations. One vote is granted per share, and profit is distributed per share. The rights and obligations arising from the shares are governed by the German Stock Corporation Act.

2. We are not aware of any restrictions affecting voting rights or the transfer of shares. However, shares allocated under employee stock plans are subject to a vesting period before they may be sold.

3. We received no reports of direct and indirect equity investments in the capital of LANXESS AG exceeding 10% of total voting rights.

4. No shares carry special rights granting control authority.

5. Employees hold a direct interest in the capital of LANXESS AG through employee stock programs. There are no restrictions on directly exercising the control rights arising from these shares.

6. Sections 84 and 85 of the German Stock Corporation Act and Section 31 of the German Codetermination Act apply to the appointment and dismissal of Board of Management members. Under the provisions of these sections, Board of Management members are appointed by the Supervisory Board for a term not exceeding five years. Such appointment may be renewed or the term of office may be extended, provided that the term of each such renewal or extension shall not exceed five years. Appointments require a majority of at least two-thirds of the Supervisory Board members' votes. Section 6, Paragraph 1 of the articles of association states that the Board of Management must consist of at least two members. The number of members of the Board of Management is determined by the Supervisory Board. The Supervisory Board may appoint a chairman of the Board of Management and a vice chairman of the Board of Management. Alternative members of the Board of Management may be appointed. The Supervisory Board may revoke the appointment of a member of the Board of Management or the appointment of a member as Chairman of the Board of Management for cause (Section 84, Paragraph 3 of the German Stock Corporation Act).

   Section 179 of the German Stock Corporation Act provides that a resolution of the Annual Stockholders' Meeting is required for any amendment to the articles of association. Pursuant to Section 17, Paragraph 2 of the articles of association, resolutions of the Annual Stockholders' Meeting require a simple majority of the votes cast and, if a capital majority is required, a simple majority of the capital stock, unless otherwise required by law or provided by the articles of association. The articles of association contain no further provisions in this regard. Section 10, Paragraph 9 of the articles of association of LANXESS AG authorizes the Supervisory Board to resolve on amendments relating solely to the form of the articles of association.

7. The Board of Management of LANXESS AG has been authorized to issue or repurchase shares as follows:

   Own shares

   At the beginning of fiscal year 2019, neither the company nor dependent or majority-owned entities, or third parties acting for the account of the company or for the account of dependent or majority-owned entities, held shares in the company. On the basis of the resolution of the Annual Stockholders' Meeting of LANXESS AG of May 20, 2016, the Board of Management was authorized in accordance with Section 71, Paragraph 1, No. 8 of the German Stock Corporation Act to acquire shares in the company representing up to 10% of the capital stock until May 19, 2021, and to utilize them for any purpose permitted by law. Subsidiaries of the company or third parties acting for the account of the company or its subsidiaries were also permitted to utilize this authorization. At the discretion of the Board of Management, such shares were able to be acquired either on the market or via a public tender offer. The Board of Management was authorized to use them for any purpose permitted by law, especially the purposes specifically listed in the authorization.

The Board of Management of the company resolved on January 10, 2019 to exercise its stock repurchase authorization and to buy treasury shares at a purchase price of up to €200 million (not including incidental expenses) on the stock exchange. In the period from January 14, 2019, to June 12, 2019, the company then purchased a total of 4,075,084 no-par bearer shares of the company with a pro rata amount of €1.00 per share. The amount of capital stock attributable to these shares is €4,075,084. This equates to 4.453% of the company's capital stock of €91,522,936 at that time. The purchases were made exclusively via the stock market by a bank commissioned by the company. They were carried out in electronic trading on the Frankfurt Stock Exchange on 94 Xetra trading days. The weighted average price amounts to €49.0787 per repurchased share. The total price for the repurchased shares, not including incidental expenses, amounted to €199,999,958.47. The treasury shares were acquired for the purpose of canceling them and reducing the company's capital stock. On July 9, 2019, the Board of Management resolved to cancel all repurchased shares in line with the stock repurchase authorization in accordance with Section 71, Paragraph 1, No. 8, Sentence 6 of the German Stock Corporation Act. The shares were canceled on July 12, 2019, without a further resolution by the Annual Stockholders' Meeting. The company's capital stock was accordingly reduced to €87,447,852.

On May 23, 2019, the Annual Stockholders' Meeting of LANXESS AG resolved, with effect after a time delay, to suspend the stock repurchase authorization of May 20, 2016, and issue a new authorization for the purchase and utilization of treasury shares. The suspension and the new authorization took effect on August 13, 2019, at the beginning of the day that lay two months after the day on which the last notification relating to the stock repurchase program announced on January 10, 2019, announcing its completion, was published via a European media pool. The new authorization allows the Board of Management to acquire shares in the company representing up to 10% of the capital stock until May 22, 2024, and to utilize them for any purpose permitted by law. This authorization may also be utilized by subsidiaries of the company or by third parties on behalf of the company or its subsidiaries. At the discretion of the Board of Management, such shares may be acquired either on the market or via a public tender offer. The Board of Management is authorized to use them for any purpose permitted by law, especially the purposes specifically listed in the authorization. No treasury shares were purchased on the basis of this new authorization in fiscal year 2019. At the end of fiscal year 2019, neither the company nor dependent or majority-owned entities, or third parties acting for the account of the company or for the account of dependent or majority-owned entities, held shares in the company.

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 conditional capital increase shall only be implemented to the extent that the holders or creditors of, or persons obligated to exercise, warrants or conversion rights pertaining to warrant bonds and/or convertible bonds, profit-participation rights and/or income bonds (or a combination of these instruments) issued by the company or a dependent company against cash contributions, or issued against cash contributions and guaranteed by the company or a dependent company, on or before May 14, 2023, on the basis of the authorization granted to the Board of Management by the Annual Stockholders' Meeting on May 15, 2018, exercise their warrants or conversion rights or, where they are obligated to do so, fulfill such obligation, or to the extent that the company elects to grant shares in the company in place of all or part of the cash amount due for payment. The conditional capital increase shall not be implemented if cash compensation is granted or if the company's own shares, shares issued out of authorized capital or shares in another listed company are used to service the warrant or conversion rights.

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 disapplied in its decision to disapply stockholders' subscription rights when issuing convertible bonds and/or bonds with warrants, profit participation rights and/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 disapplied 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 disapplied 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 not yet been 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). Stockholders are generally entitled to subscription rights when Authorized Capital is utilized. However, pursuant to Section 4, Paragraph 3 of LANXESS AG's articles of association and with the approval of the Supervisory Board, the Board of Management can exclude these subscription rights when, for example, the company's capital stock is increased against contributions in kind, particularly for the acquisition of companies. Subscription rights can also be excluded if the issue price of the new shares is not significantly lower than the stock market price at the time the issue price is fixed and the issued shares do not exceed 10% of the company's capital stock.

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 is utilized. Pursuant to Section 4, Paragraph 4 of the articles of association and with the approval of the Supervisory Board, the Board of Management can exclude these subscription rights. It can exclude fractional amounts from the stockholders' subscription rights in the event of capital increases against cash contributions. Subscription rights can also be excluded in the event of capital increases against cash contributions if the issue price of the new bearer shares is not significantly lower than the stock market price at the time the issue price is definitively fixed and the issued shares in total do not exceed 10% of the company's capital stock. By way of self-commitment, the Board of Management undertakes to perform capital measures with stockholders' subscription rights disapplied 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 disapplied 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.

8. The service contracts between the company and the members of the Board of Management of LANXESS AG contain provisions regarding the potential departure of the members of the Board of Management in the context of a change of control. These are outlined in the compensation report in this combined management report. Such agreements, albeit with different terms, also exist between the company and members of the first level of upper management. In addition, the terms for placing bonds under the company's existing debt issuance program may contain a change-of-control clause which gives bondholders the right to redeem the bond should certain events occur that affect its rating. This applies to the €500 million Eurobond issued by LANXESS Finance B.V. in fiscal year 2012 and taken over by LANXESS AG in 2015. The terms for two private placements with a volume of €100 million each made by LANXESS Finance B.V. under the debt issuance program in fiscal year 2012 likewise contain corresponding change-of-control clauses. These placements have now also been taken over by LANXESS AG. Equally, the terms of the bonds with a volume of (i) €500 million (maturity 2021) and (ii) €500 million (maturity 2026) issued by LANXESS AG in fiscal year 2016 and the bonds with a volume of (iii) €500 million (maturity 2025) issued by LANXESS AG in fiscal year 2018 under the debt issuance program contain corresponding change-of-control clauses. The terms of the subordinated hybrid bond with a volume of €500 million also issued by LANXESS AG in fiscal year 2016 contain a change-of-control clause as well. According to these terms, in the event of a change of control and in connection with certain events that affect its rating, LANXESS AG must pay bondholders an increased rate of interest if the company does not make use of the right of termination that is similarly available. The company has entered into an agreement with a syndicate of banks concerning a credit facility with a current volume of €1,000 million. This agreement can be terminated without notice if another company or person takes control of more than 50% of LANXESS AG. Furthermore, according to agreements between the company and LANXESS Pension Trust e.V., the company is obligated to make considerable payments to LANXESS Pension Trust e.V. in the event of a change of control.

9. The service contracts between the company and the members of the Board of Management of LANXESS AG as well as between the company and members of the first and second levels of upper management of LANXESS AG contain compensation agreements applicable in the event of a change of control, as such change is more particularly described in the respective contracts.

REPORT PURSUANT TO SECTIONS 289F AND 315D OF THE GERMAN COMMERCIAL CODE (HGB)

The Board of Management and Supervisory Board have issued the corporate governance declaration pursuant to Section 289f and 315d of the German Commercial Code (HGB). This has been made available to the stockholders and can be found at www.lanxess.com in the Investor Relations section under Corporate Governance.

REPORT ON FUTURE PERSPECTIVES, RISKS AND OPPORTUNITIES

In the economic outlook below, we describe our expectations for economic development. Following the report on future perspectives, we discuss the opportunities and risks which may result in deviations from our predictions.

Economic outlook

Fiscal year 2019 was characterized by a weakening economic environment. The increased uncertainty due to global risks such as consequences of the coronavirus epidemic, trade conflicts, Great Britain's exit from the EU without a deal, unrest in the Middle East and South America, Iran sanctions, and the trend for the formation of new, populist governments could further tarnish the global economy's growth in the reporting year 2020. We believe that an escalation of trade tensions between the U.S., China and Europe would have a significant negative effect on the economic situation.

In fiscal year 2020, we expect moderate growth of 2.5% for the *global economy*, driven mainly by business performance in Asia-Pacific. We see China remaining among the main drivers despite lower growth momentum, primarily caused by the trade conflict with the U.S. For EMEA (including Germany), we expect economic growth of 1.0%.

We expect *global chemical industry* production to expand by 2.5%. Customer industries are becoming more cautious in this volatile environment, while demand from the key customer sectors in the chemical industry, such as the construction industry, is expected to increase slightly in 2020. We expect global sales in the automotive industry to stagnate.

Expected Growth in 2020

Change vs. prior year in real terms (%)[1]	Gross domestic product	Chemical production
Americas	1.5	0.0
EMEA (incl. Germany)	1.0	1.0
Asia-Pacific	4.0	3.5
World	**2.5**	**2.5**

1) Rounded to the nearest 0.5%.
Source: LANXESS estimates and IHS Markit

The following table shows the anticipated evolution of our *selling markets*.

Expected Evolution of Major User Industries in 2020

Change vs. prior year in real terms (%)[1]	Automotive	Agrochemicals	Construction
Americas	1.0	2.0	(1.0)
EMEA (incl. Germany)	0.0	1.0	1.5
Asia-Pacific	0.0	2.0	4.0
World	**0.0**	**2.0**	**2.5**

1) Rounded to the nearest 0.5%.
Source: LANXESS estimates and IHS Markit

Future perspectives

Expected earnings position of the LANXESS Group

We expect development of the current business to be stable overall in 2020. The more balanced product portfolio is helping to smooth out some conflicting developments in our sales markets and customer industries. The Leather business unit is recognized as discontinued operations and is therefore no longer part of the Performance Chemicals segment. The earnings forecast shown below therefore concentrates on the forecast EBITDA pre exceptionals of continuing operations, taking into account the expected consequences of the coronavirus epidemic.

Overall, our Advanced Intermediates segment's business performance in 2020 is expected to be at around the previous year's level. The diversification of the end markets continues to support this development. The agrochemicals business is set to benefit from the slight improvement in customer demand over the course of 2020.

For the Specialty Additives segment, we expect business performance in 2020 to be slightly below the previous year's level overall. From the automotive industry, we expect weaker demand for the rubber-based additives business in particular.

Our Performance Chemicals segment is expected to develop on a par with the previous year's level. After strong demand for our disinfectants in the veterinary sector due to the outbreak of African swine fever in Asia in 2019, we expect to keep the business at this level in the forecast period. We also expect development at the previous year's level for the business with inorganic pigments. Without the volatile Leather business unit, the segment is generally more stable thanks to the robust end markets in continuing operations.

For the Engineering Materials segment, we expect business in 2020 to be considerably below the previous year's level overall. In the automotive industry in particular, the level is expected to remain weak in 2020. In particular, our forecast includes a negative earnings effect due to scheduled maintenance downtime of several weeks at the Antwerp production site of the High Performance Materials business unit.

In the Reconciliation segment, we expect earnings to deteriorate considerably year-on-year due to general inflation of the cost base and remnant costs from the portfolio measures in the Leather business unit and the organometallics business and from the full sale of ARLANXEO.

The U.S. dollar will remain the key currency for our businesses.

Against the background of the expected performance of our segments and taking into account adverse effects resulting from the coronavirus epidemic, we expect to generate EBITDA pre exceptionals of between €900 million and €1,000 million in 2020 as a whole.

Expected financial position of the LANXESS Group

Liquidity situation
LANXESS will continue to pursue a forward-looking and conservative financial policy in the current year. With around €2.1 billion in cash, short-term money market investments, securities and undrawn credit lines as of the end of 2019, as described under "Financial condition" in this management report, we have a very good liquidity and financing position, which ensures our corporate flexibility to implement LANXESS's strategy. In the second quarter, we expect a further liquidity inflow from the sale of our interest in Currenta GmbH Co. OHG, Leverkusen, Germany.

Capital expenditures
As in the past fiscal year, our capital expenditures will be primarily directed toward the maintenance of existing production facilities as well as efficiency improvements and the expansion of existing plants. We again intend total cash outflows for capital expenditures of around €500 million in 2020. Up to the reporting date, orders totaling €137 million were issued for this purpose, which can be paid out of existing liquidity.

Financing measures
LANXESS is in a good position due to the long-term nature of its financing. We have no significant maturities of financial liabilities in fiscal year 2020. We will continue our efforts aimed at securing long-term funding as part of a conservative financing policy.

Expected earnings position of LANXESS AG

In fiscal year 2020, we expect the financial statements of LANXESS AG to show substantially lower net income than in the previous year. The net income of the reporting period was primarily influenced by the disclosure of hidden reserves in connection with the planned sale of the interest in Currenta GmbH & Co. OHG and the resulting sharp rise in income from investments in affiliated companies. Other than by the administration expenses the company incurs in performing its tasks as a management holding company, net income is essentially impacted by the financial result, especially the net interest position and the balance of income and losses from investments in affiliated companies. The balance of income and losses from investments in affiliated companies and the corresponding ability of LANXESS AG to pay a dividend will significantly depend on the profit transfers and dividends paid by the other companies of the LANXESS Group. We will maintain our consistent dividend policy and expect LANXESS AG to report a distributable profit that will enable our stockholders to adequately participate in the LANXESS Group's earnings in the coming year.

Dividend policy

LANXESS has been pursuing a consistent dividend policy for years. Our goal remains to increase the dividend each year or at least to keep it at a stable level. At the Annual Stockholders' Meeting on May 13, 2020, the Board of Management and Supervisory Board will propose a dividend of €0.95 per share for fiscal year 2019.

Summary of the Group's projected performance

We expect our business to generate EBITDA pre exceptionals of between €900 million and €1,000 million this year, after €1,019 million in the previous year.

We will be continuing the strategic realignment of the Group in 2020 with the aim of achieving a more stable and less cyclical business profile. LANXESS will continue to work on optimizing its production platform and, as announced, pursue active portfolio management as well as projects geared toward organic growth.

However, we must take the strained geopolitical situation and the associated uncertainties for global economic development into account. The further course of the coronavirus epidemic also represents an uncertainty factor for our business.

Opportunity and risk report

Opportunity and risk management system

Our success is significantly dependent on identifying opportunities and risks in our business activities and actively managing them. The goal of the management system is to safeguard the company's existence for the long term and ensure its successful ongoing development by identifying opportunities and risks at an early stage and, depending on their nature, appropriately considering these in strategic and operational decisions. Opportunities and risks are understood as possible future developments or events that may result in either positive or negative deviations from forecasts or business objectives.

Our management system is based both on internal organizational workflows that are managed by way of control and monitoring mechanisms and on early warning systems that are used to closely observe changes in external conditions and systematically implement the appropriate measures. This approach applies equally to opportunities and risks.

Like all methods intended for dealing with business risk, this system does not offer absolute protection. However, it is intended to prevent business risks from having a material impact on the company with a sufficient degree of certainty.

Structural basis

The principles of our opportunity and risk management system are set forth in a Group directive. The management system, which uses the COSO model as the enterprise risk management framework, comprises many different elements that are incorporated into business processes via the company's organizational structure, workflows, planning, reporting, communication systems, as well as a set of detailed management policies and technical standards. The system is based on an integration concept.

In other words, the early identification of opportunities and risks is an integral part of the management system and not the object of a separate organizational structure. The management of opportunities and risks is therefore a primary duty of the heads of all business units, as well as of those people in Group companies who hold process and project responsibility. This is why our opportunity and risk management is based on clearly defined business processes, the precise assignment of responsibilities, and reporting systems that ensure the timely provision of the information required for decision-making for the Board of Management and subordinate management levels.

Roles of key organizational units

Our business units conduct their own operations, for which they have global profit responsibility. Group functions and service companies support the business units by providing financial, legal, technical and other centralized services. Complementing this global alignment of the business units and Group functions, the country organizations ensure the required proximity to markets and the necessary organizational infrastructure.

In line with this division of duties, we have assigned responsibility to risk owners for the following:

› Identification and assessment of opportunities and risks
› Implementation of control measures (measures taken to exploit or enhance opportunities and to avoid or minimize risks)
› Monitoring the development of opportunities and risks (e.g. on the basis of performance indicators and, perhaps also, early warning indicators)

› Communication of the key opportunities and risks to the management committees of the business units and Group functions.

The Corporate Risk Committee, commissioned by the Board of Management and headed by the Chief Financial Officer, is responsible for the structure and implementation of the Group-wide risk management process. It is made up of representatives of selected Group functions and analyzes the principal opportunities and risks and their development from the viewpoint of the entire company. It examines existing measures to counter risks, initiates additional measures as required and instigates further analyses of individual opportunities and risks if necessary.

The Corporate Controlling Group function coordinates the Group-wide risk management process for the Corporate Risk Committee and appoints a Group Risk Management Coordinator for this purpose. This coordinator is responsible for collecting and aggregating key opportunity and risk information across the Group. The short-, medium- and long-term opportunities and risks are identified twice a year in the context of the intrayear forecasting process and the budget and planning process.

The Corporate Development Group function helps with the analysis and evaluation of systematically important and strategic opportunities and risks.

The Corporate Risk Committee has subcommittees made up of representatives of the business units and Group functions that deal with specific risk areas in order to enable a fast and flexible response to changing situations and their impacts. Accordingly, for example, the Financial Risk Committee, headed by the Chief Finance Officer and made up of representatives of the Treasury & Investor Relations Group function, manages transactions centrally, particularly for the transfer of financial but also operating risk (hedging transactions or insurance).

The duty to report opportunities and risks to the Corporate Controlling Group function is based on the anticipated impact on Group net income or EBITDA pre exceptionals. All opportunities and risks must be reported if their anticipated impact is more than €1 million following the implementation of measures. In addition, those risks must be reported which have an anticipated impact that was reduced by more than €10 million through the implementation of measures. These minimum thresholds guarantee that the information gathered about opportunities and risks is comprehensive and that the collection of information is not just limited to material risks or risks that could jeopardize the future of the company as a going concern. Only then, the Corporate Controlling Group function centrally determines the top opportunities and risks.

There is also provision for immediate internal reporting on specific risk issues such as unexpected operational events with an impact of more than €5 million after the implementation of countermeasures.

The reported opportunities and risks are managed by means of risk management software and regularly analyzed for the Corporate Risk Committee, the Board of Management and the Supervisory Board. This ensures that when new opportunities and risks arise or when existing ones change substantially, the necessary information can be communicated promptly to the Board of Management and therefore also be specifically integrated into the general management of the company.

Opportunity and risk assessment

Opportunity and risk management is integrated into the planning and forecasting process and identifies opportunities and risks as potential deviations from planned or forecast EBITDA pre exceptionals or Group net income.

Depending on the type of opportunity or risk, different calculation methods are applied in their assessment. Distribution opportunities and risks are identified on the basis of sensitivities in planning parameters (exchange rates, raw material prices and energy prices). Changes in these variables may result in either positive or negative deviations from planned or forecast figures.

Event-based opportunities and risks (such as the failure of a supplier or the occurrence of an insured event) that would only impact earnings if they actually occurred are evaluated on the basis of the expected probability of their occurrence and effect on EBITDA pre exceptionals or Group net income.

Significance of the Group-wide planning process

Corporate planning is a core element of our opportunity and risk management. Events with a high probability of occurrence flow directly into the planning process. The processes for corporate planning and intrayear forecasting as well as the corresponding analyses and suggestions for action are steered by the Corporate Controlling Group function, which works closely in this regard with the business units. Certain Board of Management meetings are dedicated to discussing and adopting corporate planning outcomes, including the associated opportunities and risks. We monitor, and if necessary adjust, the annual budget in any given fiscal year by regularly updating our expectations for business development.

Compliance as an integral component

Risk management also includes preventing illegal conduct by our employees. To this end, we obtain extensive legal advice concerning business transactions and obligate employees by means of our "Code of conduct – Code for integrity and compliance at LANXESS" to observe the law and our internal directives and to act responsibly. The compliance code is part of a comprehensive compliance management system (CMS) that has been structured in accordance with the principles of an internationally recognized framework for enterprise risk management (COSO). This CMS is supported by the compliance organization, which is made up of the Group Compliance Officer, regional Compliance Officers, and a network of local Compliance Officers in the countries in which we have subsidiaries. The objective of the CMS is to ensure the observance of our compliance principles. The Compliance function, which includes the global compliance organization, reports directly and regularly to the Board of Management.

(Group) Accounting aspects of the internal control and risk management system

The aspects of the internal control and risk management system relating to the (Group) accounting process include the principles, procedures and measures required to ensure the effectiveness, efficiency and propriety of the company's accounting, and compliance with applicable legal regulations. To this end, clear organizational, control and monitoring structures have been established. The distinctive features of the chemical industry and the risk management tools we regularly use in this regard are taken into account. In addition to the (Group) accounting process in its narrower sense, this also includes the aforementioned structured budget and forecasting process, and extensive contract management. However, the effectiveness and reliability of the internal control and risk management system can be restricted by discretionary decisions, criminal acts, faulty controls or other circumstances. Thus, even if the system components used are applied Group-wide, the correct and timely recording of (Group) accounting issues cannot be guaranteed with full assurance.

The Accounting Group function, which reports to the Chief Financial Officer, is responsible for the (Group) accounting process and therefore for preparing the annual financial statements of LANXESS AG and the consolidated financial statements of the LANXESS Group. It is also responsible for ensuring the uniform preparation of the financial statements of the subsidiaries that are included in the consolidated financial statements. The Board of Management prepares the annual financial statements and the consolidated financial statements, which are then forwarded to the Supervisory Board's Audit Committee without delay. Upon recommendation by the Audit Committee, the annual financial statements and the consolidated financial statements are adopted and approved by the Supervisory Board at its financial statements meeting. The Supervisory Board, and especially its Audit Committee, deal with major questions relating to LANXESS's accounting, opportunity and risk management, the audit mandate and the areas of focus for the auditor's audit of the annual financial statements.

Quarterly statements are prepared for the first and third quarters. The condensed consolidated interim financial statements as of June 30 that are also prepared are reviewed, while the annual financial statements and the consolidated financial statements are subjected to a full audit by the auditor of the company's annual financial statements and consolidated financial statements.

Our accounting in compliance with the German Commercial Code is based on a structured process with appropriate organizational structures and workflows, including the related working instructions. In addition to the segregation of duties, the dual-control principle and continual plausibility testing serve as fundamental monitoring tools during the financial statement preparation process. On the IT side, the accounting process is supplemented by an integrated IT system that is based largely on off-the-shelf software and is protected by security measures against unauthorized access. The correctness of the automatically generated postings and the master data required for them is regularly reviewed. Manual postings are based on a systematic voucher system, documented to the necessary extent and verified downstream.

The foundation for uniform and IFRS-compliant consolidated financial reporting at LANXESS is the Group Financial Statements Guideline. This governs the way the provisions of the International Financial Reporting Standards (IFRS) applicable to the Group are applied by the subsidiaries as reporting entities. Moreover, the guideline also defines the chart of accounts that is binding throughout the Group. On the IT side, the guideline is supplemented by a uniform, Group-wide delivery and consolidation system that is based largely on off-the-shelf software and is protected by security measures against unauthorized access.

By controlling and monitoring LANXESS's (Group) accounting process, we ensure that generally accepted accounting practices in line with the applicable laws and standards are applied and guarantee reliable financial reporting. The (Group) accounting-related internal control system we use is based on generally accepted standards (COSO model). There were no material changes to this system during the reporting period. Corresponding standards also apply to the single-entity financial statements of the subsidiaries.

Preparation of the consolidated financial statements is based on a detailed process that includes specifying a financial statement calendar containing deadlines for the delivery of certain data. A further component is regular reviews of the correctness and completeness of the scope of consolidation. The principle of the segregation of duties as expressed in structured authorization and approval procedures and the dual-control principle as well as continual plausibility testing on data is applied end-to-end throughout the preparation and consolidation process.

For the consolidated financial statements, all subsidiaries subject to reporting requirements transmit their Group reporting data using the above-mentioned consolidation system. Validation rules integrated into the system ensure on delivery that the data reported by the subsidiaries are consistent. The accounting departments of the subsidiaries are responsible for ensuring the correctness of the reported data content, which is also tested by the Corporate Accounting Department within the Accounting Group function. To this end, the department evaluates standardized reports in which the companies explain material facts relevant to financial reporting. After the process-based controls have been applied, consolidation including currency translation is carried out in the same system, without additional interfaces, utilizing both automated and manual procedures. The correctness of the automated consolidation steps and of the master data necessary for this purpose is reviewed regularly. Consolidation information that must be entered manually is posted separately, documented to the extent required and verified downstream. This is supplemented by validation rules that are integrated into the system.

Regular coordination with other financial Group functions, particularly the Treasury & Investor Relations, Tax & Trade Compliance and Corporate Controlling Group functions, assists the financial reporting process. A continual exchange of information with the operating business units and other Group functions makes it possible for the Accounting Group function to identify and deal with issues arising outside of accounting processes. These include litigation risks, projections for impairment testing and special contractual agreements with suppliers or customers. In addition, third-party service providers are consulted on special issues, particularly relating to the valuation of pensions and other post-employment benefits.

Monitoring of risk management system and internal control system (ICS)

LANXESS's Corporate Audit Department within the Legal & Compliance Group function oversees whether the internal control and monitoring system works and whether organizational safeguards are being observed. The planning of audits (selection of audit subjects) and the audit methods applied are correspondingly aligned with risks. To assess the effectiveness of the ICS, an annual self-assessment is also carried out in major Group companies, operating units and Group functions. The Supervisory Board exercises control functions, including regular monitoring of the efficiency of the management systems described above by the full Supervisory Board and by its Audit Committee. The Audit Committee reviews reports about the Compliance function's activities and findings, the work of the Corporate Audit Department, and the status of the risk management and internal control systems. In addition, the early warning system is evaluated by the external auditor as part of the audit of the consolidated and annual financial statements.

Opportunities and risks of future development

Full identification of the LANXESS Group's opportunities and risks is performed on the basis of a catalog of categories, which are summarized in the eight groups below:

Categories
Procurement markets
Human resources
Production and technology
Safety and the environment
IT and security
Sales markets
Finance
Legal and country-specific environment and compliance

Subsequent reporting in respect of the main *categories* is generally based on a planning horizon of one year.

Procurement markets

On the procurement side, the principal opportunities and risks lie in the high volatility of raw material and energy prices. An increase or decrease in the price of the materials we use directly results in higher or lower production costs. If prices decrease, write-downs may have to be recognized on inventories. In addition, changes in raw material prices result in higher or lower selling prices – either immediately or after a delay. We mitigate situations like this by following a sensible inventory and procurement policy. Most of the company's raw material and energy needs are met by long-term supply contracts and contracts containing price escalation clauses. On the selling side, equivalent agreements are in place. We also have the option of hedging this risk via derivatives transactions if liquid futures markets are available for hedging raw material and energy price risks. Further information can be found in the "Finance" section of this opportunity and risk report. Additionally, we are constantly looking for ways to use our resources more efficiently so that we can offset higher costs by raising productivity. Unfulfilled acceptance obligations may result in unscheduled costs due to fines. To guard against possible supply bottlenecks due to factors such as the *failure of a supplier* or of an upstream operation at a networked site, we pursue an appropriate inventory strategy and line up alternative sources of supply. Failures can be caused by factors such as inadequate maintenance or insolvencies at the supplier end. We endeavor to avoid supply bottlenecks or reliance on individual suppliers using strategies like multiple sourcing. If we were to be forced to utilize alternative sources of supply in the context of contingency plans, this could result in, for example, higher procurement prices or additional transportation costs.

Logistics, both of the goods and services that we purchase and of those that we provide or render, is subject to increasing complexity. We counter these challenges with the coordinated management of our supply processes and can thus minimize the risk of unplanned production downtime. Furthermore, the quality of the supplied raw materials constitutes a risk factor that may negatively affect the *quality* of our products. Detailed product specifications issued by us define the properties to be fulfilled by suppliers. They are checked via ongoing goods-in analyses.

Human resources

We see a significant opportunity in the LANXESS corporate culture, which is based on shared values. We actively cultivate this culture and are constantly refining it with a wide range of measures, such as the annual Performance Culture Day. We promote an appreciative, vibrant and open corporate culture, which is distinguished among other things by good leadership, prospects for personal development, flexible working, and clear values and principles. We are convinced that our measures to promote the corporate culture result in increased employee engagement, and thus stronger company performance, successful change, a strong employer brand and ultimately long-term corporate success.

We see another opportunity in the successful implementation of the HR transformation project launched in 2017. In the future, we will be able to provide more targeted support for our corporate strategy and respond to HR trends more quickly and effectively by realigning our global HR organization and launching state-of-the-art products and solutions in HR. Global, user-friendly systems and standardized, digitalized and transparent processes improve quality, service and customer orientation and ultimately increase our competitiveness.

Changes always entail the risk of demotivating employees and reducing their performance. This can be significant if employees do not feel sufficiently involved in decision-making processes or do not understand new processes and practices. Thanks to a targeted change management strategy, we counter this risk by communicating next steps and forthcoming measures as clearly and early as possible. This is supplemented by extensive training measures, such as in management or using new system solutions.

The risk of walkouts in connection with negotiations concerning future collective pay agreements or associated with restructuring measures cannot be ruled out. We also face increases in our *personnel expenses* because of future wage increases. Such an increase in the cost of human resources can be detrimental to earnings. We counter this risk by fostering open communication with our employees and their representatives in a culture of active labor relations. Particularly with regard to the challenges in the working world from globalization and increasing digitalization, we make continuous use of existing dialog platforms such as the European Forum, which brings together the works councils in Europe. We also actively seek dialog with the representatives of our employees, the trade unions and other interest groups in the other regions in which we operate, particularly concerning the acquisition and integration of companies. We use legally sound and proven employment contracts and ensure legally secure collective agreements. When making acquisitions, we give high priority to professional project management, which encompasses detailed communication with employees, fair consolidation processes and appropriate severance packages. In the event of potential legal action, the HR department monitors the situation very closely in coordination with the Legal and Communication departments to enable appropriate measures to be taken at an early stage. With the above measures relating to the corporate culture and attractive offers as an employer, we promote a respectful relationship between managers and (former) employees and thus try to avert the risk of walkouts or lawsuits.

Germany's plans for a law regulating fixed-term employment without good cause could likewise trigger increasing personnel expenses. Our HR and Legal departments always observe plans for changes in the law very closely in order to prepare early for potentially increased costs and to take appropriate measures.

Our employees' expert knowledge of internal processes and issues relating to their areas of specialization is a critical factor in the efficiency of our business operations. To mitigate the risk of a manpower shortage on the one hand and a loss of knowledge on the other hand, we help our employees to find an improved work-life balance as well as offer attractive remuneration models, challenging tasks and international career opportunities. In addition, we deal with structured succession planning at annual HR development conferences. With our global, cross-divisional and cross-hierarchical talent programs, we retain particularly high-performing employees within our company and can identify suitable successors for key positions at an early stage.

We are increasingly seeing the risk of a shortage of skilled workers in various fields. We are countering this risk by strengthening our recruitment organization, standardizing sourcing processes and investing in a distinctive employer brand. We position our company as an attractive employer and seek early contact with highly talented young people at many events and conferences around the world, and increasingly on social media. We cooperate closely with research institutes, universities, high schools and public institutions. We provide students in Germany, where we have the largest headcount, with both financial and expert support with the Germany scholarship. Our intern loyalty program also enables us to stay in close contact with interns who have done particularly excellent work. In addition, regular HR development conferences help us to hone in-house skills. In addition, we continue to invest in the next generation of employees, either with a considerable number of training opportunities in various areas in Germany or through internship programs or our corporate trainee program, which is well established in terms of fostering upcoming management talents

In terms of demographic change and the associated aging of the population, along with a shortage of qualified specialist employees, there is also the risk of health-related absence, outdated knowledge or loss of knowledge, and declining attractiveness as an employer. In order to counter the challenges of demographic change in a structured way, we set up an extensive demographic program back in 2011. A whole host of initiatives have been initiated and implemented since the program was launched. In Germany, for example, around 110 demography positions (e.g. for chemical production technicians and engineers) have been created, additional training courses have been developed, workplace reintegration programs have been stepped up (reintegration after illness), workplace healthcare offerings have been expanded (for example, through the introduction of a digital health platform), and working has been made more flexible. Our strategic HR planning process also enables us to identify staff shortages at an early stage and instigate appropriate measures.

Production and technology

A lack of plant availability due to disruptions can make it impossible for us to meet production targets and adequately service demand, resulting in a loss of marginal income. We use a comprehensive range of measures to counter this scenario. These include proactive facility maintenance, systematic training of our employees and regular audits to analyze weak points. Systematic safety appraisals and risk assessments also contribute to improving plant and process safety. Implementation and application of the various measures are subject to global compliance checks. We also counter the risk of production stoppages by manufacturing certain products at various sites worldwide.

Unlocking and exploiting operational opportunities is an important aspect of our entrepreneurial activities. We are committed to using existing products and new solutions to advance our growth and sustainably strengthen our position in global markets. *Investing* in new plants as well as expanding the capacities and increasing the productivity of existing ones are key elements in these efforts. The anticipated effects are taken into account in our planning or are reported as opportunities. In principle, we expect investments to yield benefits, but they are also coupled with risks. For example, the success of our investments in Asia has been substantially impacted by increasingly challenging trade relations between the U.S. and China. The preparatory work for investments that exceed a specified significance threshold is the responsibility of the relevant business units. After review by an Investment Committee set up for this purpose, the information is presented to the Board of Management for a decision. By following this procedure, we ensure that investments are in line with our corporate strategy and satisfy our profitability and security requirements.

Sales and earnings effects expected from our investments and from acquisitions completed by the reporting date are already considered in our forecasts. These targeted investments may also generate further operational opportunities because they enable us to unlock new potential and improve our positioning in key markets.

Safety and the environment

Although LANXESS applies high technical and safety standards to the construction, operation and maintenance of production facilities, *interruptions in operations* – including those due to external factors such as natural disasters or terrorism – cannot be ruled out entirely. These could lead to fires and explosions, the release of materials hazardous to health or accidents in which people, property or the environment are harmed. In addition to systematically monitoring compliance with quality standards in order to avoid such stoppages and accidents, we are also insured against the resulting damage to the extent usual in the industry. In addition, risk engineering professionals commissioned by the insurance companies perform regular inspections of our sites.

Our product portfolio includes substances that are classified as hazardous to health. To prevent possible *harm to health*, we systematically test the properties of our products and draw our customers' attention to the risks associated with their use in the context of our Responsible Care® activities. We also carry product liability insurance that is customary in our industry.

In line with our forward-looking approach, product monitoring enables us to identify and evaluate potential hazards associated with our product portfolio and initiate suitable measures if applicable.

Regulatory measures may lead to the tightening of safety, quality and environmental regulations and standards in different areas. These may result in higher costs, production bans and liability risks. Particularly noteworthy in this regard is compliance with the E.U. Regulation concerning the Registration, Evaluation, Authorization and Restriction of Chemicals (REACH). As well as direct costs that could arise due to additional measures necessary to comply with these standards, market structures could change to our disadvantage as a result of a shift by suppliers and customers to regions outside Europe. Additional requirements imposed by *energy and environmental policy* such as the new emissions trading regulations, new environmental taxes and the redistribution of costs associated with the German Renewable Energy Act (EEG) could result in higher costs and in part substantial disadvantages in international competition. These also include the retrospective review, initiated by the transmission system operator in connection with the EEG, of the generation capacity that LANXESS has used for many years to generate its own electricity in power plants at sites in the Lower Rhine region and in Duisburg. With a view to mitigating this risk, we engage in active energy management to reduce the consumption of energy. We are also discussing the economic consequences of increasing energy prices with the authorities and government – either directly or in cooperation with other energy-intensive companies via industry organizations.

LANXESS was and is responsible for numerous sites at which chemicals have been produced for periods that in some cases exceed 150 years. This responsibility also extends to waste disposal facilities. The possibility cannot be ruled out that ground pollution occurred during these periods that has not been identified to date. We are committed to the Responsible Care® initiative and pursue active environmental management and proactive environmental protection management. This includes constant monitoring and testing of the soil, groundwater and air as well as of various emissions. We have set up sufficient provisions for necessary containment or remediation measures in areas with identified contamination. Additional information on our environmental provisions can be found in Note [15], "Other non-current and current provisions," to the consolidated financial statements.

IT and security

Our IT systems are part of the value chain and support our global business activities with standardized processes. We aim to provide efficient, stable and scalable IT services. We support this by developing a uniform, integrated system architecture and investing in the expansion and modernization of our IT services worldwide.

The operation and use of IT systems entails risks. For example, networks or systems may fail, or data and information may be compromised or destroyed because of operator and programming errors or external factors. In particular, we are observing a growing threat to our IT infrastructure resulting from outside attack (cyber risks). All these can cause serious business interruptions and reputational damage, which is why we invest in data protection systems designed to prevent the loss of data and information. Various security and monitoring tools and access restriction and authorization systems are used to ensure the integrity, confidentiality and availability of data and information and the trouble-free operation of systems. To improve the security of the IT infrastructure, our security measures are subject to regular checks and evaluations. Where necessary, these measures are upgraded. To protect against threats, protective measures have been intensified and adapted in line with the current threat level. To protect against cyber risks, LANXESS has also concluded a cyber insurance policy. We regularly train the users of our IT systems on IT risks, appropriate conduct and preventive measures. We conduct security campaigns to raise awareness of current issues surrounding IT security.

Sales market

Our company is inherently exposed to general *economic developments* and to political and geopolitical change in the countries and regions in which we operate. We see the unchanged global tendency toward protectionist measures, which would also impact the chemical industry in particular, as a medium-term risk to growth and stability. The value chains in the chemical industry are highly interconnected and on a global scale. Increased protectionism would have a negative impact on growth. Regional differences in economic performance and the associated demand trends can affect the Group's pricing and sales potential in its various geographical markets, with corresponding positive or negative effects on its earnings. Our global presence, which we are continuing to expand in growth markets, enables us to participate in favorable regional developments and, at the same time, reduce our dependence on certain regions. This approach is discussed in further detail in the "Strategy" section of this management report.

The volatility and cyclicality that are typical of the global chemical and polymer markets and their dependence on developments in customer industries harbor uncertainties for our business. Additional and unplanned sales opportunities may arise through access to new markets or the acquisition of new *customers*. For example, we expect our Engineering Materials segment to benefit from increasing demand for electric vehicles in the long term. In addition to being subject to these demand-side market influences, our earning power can be impacted by structural changes in markets, such as the exit of existing *competitors* or the entry of new ones and the availability of additional capacity, regional shifts, the migration of customers to countries with lower costs, and product substitution or market consolidation trends in some sectors. Specific examples of such developments are the environment-driven consolidation of the Chinese chemicals industry and the exodus of chemical production from China to Southeast Asia (e.g. Vietnam) as a result of the trade war with the U.S. We counter these trends by consistently managing costs, systematically monitoring the market and the competition, and continuously adjusting our product portfolio accordingly, sharpening its focus and aligning our offering with innovative customer segments, which will enable us to operate successfully in the long term.

Finance

The Treasury & Investor Relations Group function has the task of centrally recording and managing *financial opportunities and risks*. Chief among these are:

Financial Opportunities and Risks

Price changes	Liquidity and refinancing	Counter-party risks	Capital investments
Currencies	Availability of cash	Customers	Investments in pension assets
Interest rates	Access to multi- and bilateral capital markets	Banks	
Raw materials			
Energies			

At regular strategy meetings of the Financial Risk Committee chaired by the Chief Financial Officer, there are reports on the outcome of financial risk management, the current risk and further action. The aim of financial risk management is to identify and evaluate risks so that their impact can be controlled and, if necessary, limited.

Price changes

Currencies

Since the LANXESS Group undertakes transactions in various currencies, it is exposed to fluctuations in the relative value of these currencies. Associated risks are partly hedged insofar as they are cash-effective. Fixed exchange rates were used in our planning for fiscal year 2020. The development of the U.S. dollar against the euro is of particular relevance. An appreciation of the U.S. dollar compared with the exchange rate used in planning would have a positive effect on our planned EBITDA pre exceptionals (and vice versa).

Currency risks from potential declines in the value of financial instruments due to exchange rate fluctuations (transaction risks) arise mainly when receivables and payables are denominated in a currency other than the company's functional currency. Such risks are always fully hedged. Likewise, currency risks arising from financial transactions, including the interest component, are generally fully hedged through forward exchange contracts. In the short term, therefore, the appreciation or depreciation of the euro against other major currencies can have no material impact on future cash flows. In addition, translation risks exist from converting entries in the financial statements from local currencies into euros for inclusion in the LANXESS consolidated financial statements. Unlike the effects of exchange rate fluctuations in the case of the transaction risk, the translation risk has no impact on the company's cash flows in local currencies. In addition, material assets and liabilities in local currencies are subject to a long-term currency risk, which is regularly estimated and evaluated. However, currency hedging is only undertaken if LANXESS is considering withdrawal from certain businesses and intends to repatriate the funds released as a result.

The opportunities and risks relating to operating activities are systematically monitored and analyzed. To this end, both sales and costs are planned in foreign currencies. In the long term, exchange rate fluctuations could adversely affect future cash flows should the LANXESS Group not be able to counter them, for example, by pricing its products in the respective local currencies. This risk is minimized by partial hedging with derivative financial instruments. Hedging is performed in line with principles determined by the Board of Management and is subject to continuous monitoring. We have already entered into hedging transactions for 2020, 2021 and 2022 to mitigate the effects of currency fluctuations.

Interest rates

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

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

In the context of long-term planning, LANXESS regularly decides on refinancing to cover the forecast liquidity requirement.

Raw materials/energy

In the course of its business operations, the LANXESS Group is exposed to changes in the market prices for energy and raw materials. As a rule, these changes are passed on to customers. Where certain market-price risks for energy and raw materials cannot be passed on to customers in their entirety, they may be hedged on a case-by-case basis by forward commodity contracts in order to reduce the volatility of cash flows. LANXESS had only a small number of forward commodity contracts as of the reporting date.

Liquidity and refinancing

We ensure our access to the capital markets and our solvency through a conservative financing policy and a target capital structure that is largely based on the ratio systems used by leading rating agencies. Our conservative financing policy takes into account the risk of a change to our rating and the associated effects on financial risk management, even though LANXESS has no direct influence on the assessments by independent rating agencies.

Our main liquidity reserve is a €1 billion syndicated credit facility, signed in December 2019, which remained undrawn on the reporting date. It has a term until December 2024 and two options for one-year extensions. The credit facility is tied to ESG ("environmental, social and governance") criteria. The interest rate terms depend in part on the successful reduction of Scope 1 greenhouse gas emissions and the increase in the proportion of women at the top three levels of management. This financing replaced the syndicated credit facility of €1.25 billion originally expiring in May 2023 at an early stage. In addition to credit facilities, the Group has short-term liquidity reserves of €296 million in the form of cash and cash equivalents. Accordingly, the LANXESS Group has a liquidity position based on a broad range of financing instruments.

Counterparty

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

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

The objective of receivables management at LANXESS is to collect all outstanding payments punctually and in full, and thus to minimize the risk of default. Continuous monitoring is computer-assisted, based on the payment terms agreed with the customers. These are generally based on the customary payment terms for the business or country. Reminders are sent out at regular intervals if payments are overdue. The maximum risk of default on receivables, cash and cash equivalents, near-cash assets, derivatives and other financial assets is reflected in their carrying amounts in the statement of financial position (disregarding netting arrangements not reflected in the statement of financial position).

Credit risk relating to receivables from customers is covered by opening letters of credit in favor of the LANXESS Group for some customers and by agreeing prepayment with contractual partners. In addition, LANXESS has a contractually agreed title to goods until the contractual partner has paid the full purchase price. The vast majority of receivables relate to customers with very high credit standing.

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

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

Capital investments

Opportunities and risks associated with the investment of pension assets are monitored by the Pension Committee, which is made up of the Chief Financial Officer and representatives from the Treasury & Investor Relations, Accounting and Human Resources Group functions.

Legal and country-specific environment and compliance

We actively pursue the strategic optimization of the enterprise. Our efforts include ongoing efficiency enhancement, optimization of opportunities and risks, strengthening of core businesses, active portfolio management and proactive participation in industry consolidation through partnerships, divestments and acquisitions. Further information can be found in the “Strategy” section of this management report.

The success of the decisions associated with these efforts is naturally subject to forecasting risk with respect to predicting future (market) developments and the feasibility of planned measures. For example, the entry into or exit from a business segment could be based on profitability or growth expectations that prove to be unrealistic over time. We mitigate this risk by carefully and systematically analyzing the information that is relevant to decision-making and regularly checking developments. During this process, the business units affected and the Board of Management receive support from departments with the requisite expertise and, if necessary, also from external consultants.

When information is gathered in the context of *acquisitions*, it is possible that certain facts required to assess an acquisition candidate’s future performance or to determine the purchase price are not available or are not correctly interpreted. We address this risk by conducting well-structured due diligence analyses and, where possible, by concluding appropriate residual risk-minimizing agreements with the sellers. Insufficient *integration* of acquired companies or businesses can result in the expected value added not being generated. For this reason, we have processes in place with which full integration of acquired businesses is assured. If assumptions concerning future developments – such as the realization of synergies – do not materialize, this might result in a write-down on assets. We monitor this risk by carrying out impairment testing at least once a year. The risk of the need to carry out impairment of assets is assigned to the finance group.

Companies in the LANXESS Group are subject to *legal risks* and are parties to various litigations. The outcome of individual proceedings cannot be predicted with assurance due to the uncertainties always associated with legal disputes. To the extent necessary in light of the known circumstances in each case, we have set up risk provisions for the event that the outcome of such proceedings is unfavorable to LANXESS. Taking into account existing provisions and insurance, as well as agreements reached with third parties in respect of liability risks arising from legal disputes, it is currently estimated that none of these proceedings will materially affect our planned EBITDA pre exceptionals.

As an approach to avoiding legal risks, LANXESS has established an extensive *compliance* management system (CMS) incorporating a range of preventive organizational measures. Among the material risks LANXESS has identified are those relating to antitrust legislation and plant safety/environmental protection. Within the framework of the CMS, these issues are assigned as specific responsibilities to different Group functions that have established relevant compliance programs. In connection with risks relating to antitrust legislation, for example, LANXESS has developed a program that combines classroom training and e-learning to ensure compliance with competition law. In this way, our employees and managers are schooled in the particular risks pertaining to their areas of business and made aware of their significance. This training is performed and documented at regular intervals. Our employees can also contact designated experts in the Legal & Compliance Group function if they have any specific questions. Further information can be found in the “Compliance as an integral component” section of this opportunity and risk report.

Any violations of foreign trade regulations may result in prohibitions and restrictions on LANXESS’s export activities and the loss of its privileges with respect to export procedures. In individual cases, this may also result in fines, trade sanctions and loss of reputation. The LANXESS Group ensures compliance in foreign trade and export control through the global implementation and optimization of appropriate and stable control instruments and automated screening processes. By proactively monitoring trade policy developments, timely information is provided to both the operating units and the management organs concerning changes to foreign trade and the associated opportunities and risks, and appropriate recommendations for action are made.

Tax matters are subject to a degree of uncertainty in terms of their assessment by the tax authorities in Germany and other countries. Even if we believe that all circumstances have been reported correctly and in compliance with the law, the possibility cannot be ruled out that the tax authorities may come to a different conclusion in individual cases.

Great Britain’s exit from the European Union on January 31, 2020, will be followed by a transition period until December 31, 2020, in which economic and trading relations between the European Union and Great Britain are not expected to change. If no agreement on the future of these relations is reached before the end of the transition period, and no extension is requested, there will again be the threat of Great Britain leaving without a deal (“no-deal Brexit”). In the context of risk and opportunity management, we have also been assessing the impact of this scenario on our business activities. In response, we have established a cross-disciplinary team of experts tasked with, among other things, safeguarding our supply chains and, if necessary, adjusting our internal processes. We are also preparing the necessary steps with regard to the Regulation concerning the Registration, Evaluation, Authorization and Restriction of Chemicals (REACH). To ensure standard delivery times even in the event of Great Britain leaving without a deal, we have already implemented a number of preparatory measures including stocking up inventories and ensuring the continuous sharing of information with customers and suppliers. In addition, LANXESS has made preparations to be able to seamlessly transfer existing British registrations to LANXESS companies within the European Union and to ensure compliance with regulatory requirements within Great Britain at an early stage through grandfathering provisions as well as notification and registration processes. Thanks to this thorough preparation and the fact that only a small proportion of our total sales are made in Great Britain, we are confident that even Great Britain’s departure without a deal will not have any significant, negative impact on our business. Despite everything, however, a conclusive assessment of the political framework and the associated implications of Great Britain’s departure from the European Union is not currently possible.

Furthermore, we have investigated the impact of the ongoing *trade conflict* between China and the U.S. on LANXESS. The assessment found that only isolated products in our portfolio are affected, and that the flow of goods between China and the U.S. is only weak. For this reason, the direct consequences of the conflict are not expected to have a significantly negative impact on our operations.

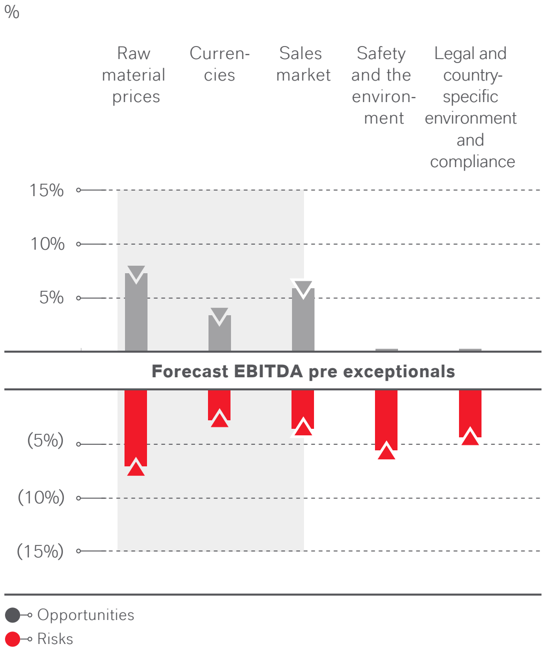
Significance of opportunities and risks and result of opportunity and risk assessment

The opportunities and risks of future development that we identify are categorized and grouped, as described above. The significance of the opportunities and threats lies in their potential impact on planned EBITDA pre exceptionals for the LANXESS Group. Individual categories in which the opportunity or risk may produce a deviation of more than 5% from our projected EBITDA pre exceptionals in the planning year are considered to be of medium to high significance. This also applies to groups in which this threshold is exceeded only on a cumulative basis across all the categories assigned to each group.

Within the context of opportunity and risk management for the planning year, the raw material prices category, the sales market group and the safety and environment group were considered to be of medium to high significance. Based on the scenarios applied or the assumed probability of occurrence, this category and these groups could produce a positive or negative deviation of up to 7% from our projected EBITDA pre exceptionals, which is our key controlling parameter.

Even though the currency category and the legal and country-specific environment and compliance group are of little importance to opportunity and risk reporting for 2020, possible positive and negative deviations from targets are also set out below for this category and group, which were significant in the past:

Opportunity and Risk Profile[1)]



1) Event- and distribution-based opportunities and risks in line with assumed scenarios; on account of the interactions between the various categories, the effects of the opportunities and risks may not be added.

Summary of overall opportunities and risks

The chemical industry worldwide is operating in an environment in which protectionist developments in major economies are restricting global trade and investment. The global challenges of our time – such as climate protection, scarcity of drinking water, and feeding a growing global population – also entail long-term risks and challenges. However, value-based, responsible and reliable action, combined with clear strategic guidelines, gives us the headroom we need to remain effective and competitive even in the evolving operating environment. In addition, this will allow us to leverage strategic and operational opportunities and to make maximum use of growth potential.

Our portfolio adjustments followed a clear strategic direction, with the successful reduction of the formerly very high automotive portion in favor of consumer applications and the expansion of our presence in medium-sized, partially regulated, and thus protected markets for specialty businesses. This balanced structure of our customer markets is intended to provide us with stability, especially in phases of economic downturn. The strengthening of our business with disinfectants and preservatives is driving profitability and growth. However, our strategy also entails separating from businesses for which we no longer see long-term development prospects at LANXESS. We therefore decided to sell all operations of the Leather business unit, which was previously part of the Performance Chemicals segment. We still have no substantial risk exposure thanks to our broadly diversified product and customer portfolios.

All planning is subject to a certain degree of forecasting risk, which could necessitate flexible adjustments to rapidly changing business conditions over the course of the year. This is particularly true in view of the fact that planning and forecasts in general are somewhat less reliable, for example due to the changes in our procurement and customer markets.

The economic ramifications of the coronavirus epidemic are an uncertainty factor.

In light of our present financing structures, our sound liquidity position and the headroom created by our realignment and in particular by the changes to our Group portfolio, we are confident of managing any risks that arise in the future.

Based on an overall evaluation of risk management information, the Board of Management at the present time cannot identify any sufficiently likely risks or risk combinations that would jeopardize the continued existence of LANXESS.

CONSOLIDATED FINANCIAL STATEMENTS

Statement of Financial Position
LANXESS Group

€ million	Note	Dec. 31, 2018	Dec. 31, 2019
ASSETS			
Intangible assets	(1)	1,764	1,765
Property, plant and equipment	(2)	2,577	2,724
Investments accounted for using the equity method	(3)	0	–
Investments in other affiliated companies	(4)	2	1
Non-current derivative assets	(5)	0	1
Other non-current financial assets	(6)	25	29
Non-current income tax receivables	(7)	14	89
Deferred taxes	(29)	287	324
Other non-current assets	(8)	117	132
Non-current assets		**4,786**	**5,065**
Inventories	(9)	1,347	1,195
Trade receivables	(10)	903	769
Cash and cash equivalents		797	296
Current derivative assets	(5)	4	5
Other current financial assets	(6)	598	864
Current income tax receivables	(7)	55	110
Other current assets	(11)	197	186
Assets held for sale and discontinued operations	(12)	–	205
Current assets		**3,901**	**3,630**
Total assets		**8,687**	**8,695**

€ million	Note	Dec. 31, 2018	Dec. 31, 2019
EQUITY AND LIABILITIES			
Capital stock and capital reserves		1,317	1,317
Other reserves		1,391	1,429
Net income		431	205
Other equity components		(359)	(282)
Equity attributable to non-controlling interests		(7)	(22)
Equity	(13)	**2,773**	**2,647**
Provisions for pensions and other post-employment benefits	(14)	1,083	1,178
Other non-current provisions	(15)	337	338
Non-current derivative liabilities	(5)	3	2
Other non-current financial liabilities	(16)	2,686	2,777
Non-current income tax liabilities	(17)	117	95
Other non-current liabilities	(18)	80	67
Deferred taxes	(29)	89	109
Non-current liabilities		**4,395**	**4,566**
Other current provisions	(15)	465	409
Trade payables	(19)	795	656
Current derivative liabilities	(5)	25	17
Other current financial liabilities	(16)	59	66
Current income tax liabilities	(17)	44	122
Other current liabilities	(18)	131	111
Liabilities directly related to assets held for sale and discontinued operations	(12)	–	101
Current liabilities		**1,519**	**1,482**
Total equity and liabilities		**8,687**	**8,695**

Income Statement
LANXESS Group

€ million	Note	2018	2019
Sales	(21)	**6,824**	**6,802**
Cost of sales	(22)	(5,086)	(5,043)
Gross profit		**1,738**	**1,759**
Selling expenses	(23)	(759)	(812)
Research and development expenses	(24)	(109)	(114)
General administration expenses	(25)	(295)	(274)
Other operating income	(26)	114	95
Other operating expenses	(27)	(198)	(247)
Operating result (EBIT)		**491**	**407**
Income from investments accounted for using the equity method		0	0
Interest income		6	22
Interest expense		(75)	(76)
Other financial income and expense		(41)	(7)
Financial result	(28)	**(110)**	**(61)**
Income before income taxes		**381**	**346**
Income taxes	(29)	(99)	(105)
Income after income taxes from continuing operations		**282**	**241**
Income after income taxes from discontinued operations		**241**	**(50)**
Income after income taxes		**523**	**191**
of which attributable to non-controlling interests		92	(14)
of which attributable to LANXESS AG stockholders (net income)		431	205
Earnings per share (undiluted/diluted) (€)	(30)		
from continuing operations		3.08	2.72
from discontinued operations		1.63	(0.40)
from continuing and discontinued operations		**4.71**	**2.32**

Prior-year figures restated

Statement of Comprehensive Income
LANXESS Group

€ million	2018	2019
Income after income taxes	**523**	**191**
Items that will not be reclassified subsequently to profit or loss		
Remeasurements of the net defined benefit liability for post-employment benefit plans	39	(128)
Income taxes	(8)	14
	31	**(114)**
Items that may be reclassified subsequently to profit or loss if specific conditions are met		
Exchange differences on translation of operations outside the eurozone	31	70
Financial instruments fair value measurement	(47)	(1)
Financial instruments cost of hedging	(28)	11
Income taxes	22	(4)
	(22)	**76**
Other comprehensive income, net of income tax	**9**	**(38)**
Total comprehensive income	**532**	**153**
of which attributable to non-controlling interests	92	(15)
of which attributable to LANXESS AG stockholders	440	168
from continuing operations	297	204
from discontinued operations	143	(36)

Statement of Changes in Equity
LANXESS Group

€ million	Capital stock	Capital reserves	Other reserves	Net income	Other equity components			Equity attributable to LANXESS AG stockholders	Equity attributable to non-controlling interests	Equity
					Currency translation adjustment	Financial instruments				
						Fair value measurement	Cost of hedging			
Dec. 31, 2017	**91**	**1,226**	**1,381**	**87**	**(509)**	**16**	**(5)**	**2,287**	**1,126**	**3,413**
Allocations to retained earnings			87	(87)				0		0
Change in accounting policies			(11)			*1*		(10)	(7)	(17)
Transactions with owners			(2)					(2)	2	0
Dividend payments			(73)					(73)	(41)	(114)
Total comprehensive income			9	431	38	(27)	(11)	440	92	532
Income after income taxes				*431*				*431*	*92*	*523*
Other comprehensive income, net of income tax			*9*		*38*	*(27)*	*(11)*	*9*	*0*	*9*
Remeasurements of the net defined benefit liability for post-employment benefit plans			*8*					*8*	*31*	*39*
Exchange differences on translation of operations outside the eurozone					*38*			*38*	*(7)*	*31*
Financial instruments						*(37)*	*(17)*	*(54)*	*(21)*	*(75)*
Income taxes on other comprehensive income			*1*			*10*	*6*	*17*	*(3)*	*14*
Changes in scope of consolidation					126	2	10	138	(1,179)	(1,041)
Dec. 31, 2018	**91**	**1,226**	**1,391**	**431**	**(345)**	**(8)**	**(6)**	**2,780**	**(7)**	**2,773**
Allocation to retained earnings			431	(431)				0		0
Acquisition and withdrawal of own shares	(4)	4	(200)					(200)		(200)
Dividend payments			(79)					(79)	0	(79)
Total comprehensive income			(114)	205	71	(1)	7	168	(15)	153
Income after income taxes				*205*				*205*	*(14)*	*191*
Other comprehensive income, net of income tax			*(114)*		*71*	*(1)*	*7*	*(37)*	*(1)*	*(38)*
Remeasurements of the net defined benefit liability for post-employment benefit plans			*(128)*					*(128)*		*(128)*
Exchange differences on translation of operations outside the eurozone					*71*			*71*	*(1)*	*70*
Financial instruments						*(1)*	*11*	*10*		*10*
Income taxes on other comprehensive income			*14*			*0*	*(4)*	*10*		*10*
Dec. 31, 2019	**87**	**1,230**	**1,429**	**205**	**(274)**	**(9)**	**1**	**2,669**	**(22)**	**2,647**

Statement of Cash Flows
LANXESS Group

€ million	Note	2018	2019
Income before income taxes		**381**	**346**
Amortization, depreciation, write-downs and reversals of impairment charges of intangible assets, property, plant and equipment		415	503
Gains on disposals of intangible assets and property, plant and equipment		(1)	(1)
Financial losses		63	34
Income taxes paid		(154)	(193)
Changes in inventories		(148)	85
Changes in trade receivables		(84)	94
Changes in trade payables		53	(111)
Changes in other assets and liabilities		(84)	(123)
Net cash provided by operating activities – continuing operations	(38)	**441**	**634**
Net cash provided by operating activities – discontinued operations		**145**	**9**
Net cash provided by operating activities – total		**586**	**643**
Cash outflows for purchases of intangible assets and property, plant and equipment		(482)	(508)
Cash inflows from sales of intangible assets and property, plant and equipment		3	6
Cash outflows for financial assets		(494)	(323)
Cash inflows from financial assets		–	82
Cash outflows for the sale of subsidiaries and other businesses, less acquired cash and cash equivalents		(66)	–
Cash inflows from the sale of subsidiaries and other businesses, less acquired cash and cash equivalents		1,304	20
Interest and dividends received		15	26

€ million	Note	2018	2019
Cash outflows for external funding of pension obligations (CTAs)		(200)	–
Net cash provided by (used in) investing activities – continuing operations	(38)	**80**	**(697)**
Net cash used in investing activities – discontinued operations		**(184)**	**(15)**
Net cash used in investing activities – total		**(104)**	**(712)**
Proceeds from borrowings		653	4
Repayments of borrowings		(662)	(90)
Interest paid and other financial disbursements		(77)	(66)
Dividend payments		(74)	(79)
Acquisition of own shares		–	(200)
Net cash used in financing activities – continuing operations	(38)	**(160)**	**(431)**
Net cash used in financing activities – discontinued operations		**(57)**	**(2)**
Net cash used in financing activities – total		**(217)**	**(433)**
Change in cash and cash equivalents from continuing operations		**361**	**(494)**
Change in cash and cash equivalents from discontinued operations		**(96)**	**(8)**
Change in cash and cash equivalents – total		**265**	**(502)**
Cash and cash equivalents as of January 1		538	797
Exchange differences and other changes in cash and cash equivalents		(6)	1
Cash and cash equivalents as of December 31	(38)	**797**	**296**
of which continuing operations		797	296
of which discontinued operations		–	0

Prior-year figures restated

Notes to the Consolidated Financial Statements

GENERAL INFORMATION

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

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

The consolidated financial statements of the LANXESS Group for fiscal year 2019 were prepared by the Board of Management of LANXESS AG and authorized for submission to the Supervisory Board on February 27, 2020. It is the responsibility of the Supervisory Board to examine the consolidated financial statements and declare whether or not it approves them.

STRUCTURE AND COMPONENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS APPLIED

The consolidated financial statements of the LANXESS Group as of December 31, 2019, were prepared in accordance with the International Financial Reporting Standards (IFRS) as endorsed by the European Union (E.U.) and the corresponding interpretations, together with the additional requirements of Section 315e, Paragraph 1 of the German Commercial Code (HGB).

Leases

On January 13, 2016, the IASB published the new standard IFRS 16, which supersedes IAS 17. The standard was endorsed by the E.U. in October 2017 and is to be applied for annual periods beginning on or after January 1, 2019. The transition was made applying the modified retrospective method. Therefore, the comparative figures of fiscal year 2018 have not been restated. The transition had no effects on equity.

Under IFRS 16, lessees recognize all leases as a right-of-use asset and a lease liability in the statement of financial position on the basis of the present value of the lease payments. For lessees, the distinction between operating and finance leases is abolished. The lease liability is remeasured on the occurrence of specified events (e.g. change in the term of the lease or change in future lease payments resulting from a change in an index). In general, remeasurements of lease liabilities result in an adjustment of the right-of-use asset. Depreciation on the capitalized right-of-use asset and interest expense for compounding the lease liabilities are recognized in the income statement. The application of IFRS 16 results in a shift in the cash flows in the statement of cash flows. Instead of the lease payments previously shown in cash flow from operating activities, the principal and interest portions of the lease payments are recognized in cash flow from financing activities. IFRS 16 results in no material changes for lessors.

LANXESS applies the options for lessees provided by the new standard for the treatment of short-term leases and leases for low-value assets. As these options are applied, the costs of these leases are expensed immediately and the payments are recognized in cash flow from operating activities. The new requirements were not applied to leases whose term ends within twelve months of the date of first-time application. These leases are accounted for as short-term leases. LANXESS has decided not to reassess leases concluded before the transition date to determine whether an arrangement is or contains a lease at the date of initial application, but instead to retain the assessment made according to IAS 17 and IFRIC 4. Initial direct costs were excluded from the measurement of right-of-use assets on initial application. If leases had options to extend or terminate the lease, LANXESS made estimates regarding the retrospective determination of terms on the basis of previous experience.

As of the transition date of January 1, 2019, present values of €133 million for lease liabilities, asset retirement obligations of €2 million and conversely right-of-use assets of €135 million were recognized under property, plant and equipment in the statement of financial position, of which lease liabilities of €4 million and right-of-use assets of €4 million are attributable to discontinued operations. This reduced the equity ratio by around 0.5 percentage points compared with December 31, 2018. Net financial liabilities increased by the value of the additional lease liabilities.

Starting with the operating lease obligations as of December 31, 2018, the reconciliation with the opening balance of the lease liabilities as of January 1, 2019, was as follows:

Reconciliation of Lease Liabilities IFRS 16

€ million	Jan. 1, 2019
Operating lease obligations as of December 31, 2018	**176**
Nominal value of liabilities from finance leases as of December 31, 2018	21
Application of options for lessees and others	(12)
Nominal value of lease liabilities as of January 1, 2019	**185**
Discounting	(35)
Present value of lease liabilities as of January 1, 2019	**150**
Present value of liabilities from finance leases as of December 31, 2018	(17)
Additional liabilities due to initial application of IFRS 16	**133**
Adjustments in accordance with IFRS 5	(4)
Additional liabilities due to initial application of IFRS 16 after adjustments in accordance with IFRS 5	**129**

The right-of-use assets and lease liabilities were discounted using the incremental borrowing rate as of January 1, 2019. The weighted average rate at the time of initial application was 2.7%. As of December 31, 2019, there were lease liabilities of €141 million and right-of-use assets of €148 million.

The past expense for operating leases is no longer reported in the income statement and is replaced by the depreciation expense of the recognized right-of-use assets and interest expenses on the lease liability.

The mandatory first-time application of the following financial reporting standards and interpretations in fiscal year 2019 currently has no impact, or no material impact, on the LANXESS Group:

Standard/Interpretation	
IFRS 9	Amendments to IFRS 9 – Prepayment Features with Negative Compensation
IFRIC 23	IFRIC 23 – Uncertainty over Income Tax Treatments
IAS 28	Amendments to IAS 28 – Long-term Interests in Associates and Joint Ventures
IAS 19	Amendments to IAS 19 – Plan Amendment, Curtailment or Settlement
Various IAS and IFRS	Annual Improvements to International Financial Reporting Standards (2015–2017 Cycle)

FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET MANDATORY

In fiscal year 2019, the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee issued financial reporting standards and interpretations, whose application was not yet mandatory for that year and which the LANXESS Group thus did not yet apply. The application of these standards and interpretations is in some cases contingent upon their endorsement by the E.U. It is therefore possible that the dates for mandatory application may ultimately be later than indicated below.

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

Standard/Interpretation		Date of publication	Mandatory for LANXESS as of fiscal year	Endorsed by the E.U.
IFRS 17	Insurance Contracts	May 18, 2017	2021	No
Conceptual Framework	Amendments to References to the Conceptual Framework in IFRS Standards	March 29, 2018	2020	Yes
IFRS 3	Amendments to IFRS 3 – Definition of a Business	October 22, 2018	2020	No
IAS 1/IAS 8	Amendment to IAS 1 and IAS 8 – Definition of Material	October 31, 2018	2020	Yes
IFRS 9/IAS 39/ IFRS 7	Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest Rate Benchmark Reform	Sept. 26, 2019	2020	Yes
IAS 1	Amendments to IAS 1 – Classification of Liabilities as Current or Non-Current	January 23, 2020	2022	No

RESTATEMENT OF PRIOR-YEAR FIGURES

Due to the application of IFRS 5, the prior-year figures in the income statement as well as the statement of cash flows and the associated disclosures in the notes were restated.

CONSOLIDATION

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

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

Intra-Group profits or losses, sales, income and expenses as well as receivables and payables between consolidated companies are eliminated.

Scope of consolidation

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

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

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

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

Fully consolidated companies

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

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

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

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

Goodwill is measured as of the acquisition date as the excess of the consideration transferred, the amount of any non-controlling interests and the fair value of any previously held equity interest over the fair value of the net assets acquired. Negative goodwill is recognized in the income statement.

Investments accounted for using the equity method

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

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

Joint operations

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

Transactions with owners

Transactions with non-controlling interests, which do not result in a loss of control, are treated as transactions between shareholders of the LANXESS Group. Changes in ownership interests are accounted for by adjusting the carrying amounts of the controlling and non-controlling interests. Differences between the adjustment to the carrying amount of the non-controlling interests and the fair value of the consideration paid or received are recognized immediately in other reserves and thus assigned to the equity attributable to the stockholders of LANXESS AG.

CURRENCY TRANSLATION

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

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

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

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

Foreign currency transactions for which advance consideration has been paid or received are translated at the exchange rate of the advance consideration paid or received up to the amount of the advance consideration paid or received, if material.

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

IAS 29 has been applicable to the subsidiary LANXESS S.A., Buenos Aires, Argentina, since fiscal year 2018. Non-monetary items in the statement of financial position, components of equity and items in the statement of comprehensive income were adjusted to the actual price level using the price index proposed by the Government Board of the Argentine Federation of Professional Councils of Economic Sciences (FACPCE) as of December 31, 2019, and subsequently translated at the closing rate at the end of the reporting period. The wholesale consumer price index (Indec IPIM) was used for inflation for fiscal years before December 31, 2016, and the retail consumer price index (IPC Nacional INDEC) was used from January 1, 2017. The price index came to 184.59 points at the start of the fiscal year and 284.96 points at the end of the fiscal year.

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

Exchange Rates

		Closing rate		Average rate	
€1		Dec. 31, 2018	Dec. 31, 2019	2018	2019
Argentina	ARS	43.13	67.26	32.91	53.95
Brazil	BRL	4.44	4.53	4.30	4.41
China	CNY	7.88	7.82	7.81	7.73
Great Britain	GBP	0.89	0.85	0.88	0.88
India	INR	79.88	80.19	80.71	78.83
Japan	JPY	125.85	121.94	130.40	122.05
Canada	CAD	1.56	1.46	1.53	1.49
Singapore	SGD	1.56	1.51	1.59	1.53
South Africa	ZAR	16.46	15.78	15.61	16.17
U.S.	USD	1.15	1.12	1.18	1.12

ACCOUNTING POLICIES AND VALUATION PRINCIPLES

The accounting policies and valuation principles are the same as those used in the previous fiscal year and have been consistently applied. However, certain changes have resulted from the mandatory first-time application in fiscal year 2019 of new or amended financial reporting standards and interpretations. These changes are explained in the section headed "Financial Reporting Standards and Interpretations Applied."

Intangible assets

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

The costs incurred for in-house software development at the application development stage are capitalized. For development costs to be capitalized, it must be sufficiently certain that the development activity will generate future economic benefits which will also cover the associated development costs. These costs are amortized over the expected useful life of the software from the date it is completed.

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

Property, plant and equipment

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

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

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

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

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

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

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

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

Assets are depreciated using the straight-line method based in general on the following useful lives:

Useful Lives

Buildings	20 to 50 years
Outdoor infrastructure	10 to 20 years
Plant installations	3 to 25 years
Machinery and equipment	8 to 15 years
Laboratory and research facilities	3 to 5 years
Storage tanks and pipelines	10 to 20 years
Vehicles	5 to 8 years
Computer equipment	3 to 5 years
Furniture and fixtures	5 to 10 years

Leases (IFRS 16)

Since January 1, 2019, lessees have recognized all leases as a right-of-use asset and a lease liability in the statement of financial position on the basis of the present value of the lease payments.

Lease liabilities are recognized as financial liabilities and include the fixed lease payments. Variable payments that depend on an index or a rate and expected residual value payments or residual value guarantees are also included. If the exercise of a purchase option or the exercise of an extension option is reasonably certain, the exercise price or the corresponding lease payments are included in the calculation of the lease liabilities. Penalties for the termination of the lease are included if their utilization is reasonably certain. The present value is calculated at the interest rate implicit in the lease. If there is no such interest rate, discounting is performed at the incremental borrowing rate. The incremental borrowing rate is calculated by using yields with matching maturities on government bonds for the respective country in question in the respective currency and adding credit risk premiums. Interest on the lease liability is recognized in the interest expense of the financial result. Lease liabilities are remeasured on the occurrence of specified events (e.g. change in the term of the lease or change in future lease payments resulting from a change in an index). In general, remeasurements of lease liabilities result in an adjustment of the right-of-use asset.

Right-of-use assets are measured at cost and reported in property, plant and equipment. Cost includes the present value of the aforementioned lease liabilities, advance lease payments made, initial direct costs and asset retirement obligations. Right-of-use assets are depreciated using the straight-line method over the shorter of the asset's useful life and the term of the lease and fall under the scope of IAS 36. In subsequent periods, they are measured at amortized cost.

Costs of short-term leases and leases for low-value assets are recognized as current expense. Furthermore, the leasing standards are not applied to leases for intangible assets. Lease and non-lease components are separated provided they are clearly identifiable and distinct.

Assets leased under operating leases are recognized in property, plant and equipment at amortized cost. The lease payments received in the period are recognized in sales. Under finance leases, the asset concerned is derecognized, and a lease receivable is recognized at an amount equal to the net investment in the lease.

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

Leases (IAS 17)

The accounting policies and valuation principles for leases, which were applied in accordance with the requirements of IAS 17 in the previous year, are explained below.

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

In the previous year, the future lease payments were recognized as financial liabilities. Liabilities under finance leases were recognized at the fair value of the leased asset at commencement date or the present value of the minimum lease payments, whichever was lower. The minimum lease payments were divided into financing costs and the portion representing repayment of the principal. In the case of leasing contracts that do not include the transfer of substantially all risks and rewards incidental to ownership (operating leases), the lease payments were recognized as expense.

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

Leasing arrangements may have been embedded in other contracts. Where IFRS stipulated separation of the embedded leasing arrangement, the components of the contract were recognized and measured separately.

Financial instruments

Financial instruments are contracts that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Firstly, these include primary financial instruments such as trade receivables and payables or financial receivables and liabilities. Secondly, they also include derivative financial instruments used to hedge the risks of changes in exchange rates, raw material prices and interest rates.

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

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

Financial assets are initially recognized at fair value. For subsequent measurement, depending on their classification, they are recognized at amortized cost using the effective interest method or at fair value in other comprehensive income or in profit or loss. Classification is determined by the business model and the characteristics of the cash flows. The possible classifications are as follows:

Under the “hold” business model, financial instruments are held until maturity. They are measured at amortized cost if the cash flows are solely for payments of principal and interest. The Group does not use the option for measurement at fair value through profit and loss. Financial instruments not recognized at fair value through profit or loss are reduced by expected credit losses. Both historical loss experience and future expected losses are used to calculate expected credit losses. A three-stage assessment is applied to the expected credit loss. In the first stage, the expected credit loss over the next twelve months is assessed and the expected loss is recognized. If the credit risk increases over the term of the financial instrument, the potential credit loss over the entire term of the financial instrument is assessed and the expected loss is increased on the basis of this measurement (second stage). In the event of a default, the expected default amount is recognized (third stage) and an expected loss is also taken into account for any residual amount of the financial instrument. The effective interest method is then only applied to the residual amount. For trade receivables and contract assets, the simplified model for the entire term is used to calculate the expected risk of default, and the expected loss over the entire term of the financial instrument is measured and recognized. Expected losses on trade receivables and contract assets are recognized in other operating expenses, taking into account reversals from prior periods. For all other financial instruments not recognized at fair value through profit or loss, the expected loss is recognized under "Other financial result."

Under the "hold and sell" business model, an entity intends to resell the financial instrument during its term after a certain holding period. Such financial instruments are measured at fair value. Gains or losses on subsequent measurement are recognized in other comprehensive income if the cash flows are solely for payments of principal and interest. In the event of impairment charges, the corresponding effects are reclassified from other comprehensive income to profit or loss.

Financial instruments that are not measured at amortized cost or at fair value in other comprehensive income are recognized at fair value in profit or loss. Gains or losses from subsequent measurement are recognized in the income statement.

Trade receivables and other financial receivables are initially recognized at fair value under the "hold" business model and subsequently accounted for at amortized cost using the effective interest method. The expected loss is calculated using the simplified model for the entire term on the basis of a past due matrix and taking into account historical loss experience and future expected losses. Both expected and incurred losses are recognized in profit or loss through separate allowance accounts.

Other current and non-current financial receivables that are accounted for under the "hold" business model are initially recognized at fair value and subsequently accounted for at amortized cost using the effective interest method. These include financial assets whose cash flows are solely for payments of principal and interest, contract assets and other financial receivables. The expected loss is calculated according to the counterparty's future expected loss. Other current and non-current financial receivables that are accounted for under the "hold to collect" business model are measured at fair value. Depending on whether they can be assigned to the "hold and sell" business model, the gain or loss on subsequent measurement is recognized through other comprehensive income or otherwise through profit or loss.

Equity instruments are recognized at fair value. For subsequent measurement, it is determined irrevocably at the level of the individual equity instrument whether gains or losses and the gains on disposal are recognized through other comprehensive income or through profit or loss.

This does not include equity investments, which are accounted for using the equity method, or entities in which LANXESS holds 100% of the shares, which are not fully consolidated for lack of materiality. Investments in companies accounted for using the equity method are recognized at the amounts corresponding to LANXESS's shares in their equity in accordance with IAS 28. Equity investments in which LANXESS holds 100% of the shares, which are not fully consolidated for lack of materiality, are recognized at amortized cost. Where objective evidence exists that such assets may be impaired, an impairment loss is recognized on the basis of an impairment test.

Primary financial liabilities are initially recognized at fair value less any transaction costs. In subsequent periods, they are measured at amortized cost using the effective interest method. LANXESS does not utilize the option of designating financial instruments as at fair value and recognizing them in profit or loss on initial recognition.

Derivative financial instruments and hedging transactions

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

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

Determination of fair value

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

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

Contract assets are recognized at their carrying amounts. If they contain significant financing components, they are discounted using current interest rates. The fair values accordingly correspond to the carrying amounts.

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

The fair value of loans and liabilities to banks is calculated on the basis of discounted future payments of principal and interest.

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

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

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

The derivative financial instruments used by LANXESS are primarily traded in an active, liquid market. The fair values as of the end of the reporting period pertain principally to forward exchange contracts and, to a small extent, to forward commodity contracts. If information on hedging costs is available, the fair values are derived from their trading or listed prices using the forward-to-forward method. If information on hedging costs is not available in a market, the fair values are calculated using the spot-to-spot method, and hedging costs, including the forward component, are separated. Where no market price is available, values are determined using recognized capital market pricing methods based on observable market data. In determining the fair values, adjustments for LANXESS's own credit risk and counterparty credit risk are made on the basis of the respective net positions.

Cash and cash equivalents

Cash and cash equivalents represent financial instruments that are allocated to the "hold to collect" business model and recognized at amortized cost. The risk of default relating to cash and cash equivalents is calculated taking into account the counterparty's future expected loss applying the three-stage model and recognized under "Other financial result." Cash and cash equivalents comprise checks, cash and balances with banks. Securities with maturities of up to three months from the date of acquisition are recognized in cash and cash equivalents due to their high liquidity.

Inventories

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

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

It also includes expenses for company pension plans, social services and voluntary social benefits that can be allocated to production. Administrative costs are included where they are attributable to production.

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

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

Provisions

Provisions are recognized and measured in accordance with IAS 37 and, where appropriate, IAS 19 and IFRS 2, using the best estimates of the amounts of the obligations. Non-current portions of material provisions due in more than one year are discounted to present value if the extent and timing of the obligation can be assessed with reasonable certainty. The change in the provision resulting from approaching the due date (interest effect) is expensed in the other financial result.

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

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

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

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

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

Restructuring provisions are established if there is a legal or constructive obligation on the basis of a detailed restructuring plan adopted by authorized management, and the employees affected or their representatives have been informed. Such provisions contain the expenses that are directly attributable to the restructuring and that are necessary to implement these measures and do not relate to the future operating business.

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

Contingent liabilities

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

Liabilities

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

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

Contract liabilities are also reported in other liabilities and represent advance consideration paid by the customer for outstanding performance obligations.

Financial reporting in hyperinflationary economies

A country must be classified as a hyperinflationary economy if, in addition to other criteria, the cumulative inflation rate over the past three years approaches or exceeds 100%. On classification as a hyperinflationary economy, non-monetary items in the statement of financial position, components of equity and items in the statement of comprehensive income are restated to the current price level using a suitable price index. Restatements to the current price level that are attributable to prior reporting periods lead to a difference between the prior-year equity and the opening balance of equity of the reporting period. These equity differences are shown in other comprehensive income in the currency translation adjustments from the translation of operations outside the eurozone. The changes are recognized in the reporting period of the first assessment of the country as a hyperinflationary economy. Changes relating to the current reporting period are recognized as monetary gains or losses under “Other financial result.”

In the statement of financial position, this applies in particular to non-monetary assets and liabilities that are recognized at amortized cost and therefore not at the current price level. These are essentially intangible assets, property, plant and equipment, inventories and advance consideration paid and received. The restatement of prices is calculated from the date of the asset’s historical acquisition or production to the end of the reporting period. Equity components, except retained earnings, are restated to the current price level from the date of contribution. Statement of comprehensive income items are restated from the dates when the items of income and expenses were initially recorded in the financial statements.

Non-current assets and liabilities held for sale and discontinued operations

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

The assets and liabilities in question are each reported in a separate line item in the statement of financial position. Intangible assets and property, plant and equipment held for sale are not subject to any further amortization or depreciation, and are recognized at the lower of carrying amount at the time of classification as held for sale and fair value less costs to sell. Intra-Group receivables and liabilities are eliminated in full. The previous year’s figures are not restated.

The presentation of the income statement focuses on earnings from continuing operations. Earnings from discontinued operations are shown in the line “Income after income taxes from discontinued operations.” Intra-Group transactions that continue with the discontinued operation after its deconsolidation or with third parties are recognized under continuing operations. The elimination entries as part of the consolidation of expense and income are assigned fully to discontinued operations. The prior-year period in the income statement is adjusted accordingly. The gain or loss on deconsolidation is recognized under discontinued operations. In the case of non-current assets held for sale, the earnings are allocated to continuing operations.

The notes to items of the statement of financial position provide details of the reconciliation from values at the start of the year to values at the end of the year. The presentation of the reconciliations focuses on continuing operations. The figures for discontinued operations are reported in the line “Adjustments in accordance with IFRS 5.” They include the reclassification of the carrying amounts for discontinued operations at the start of the fiscal year and the reclassification of the carrying amounts of the non-current assets held for sale as of the reclassification date according to IFRS 5. The expenses and income in the income statement attributable to discontinued operations for the previous year are also recognized here.

Sales and other revenues

Sales in the course of ordinary activities are recognized in revenue in accordance with the rules of IFRS 15. In particular, these are sales of internally generated chemical products or from tolling agreements for such products. In addition, research and development work, sales- and product-related services and other long-term services are also recognized in revenue. Services that do not relate to ordinary activities and that are temporary are reported in other operating income.

Revenue is recognized depending on the transfer of control over products or services to the customer. Control can be transferred either at a point in time or over time. Control has been transferred when the customer has obtained the ability to direct the use of, and obtain the remaining benefits from, the asset. There are typically no rights of return.

Depending on the terms and conditions of delivery, revenue from the sale of chemical products is typically recognized when the customer or a third party commissioned by the customer receives the products. At this time, the risks and rewards have been transferred to the customer, the customer has physically received the goods and, normally, there are no longer any outstanding obligations preventing the customer's acceptance of the product. The time at which the right to receive payment and the time when legal title passes are governed by individual regulations and are referenced in determining the timing of revenue. Revenue is measured at the invoice amount after deducting transfer taxes and sales deductions.

Under the business model of manufacturing products on the basis of long-term sales contracts with contractually defined minimum purchase requirements, revenue is recognized when the customer receives the goods. Revenue is measured by estimating the total revenue expected in the future from the sale of minimum amounts over the full term of the contract and allocated to the individual deliveries. Rebates and material rights to procure expected additional purchase quantities are taken into account in the total revenue from the sale. Differences from the invoice price arising as a result of average pricing are recognized as contract assets or liabilities that are reversed over the term of the contract.

Under the business model of manufacturing customer-specific products on the basis of long-term supply agreements with a contractually defined minimum purchase requirement, within the meaning of the rules of IFRS 15, the LANXESS Group has no alternative use for the products manufactured under these contracts. Moreover, it has a contractually enforceable right to payment for the minimum amount under the purchase requirement. Revenue for finished goods and work in progress, and for advance consideration paid by the customer, is recognized over the manufacturing period. Revenue for finished goods is measured based on the volumes produced for the fiscal year. For finished products, the total revenue expected in the future from the sale of minimum amounts over the full term of the contract is estimated and allocated to the individual production units. Rebates and material rights to procure expected additional purchase quantities are taken into account in the total revenue from the sale. Revenue for work in progress is measured based on the production costs incurred, which are calculated using the input method taking into account a pro rata margin for the end product (see "Inventories" section in this section for explanations of the calculation of production costs). Contract assets are recognized for the corresponding receivables until the products are delivered. The relevant inventories are derecognized when revenue is recognized. When the products are delivered, the contract assets are reversed and trade receivables are recognized.

Under the business model sale of products including organizing freight services, control transfers to the customer on the basis of the agreed terms and conditions of delivery, essentially at the end of the freight service. Thus, revenue is measured and recognized at the invoice amount after deducting transfer taxes and sales deductions. The freight service is not treated as a separate performance obligation.

Tolling agreements for chemical products, research and development work, sales- and product-related services and other long-term services are recognized in revenue over the performance period and at the invoice amount after deducting transfer taxes and sales deductions.

Customer rebates that are not attributable to the business models of manufacturing products or customer-specific products on the basis of long-term sales contracts with contractually defined minimum purchase requirements are recognized in the period in which the revenues are realized.

Research and development expenses

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

Income taxes

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

Income tax receivables and liabilities relate to both the respective fiscal year and previous years. They are assessed on the basis of the applicable legislation, taking into account present legal practice judgments and prevailing opinion. Uncertain income tax items are recognized provided that payment or reimbursement is considered probable. They are measured individually at the most probable amount or the expected value, depending on which measurement provides the best estimate of the uncertain tax item in question.

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

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

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

Business acquisitions and divestments

Business acquisitions are accounted for using the acquisition method. At the time of initial control, the acquired assets and liabilities are measured at fair value. The incidental acquisition costs associated with the business acquisition are recognized as expense of the period in which they are incurred.

Divestments of shares in subsidiaries resulting in the loss of control are recognized in profit or loss. In the case of successive share disposals without loss of control, the decline in the majority share is recognized in other comprehensive income and results in an increase in non-controlling interests in equity. If significant influence continues to be exerted after loss of control, an interest in an associate or an investment accounted for using the equity method is recognized. As soon as there is no longer a significant influence on financial and business policy, the remaining interest is classified as a financial asset and recognized at fair value in other comprehensive income or in profit or loss.

Statement of cash flows

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

The cash flows of continuing operations are reported separately from the cash flows of discontinued operations. The cash flows of discontinued operations are shown combined in one line per area. The previous year's figures are restated accordingly.

The cash flows from operating activities are calculated using the indirect method. This involves eliminating the translation effects, the effects of the initial application of financial reporting standards and the effects of changes in the consolidated group from the changes recognized in the items in the statement of financial position. Therefore, the cash flows calculated by the indirect method cannot be directly derived from the statement of financial position.

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

Since January 1, 2019, lessees have recognized all leases as a right-of-use asset and a lease liability in the statement of financial position on the basis of the present value of the lease payments. Disbursements made under leases where LANXESS is the lessee are recognized as cash outflows for financing activities, while cash inflows under finance leases where LANXESS is the lessor are recognized as cash inflows from investing activities. Payments for short-term leases and leases for low-value assets are included in cash flows from operating activities. In the previous year, all payments relating to operating leases where LANXESS was the lessee were recognized in cash flows from operating activities.

Cash flows relating to the financing of pension obligations where future pension payments will be made directly out of external plan assets are allocated to cash flows for operating activities. Cash flows relating to the financing of pension obligations where LANXESS only has a claim to reimbursement of future pension payments (contractual trust arrangement – CTA) are allocated to cash flows for investing activities.

Purchase prices paid or received in connection with acquisitions or divestments of subsidiaries or other business entities are included in the investing cash flows of continuing operations after deducting cash and cash equivalents acquired or divested. These also include purchase price payments for discontinued operations.

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

Global impairment testing procedure and impact

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

For impairment testing of assets, the LANXESS Group defines its business units as cash-generating units, with the exception of the Advanced Industrial Intermediates business unit, which is broken down into the cash-generating units Advanced Industrial Intermediates and Antioxidants & Accelerators.

If there is reason to suspect impairment of non-current assets below the level of the cash-generating units, impairment testing is performed at this level and impairment charges or reversals of impairment charges are recognized in profit or loss where necessary.

Cash-generating units to which goodwill is allocated are tested annually for impairment – or more frequently if events or changes in circumstances indicate a possible impairment. The carrying amount of each cash-generating unit, including the goodwill allocated to it, is compared with its recoverable amount. The cash-generating units Advanced Industrial Intermediates and Antioxidants & Accelerators form a group for the impairment testing of the goodwill of the Advanced Industrial Intermediates business unit.

In the reporting year, the Additives business unit was split into the Lubricant Additives Business and Polymer Additives business units. In the previous year, the sale of the investment in ARLANXEO disposed of the Tire & Specialty Rubbers (Butyl Rubber and Performance Butadiene Rubbers) and High Performance Elastomers (High Performance Elastomers and Keltan Elastomers) business units. The goodwill associated with the Tire & Specialty Rubbers business unit was tested at the level of the group of the two Butyl Rubber and Performance Butadiene Rubbers business units and was fully disposed of as of December 31, 2018, as a result of the deconsolidation.

The recoverable amount is the higher of the asset's fair value less costs of disposal and the value in use. If the carrying amount of a cash-generating unit exceeds the recoverable amount, an impairment charge is recognized in certain circumstances. The fair value less costs of disposal – which represents the best estimate of the potential sale proceeds at the time of the respective impairment test – is the amount obtainable from the sale of a cash-generating unit in an arm's-length transaction between knowledgeable, willing parties, less the costs of disposal. The value in use is defined as the present value of future cash flows based on the continuing use of the asset and its retirement at the end of its useful life. The first step in assessing whether to recognize or reverse an impairment charge is to determine the fair value less costs of disposal. If this is lower or higher than the carrying amount of the cash-generating unit, the value in use is then determined. The fair value less costs of disposal is generally calculated using a net present value method which is allocated to Level 3 of the fair value hierarchy (see under "Fair value measurement" in Note [37]).

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

Since the introduction of IFRS 16, the residual carrying amounts of the respective cash-generating unit include the right-of-use assets from leases as part of property, plant and equipment. However, lease liabilities as financial liabilities are not included. When deriving the net cash flows, cash flows are increased by depreciation of right-of-use assets and decreased by replacement investments in right-of-use assets and lease payments for short-term leases and leases of low-value assets. The treatment of finance leases has not changed compared with the approach under IAS 17.

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

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

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

The results of the global impairment tests in fiscal years 2018 and 2019 are outlined in the following section.

ESTIMATION UNCERTAINTIES AND THE EXERCISE OF DISCRETION

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

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

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

At least once a year, the LANXESS Group conducts impairment tests on its individual cash-generating units or groups of cash-generating units to which goodwill has been allocated. Impairment tests are also conducted if there is an indication of a possible impairment (for further information see the section headed "Global impairment testing procedure and impact"). To determine fair value less costs of disposal, the impairment tests of assets and goodwill were based on net present value methods, which are allocated to Level 3 of the fair value hierarchy.

Management's assumptions and estimates used for the *impairment test conducted on assets* in fiscal year 2019 could differ from the actual values in subsequent periods, necessitating subsequent valuation adjustments. Management's expectations of future net cash flows therefore have an indirect impact on the valuation of goodwill and other assets. The annual impairment tests are based on a discount rate after taxes of 6.1% (previous year: 6.7%). In the previous year, there was an impairment test as of the closing date based on a discount rate after taxes of 6.7% for the former Additives business unit in the Specialty Additives segment. This impairment test as of the closing date in the previous year was triggered by the acquisition of goodwill of €12 million with the U.S. phosphorus additives business of the Belgian chemicals group Solvay, including its U.S. production site in Charleston. As part of the split of the Additives business unit into the Lubricant Additives Business and Polymer Additives business units, this goodwill was allocated to the Polymer Additives business unit in the current fiscal year.

The impairment tests of the cash-generating units showed no need for the recognition of impairment charges in fiscal years 2018 and 2019.

The *annual impairment test for the goodwill items* is performed on the basis of fair value less costs of disposal. The goodwill items are carried in local currency. The principal goodwill items are explained below.

Material goodwill of €209 million is attributable to the Lubricant Additives Business business unit and €325 million to the Polymer Additives business unit. These two business units were created by the split of the Additives business unit in fiscal year 2019 and are allocated to the Specialty Additives segment. In the previous year, the goodwill of the Additives business unit amounted to €524 million. The change compared to the previous year is due to currency effects.

Other material goodwill is attributable to the Urethane Systems business unit in the amount of €151 million (previous year: €149 million) and to the Material Protection Products business unit in the amount of €140 million (previous year: €137 million). The changes are due to currency effects. As in the previous year, goodwill of €40 million is attributable to other business units, which are not described for reasons of materiality.

Information on calculating the net cash flows can be found in this section and the previous section. The Lubricant Additives Business and Polymer Additives business units primarily manufacture additives for the construction, electrical, primary metal and food-processing industries. Urethane Systems produces elastomers on a urethane basis, which are used in the automotive, electrical/electronics, construction and various other industries. The Material Protection Products business unit manufactures material protection products, active ingredients and biocidal formulations for the wood, beverage bottling, paint and varnish, and various other industries. The estimates of future market developments on which detailed planning is based are dependent on the respective customer industries and draw on management's past experience, taking account of internal and external economic and industry-specific sources of information.

Average annual sales growth of 3% was assumed for the Lubricant Additives business unit and 4% for the Polymer Additives business unit. In the previous year, average annual sales growth of 4% was planned for the Additives business unit, which consisted of the two aforementioned business units.

The Urethane Systems business unit planned average annual sales growth of 4% (previous year: 7%), and the Material Protection Products business unit planned 5%, the same as in the previous year.

For the impairment tests of material goodwill, higher EBITDA values than in the last planning period were assumed for the steady state in the current fiscal year for the Lubricant Additives Business and Polymer Additives business units in the perpetual annuity calculation. In the previous year, a lower EBITDA value than in the previous planning period was assumed for the Additives business unit in the perpetual annuity calculation. A higher EBITDA value than in the last planning period was assumed for the steady state in the perpetual annuity calculation for the Urethane Systems business unit in the previous year. In the Material Protection Products business unit, there is a lower EBITDA value than in the previous planning period in the perpetual annuity calculation.

The impairment test performed on goodwill items in fiscal years 2018 and 2019 did not indicate any need for recognition of impairment charges. Neither a one-percentage-point increase in the discount rate nor a 10% reduction in expected future net cash flows would have led to the recognition of an impairment charge on goodwill items.

Great Britain's exit from the European Union on January 31, 2020, will be followed by a transition period until December 31, 2020, in which economic and trading relations between the European Union and Great Britain are not expected to change. If no agreement on the future of these relations is reached before the end of the transition period, and no extension is requested, it is possible that Great Britain will leave without a deal. The impact of this scenario on the business was examined as part of risk and opportunity management. In response, a cross-disciplinary team of experts was tasked with, among other things, safeguarding supply chains and, if necessary, adjusting internal processes. The necessary steps with regard to the Regulation concerning the Registration, Evaluation, Authorization and Restriction of Chemicals (REACH) are also being prepared. To ensure standard delivery times even in the event of Great Britain leaving without a deal, a number of preparatory measures have already been implemented, including stocking up inventories and ensuring the continuous sharing of information with customers and suppliers. In addition, LANXESS has made preparations to be able to transfer existing British registrations to LANXESS companies within the European Union and to ensure compliance with regulatory requirements within Great Britain through grandfathering provisions and notification and registration processes. Thanks to the thorough preparation and the fact that a small proportion of total sales are made in Great Britain, a no-deal departure is not expected to have any significant, negative impact on business performance. As of the closing date, a conclusive assessment of the political framework and the associated implications of Great Britain's departure from the European Union is not possible.

Furthermore, there has been an investigation of the impact of the ongoing trade conflict between China and the U.S. on LANXESS. The assessment found that only isolated products in the LANXESS portfolio are affected, and that there is only a low level of goods flows between China and the U.S. Therefore, the direct consequences of the conflict are not expected to have a significantly negative impact on our operations.

In lease accounting, estimates were made in particular when determining the term of leases, taking account of information available on the closing date that created an economic incentive for the lessee to exercise or not exercise the options to extend or terminate the lease. If implicit discount rates cannot be identified in the underlying lease, estimates are also made in order to determine appropriate incremental borrowing rates. The latter are derived using yields with matching maturities on government bonds for the country in question in the respective currency and adding credit risk premiums, and in some cases derived on a straight-line basis with regard to maturity ranges.

The recognition and measurement of provisions are also affected by assumptions as to the probability of utilization, timing, the underlying discount rate and the absolute level of risk. For the 2019 consolidated financial statements, the LANXESS Group performed sensitivity analyses on provisions, as required by IFRS. These involved calculating the impact of isolated variations in the parameters used, especially the forecast probability of occurrence, discount rate and absolute level of risk. The outcome of these sensitivity analyses shows that variations in the assumptions described above would not have a material impact on the level of other provisions reported in the consolidated financial statements of the LANXESS Group. For further information on the sensitivity analyses relating to provisions for pensions and other post-employment benefits, see Note [14].

Defined benefit pension plans also necessitate actuarial computations and measurements. In the reporting year, the method for rounding the pension rate was changed in order to more precisely determine the defined benefit obligation. The section on provisions for pensions and other post-employment benefits contains information on the assumptions on which the actuarial calculations and estimates were based (see Note [14]).

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

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

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

In the context of business acquisitions, the application of the acquisition method requires certain estimates and assessments as of the acquisition date. This relates in particular to the determination of the fair value, the estimation of useful lives of acquired intangible assets and property, plant and equipment, and the determination of the fair values of assumed liabilities. The measurement is essentially based on future cash inflows and outflows. Deviations between the actual cash inflows and outflows and those assumed at the acquisition date can significantly influence future net income. As a rule, the purchase price allocation is performed in consultation with external experts. In the case of lower-value acquisitions, the purchase price allocation is mostly based on own estimates and measurements. The estimates and measurements are based on knowledge available on and immediately after the acquisition date. They can be adjusted within one year of the date of acquisition to reflect new information and findings.

In some cases, estimates were made to calculate the values recognized for discontinued operations. These estimates are based on the information available at the closing date, so changes may arise as a result of new information or final sale agreements.

When measuring revenue under the business model of long-term sales contracts with a contractually defined minimum purchase requirement, the total revenue expected in the future from sale of the minimum amount is estimated for the full term of the contract and allocated to the individual deliveries, or in the case of the production of customer-specific products to the individual production units. Estimates are based on the current planning for forecast future sales prices and quantities. In particular, sales prices can change over the term of a contract as a result of mechanisms for adjusting prices (formula prices for production factors, bulk prices, rebate agreements), hence deviations from current estimates may arise in the future.

Other significant estimates and discretion are used to assess the useful lives of intangible assets and property, plant and equipment, the capitalization of development costs, the probability of collecting receivables and other assets, the valuation of inventories and the ability to realize tax claims and deferred tax assets recognized for temporary differences and tax loss carryforwards.

COMPANIES CONSOLIDATED

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

	EMEA (excl. Germany)	Germany	North America	Latin America	Asia-Pacific	**Total**
Fully consolidated companies (incl. parent company)						
Jan. 1, 2019	31	9	9	6	26	81
Additions	–	1	–	–	–	1
Retirements	(1)	–	–	–	–	(1)
Mergers	–	–	(2)	–	(1)	(3)
Changes in scope of consolidation	–	1	–	–	–	1
Dec. 31, 2019	**30**	**11**	**7**	**6**	**25**	**79**
Associates and joint operations						
Jan. 1, 2019	–	2	1	–	–	3
Changes	–	–	–	–	–	0
Dec. 31, 2019	**0**	**2**	**1**	**0**	**0**	**3**
Non-consolidated companies						
Jan. 1, 2019	2	3	1	3	2	11
Additions	–	1	–	–	–	1
Retirements	–	–	(1)	–	–	(1)
Changes in scope of consolidation	–	(1)	–	–	–	(1)
Dec. 31, 2019	**2**	**3**	**0**	**3**	**2**	**10**
Total						
01.01.2019	33	14	11	9	28	95
Additions	–	2	–	–	–	2
Retirements	(1)	–	(1)	–	–	(2)
Mergers	–	–	(2)	–	(1)	(3)
Changes in scope of consolidation	–	–	–	–	–	0
Dec. 31, 2019	**32**	**16**	**8**	**9**	**27**	**92**

In the reporting period, Achte LXS GmbH, Cologne, Germany, was established and LANXESS Beteiligungsgesellschaft mbH & Co. OHG, Leverkusen, Germany, was established and fully consolidated. Furthermore, the companies LANXESS Services Switzerland GmbH, Frauenfeld, Switzerland, and LANXESS Energy LLC, Wilmington, New Castle, U.S., were liquidated.

In addition, LANXESS Holding Company US Inc., Wilmington, New Castle, U.S., was merged into LANXESS Solutions US Inc., Wilmington, New Castle, U.S.; LANXESS Sybron Chemicals Inc., Birmingham, U.S., was merged into LANXESS Corporation, Pittsburgh, U.S.; and LANXESS Solutions Singapore Pte. Ltd., Singapore, Singapore, was merged into LANXESS Pte. Ltd., Singapore, Singapore.

CheMondis GmbH, Cologne, Germany, was newly consolidated. This had no material impact on LANXESS Group's earnings, asset and financial position.

Europigments, S.L., Barcelona, Spain, LANXESS Chrome Mining (Pty) Ltd., Modderfontein, South Africa, and Rhein Chemie (Qingdao) Co., Ltd., Qingdao, China, are production companies in which LANXESS has a stake of 52%, 74% and 90%, respectively. These companies are fully consolidated because LANXESS holds the majority of the voting rights and therefore exercises control. The non-controlling interests in these companies have a negligible influence on the activities and cash flows of the LANXESS Group.

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

Rubicon LLC, Salt Lake City, U.S., is included in the consolidated financial statements as a joint operation in accordance with IFRS 11 on a pro rata basis because the partners exercise joint control and purchase all of its output. LANXESS's share in its capital is 50%. The purpose of the company is primarily to produce aniline, diphenylamines, methylene diphenyl isocyanates and polyols for the joint owners and their affiliated companies. This business relationship does not involve any material risks for LANXESS.

Further, Currenta GmbH & Co. OHG, Leverkusen, Germany, is an associate accounted for in the consolidated financial statements. LANXESS's share in its capital is 40%. Given its ability to contribute to material aspects of financial and business policy decisions, LANXESS is able to exert a significant influence. Currenta GmbH & Co. OHG principally provides site services in the areas of energy, infrastructure and logistics for LANXESS's production sites in Germany. Due to its status as a personally liable partner, LANXESS may be required to inject further capital in the future. Transactions with this company are outlined in Note [34]. In the statement of financial position as of December 31, 2019, the shares were classified as held for sale and recognized accordingly. In the previous year, the investment was recognized using the equity method.

Cash transfers from companies in Argentina, Brazil, China, India, Republic of Korea, Russia, South Africa and Taiwan are subject to restrictions as a result of regulated capital markets. These affect approximately 38% (previous year: 5%) of the LANXESS Group's cash and cash equivalents.

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

Additions from acquisition in the previous year

In the previous year, LANXESS acquired the U.S. phosphorus additives business from the Belgian chemicals group Solvay including its U.S. production site in Charleston on February 7, 2018. The site manufactures phosphorus additives and numerous derived products such as flame retardant additives and intermediates for agrochemicals. The production facility augmented the global production network for phosphorus- and bromine-based flame retardants, especially on the U.S. market. The business was integrated into the Polymer Additives business unit in the Specialty Additives segment. The purchase price of €54 million was paid out of existing liquidity.

Divestments

By agreement dated November 8, 2019, the ***business with tin-based organometallics*** in the Advanced Intermediates segment was sold to PMC Vlissingen, B.V., Netherlands, a subsidiary of PMC Group, U.S. The primary objects of the sale were intangible assets and inventories of LANXESS Organometallics GmbH, Bergkamen, Germany. The contract parties also concluded a tolling agreement as part of the sale. The transaction was completed as of December 30, 2019.

The total consideration received for the sale of the business was €20 million. In return, assets of €13 million were transferred. In addition, the remaining property, plant and equipment were written down by €15 million, and a provision for anticipated losses of €4 million was recognized as a result of the tolling agreement. The income and expenses were recognized as an exceptional item in other operating income.

Assets held for sale

Sale of the 40% interest in the chemical park operator Currenta

By agreement dated August 6, 2019, it was resolved to sell the 40% interest in the chemical park operator Currenta GmbH & Co. OHG, Leverkusen, Germany, to investment funds managed by Macquarie Infrastructure and Real Assets (MIRA). The chemical park business was allocated to the reconciliation segment. This transaction is expected to be completed at the end of April 2020.

The carrying amount of the investment in Currenta GmbH & Co. OHG, Leverkusen, Germany, of €0 million is recognized in the statement of financial position as of December 31, 2019, as held for sale.

Sale of the business with gallium-based organometallics

By agreement dated November 28, 2019, LANXESS agreed to sell its business with gallium-based organometallics in the Advanced Intermediates segment to First Rare Materials Co. Ltd., Heyun Town, China, a subsidiary of Vital Materials, China. The object of the transaction was the sale of the 100% interest in the subsidiary LANXESS Electronic Materials L.L.C., Pyeongtaek, Republic of Korea. The transaction was completed on January 31, 2020.

The company was classified as a disposal group and recognized in the statement of financial position as of December 31, 2019, as held for sale. Before reclassification, write-downs on intangible assets and property, plant and equipment of €20 million and impairment charges on inventories and trade receivables of €5 million were recognized. These were recognized as exceptional items in other operating expenses. The assets were measured at fair value less costs to sell. The expected selling price was considered to be the fair value.

The assets held for sale comprise impaired property, plant and equipment and intangible assets of €0 million, impaired inventories and trade receivables of €0 million, cash and cash equivalents and other current assets of €2 million, and provisions and other current liabilities of €3 million.

The currency translation adjustment in other equity components to be allocated to the company as of December 31, 2019, amounts to €1 million.

Discontinued operations

Leather business unit

In the context of further realignment, LANXESS initiated the sale of the Leather business unit in the Performance Chemicals segment in fiscal year 2019. The individual chrome chemicals, chrome ore and organic leather chemicals businesses are integrated in this business unit. As no market participants or potential buyers have integrated their businesses in the same way, projects were actively initiated to sell the businesses separately. The individual businesses are being sold at different times and recognized as discontinued operations in accordance with IFRS 5 at different times. The recognition as discontinued operations results from the management's expectation that the sale of each business would be completed within twelve months. Individual assets and liabilities remain in the LANXESS Group and are recognized in continuing operations.

The contract for the sale of the *chrome chemicals* business was concluded on August 12, 2019, with the company K2019342391 (South Africa) Proprietary Limited, South Africa, a subsidiary of Brother Enterprises, China. The transaction comprises the shares in the subsidiary LANXESS CISA (Pty) Ltd., Newcastle, South Africa. Because of uncertainty over the final completion of the transaction, the business was accounted for as a discontinued operation and reported accordingly only from December 1, 2019. The sale was completed on January 10, 2020. The proceeds from the transaction amounted to €80 million.

On November 15, 2019, a contract for the sale of the *chrome ore* business was concluded with the company Chrome Production Holdings Proprietary Limited, Johannesburg, South Africa, a subsidiary of Clover Alloys, South Africa. The contract covers the sale of the 74% interest in the subsidiary LANXESS Chrome Mining (Pty) Ltd., Modderfontein, South Africa. The business is accounted for as a discontinued operation and reported accordingly from December 31, 2019. The transaction is still subject to the approval of the responsible authorities. The planned transaction is expected to be completed by the end of fiscal year 2020.

The *organic leather chemicals* business is at an advanced stage in the offer and sale process. The business is accounted for as a discontinued operation and reported accordingly from December 31, 2019. The LANXESS management expects the sale to be completed by the end of fiscal year 2020.

With the exception of the special provisions of IFRS 5, the discontinued operations are recognized and measured according to the same financial reporting standards and interpretations as continuing operations.

The carrying amounts of the assets and liabilities relating to discontinued operations are shown in the following table:

Carrying Amounts of Reclassified Assets and Liabilities (Leather Business Unit)

€ million	Dec. 31, 2019
Property, plant and equipment and intangible assets	88
Inventories and trade receivables	111
Other assets	4
Total assets	**203**
Provisions	47
Trade payables	36
Other liabilities	15
Total liabilities	**98**

The intangible assets and property, plant and equipment of the chrome chemicals business were not subject to any further amortization or depreciation from December 1, 2019. For the chrome ore and organic leather chemicals businesses, amortization and depreciation were recognized until December 31, 2019.

In detail, earnings from discontinued operations are as follows:

Income Statement from Discontinued Operations (Leather Business Unit)

€ million	2018	2019
Sales	**373**	**329**
Cost of sales	(277)	(260)
Gross profit	**96**	**69**
Other functional costs	(83)	(112)
Operating result (EBIT)	**13**	**(43)**
Financial result	**(4)**	**(3)**
Income before income taxes	**9**	**(46)**
Income taxes	(19)	(4)
Income after income taxes	**(10)**	**(50)**

The "Other functional costs" line includes write-downs for the planned sale of the chrome ore business of €19 million. Measurement was at fair value less costs to sell. The currently expected selling price was taken as fair value.

The cash flows of continuing operations are shown separately from the cash flows of discontinued operations in the cash flow statement. The cash flows of discontinued operations are shown combined in one line per area.

The currency translation adjustment recognized in other equity components allocable to discontinued operations as of December 31, 2019, amounts to €15 million, and the amounts recognized cumulatively in other reserves for the remeasurement of the net defined benefit liability include losses of €11 million.

The discontinued operations of the Leather business unit generated EBITDA pre exceptionals of €0 million (previous year: €30 million). This includes exceptional expense items of €6 million that impacted EBITDA (previous year: €1 million). Capital expenditures amounted to €18 million (previous year: €16 million). Depreciation and amortization were recognized at €18 million (previous year: €16 million). The number of employees allocable to discontinued operations was 1,175 as of December 31, 2019 (previous year: 1,189), and the annual average was 1,176 (previous year: 1,198).

ARLANXEO

As part of its realignment, on April 1, 2016, LANXESS and Saudi Aramco formed a strategic alliance for the synthetic rubber business named ARLANXEO in which each party held a 50% interest. From April 1, 2018, ARLANXEO was accounted for as a discontinued operation according to IFRS 5 and reported accordingly. LANXESS sold its 50% interest in ARLANXEO to the Saudi Aramco subsidiary Aramco Overseas Holdings Coöperatief U.A., The Hague, Netherlands, and derecognized its investment in ARLANXEO on December 31, 2018. The purchase price for the disposal of the investment in ARLANXEO to Saudi Aramco was €1,427 million.

With the exception of the special provisions of IFRS 5, the discontinued operations were recognized and measured according to the same financial reporting standards and interpretations as continuing operations.

The carrying amounts of the assets and liabilities of ARLANXEO disposed of are shown in the following table:

Carrying Amounts of Assets and Liabilities Disposed of (ARLANXEO)

€ million	Dec. 31, 2018
Property, plant and equipment and intangible assets	1,834
Inventories and trade receivables	1,035
Other assets	379
Total assets	**3,248**
Provisions	309
Trade payables	331
Other liabilities	263
Total liabilities	**903**

The presentation of the LANXESS Group's income statement focuses on the calculation of earnings from continuing operations. Earnings from discontinued operations are only shown in one line, which is explained in more detail below. The intangible assets and property, plant and equipment of ARLANXEO were not subject to any further amortization or depreciation from April 1, 2018. Intra-Group deliveries and services, which are continued either with ARLANXEO or with third parties following the deconsolidation of ARLANXEO, were shown in continuing operations. The elimination entries as part of the consolidation of expense and income were assigned fully to discontinued operations.

In detail, earnings from discontinued operations were as follows:

Income Statement from Discontinued Operations (ARLANXEO)

€ million	2018
Sales	**3,180**
Cost of sales	(2,560)
Gross profit	**620**
Other functional costs	(234)
Operating result (EBIT)	**386**
Financial result	**(34)**
Income before income taxes	**352**
Income taxes	(101)
Income after income taxes	**251**

The cash flows of continuing operations were shown separately from the cash flows of ARLANXEO in the cash flow statement. The cash flows of ARLANXEO were shown combined in one line per area.

Other information on companies consolidated

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

Company Name and Domicile

	Interest held in %
Fully consolidated companies	
Germany	
LANXESS AG, Cologne	–
Bond-Laminates GmbH, Brilon	100
CheMondis GmbH, Cologne	100
IAB Ionenaustauscher GmbH Bitterfeld, Greppin	100
IMD Natural Solutions GmbH, Dortmund	100
LANXESS Accounting GmbH, Cologne	100
LANXESS Beteiligungsgesellschaft mbH & Co. OHG, Leverkusen	100
LANXESS Deutschland GmbH, Cologne	100
LANXESS Distribution GmbH, Leverkusen	100
LANXESS Organometallics GmbH, Bergkamen	100
Saltigo GmbH, Leverkusen	100
EMEA (excluding Germany)	
Anderol B.V., Venlo, Netherlands	100
Antec International Ltd., Sudbury, Suffolk, Great Britain	100
Chemtura France S.A.S., Fitz-James, France	100
Europigments, S.L., Barcelona, Spain	52
Great Lakes Chemical, Netherlands, B.V., Amsterdam, Netherlands	100
Great Lakes Holding S.A.S., Fitz-James, France	100
LANXESS (Pty) Ltd., Modderfontein, South Africa	100
LANXESS Central Eastern Europe s.r.o., Bratislava, Slovakia	100
LANXESS CISA (Pty) Ltd., Newcastle, South Africa	100
LANXESS Chemicals, S.L., Barcelona, Spain	100

Company Name and Domicile

	Interest held in %
Fully consolidated companies	
LANXESS Chrome Mining (Pty) Ltd., Modderfontein, South Africa	74
LANXESS Epierre SAS, Epierre, France	100
LANXESS Holding Switzerland AG, Frauenfeld, Switzerland	100
LANXESS Holding UK Unlimited, Manchester, Great Britain	100
LANXESS Investments Netherlands B.V., Amsterdam, Netherlands	100
LANXESS Kimya Ticaret Limited Şirketi, Istanbul, Turkey	100
LANXESS Limited, Newbury, Great Britain	100
LANXESS Manufacturing Netherlands B.V., Amsterdam, Netherlands	100
LANXESS N.V., Antwerp, Belgium	100
LANXESS S.A.S., Courbevoie, France	100
LANXESS S.r.l., Milan, Italy	100
LANXESS Sales Netherlands B.V., Amsterdam, Netherlands	100
LANXESS Solutions Italy S.r.L., Latina, Italy	100
LANXESS Solutions UK Ltd., Manchester, Great Britain	100
LANXESS Switzerland GmbH, Frauenfeld, Switzerland	100
LANXESS Urethanes UK Ltd., Baxenden NR Accrington, Great Britain	100
OOO LANXESS, Moscow, Russia	100
OOO LANXESS Lipetsk, Lipetsk, Russia	100
Sybron Chemical Industries Nederland B.V., Ede, Netherlands	100
Sybron Chemicals International Holdings Ltd., Newbury, Great Britain	100
North America	
Assured Insurance Company, Montpelier, U.S.	100
Great Lakes Chemical Corporation, Wilmington, New Castle, U.S.	100
LANXESS Canada Co./Cie, Elmira, Canada	100
LANXESS Corporation, Pittsburgh, U.S.	100

Company Name and Domicile

	Interest held in %
Fully consolidated companies	
LANXESS Services US LLC, Wilmington, New Castle, U.S.	100
LANXESS Solutions US Inc., Wilmington, New Castle, U.S.	100
Sybron Chemical Holdings Inc., Birmingham, U.S.	100
Latin America	
Chemtura Corporation Mexico, S. de R.L. de C.V., Mexico City, Mexico	100
LANXESS Indústria de Poliuretanos e Lubrificantes Ltda., Rio Claro, Brazil	100
LANXESS Indústria de Produtos Quimicos e Plásticos Ltda., São Paulo, Brazil	100
LANXESS S.A. de C.V., Mexico City, Mexico	100
LANXESS S.A., Buenos Aires, Argentina	100
Rhein Chemie Uruguay S.A., Colonia, Uruguay	100
Asia-Pacific	
Chemtura Chemicals Nanjing Co. Ltd., Nanjing, China	100
Chemtura China Holding Co. Ltd., Shanghai, China	100
LANXESS (Changzhou) Co., Ltd., Changzhou, China	100
LANXESS (Liyang) Polyols Co., Ltd., Liyang, China	100
LANXESS (Ningbo) Pigments Co., Ltd., Ningbo City, China	100
LANXESS (Wuxi) High Performance Composite Materials Company Limited, Wuxi, China	100
LANXESS Additives Hong Kong Ltd., Hong Kong, Hong Kong	100
LANXESS Additives Taiwan Ltd., Kaohsiung, Taiwan	100
LANXESS Advanced Materials (Nantong) Co. Ltd., Nantong, China	100
LANXESS Chemical (China) Co., Ltd., Shanghai, China	100

Company Name and Domicile

	Interest held in %
Fully consolidated companies	
LANXESS Electronic Materials L.L.C., Gyeonggi-do, Republic of Korea	100
LANXESS Hong Kong Limited, Hong Kong, Hong Kong	100
LANXESS India Private Ltd., Thane, India	100
LANXESS K.K., Tokyo, Japan	100
LANXESS Korea Limited, Seoul, Republic of Korea	100
LANXESS Pte. Ltd., Singapore, Singapore	100
LANXESS Pty Ltd., Granville, Australia	100
LANXESS Shanghai Pigments Co., Ltd., Shanghai, China	100
LANXESS Solutions Australia Pty. Ltd., West Gosford, Australia	100
LANXESS Solutions India Private Ltd., Thane, India	100
LANXESS Solutions Japan K.K., Tokyo, Japan	100
LANXESS Solutions Korea Inc., Pyeongtaek, Republic of Korea	100
LANXESS Specialty Chemicals Co., Ltd., Shanghai, China	100
LANXESS Taiwan Ltd., Kaohsiung, Taiwan	100
Rhein Chemie (Qingdao) Co., Ltd., Qingdao, China	90
Joint operations	
Germany	
DuBay Polymer GmbH, Hamm	50
North America	
Rubicon LLC, Salt Lake City, U.S.	50
Associate	
Germany	
Currenta GmbH & Co. OHG, Leverkusen	40

Company Name and Domicile

	Interest held in %
Non-consolidated immaterial subsidiaries	
Germany	
Achte LXS GmbH, Cologne	100
LANXESS Middle East GmbH, Cologne	100
Siebte LXS GmbH, Leverkusen	100
EMEA (excluding Germany)	
Gulf Stabilizers Industries Sales FZCO, Dubai, UAE	52
W. Hawley & Son Ltd., Newbury, Great Britain	100
Latin America	
Comercial Andinas Ltda., Santiago de Chile, Chile	100
Crompton Servicios, S.A. de C.V., Mexico City, Mexico	100
Asia-Pacific	
LANXESS Thai Co., Ltd., Bangkok, Thailand	100
PCTS Specialty Chemicals Malaysia (M) Sdn. Bhd., Kuala Lumpur, Malaysia	100
Other non-consolidated immaterial companies	
Latin America	
Hidrax Ltda., Taboão da Serra, Brazil	39

NOTES TO THE STATEMENT OF FINANCIAL POSITION

1 | Intangible Assets

Changes in intangible assets were as follows:

Changes in Intangible Assets in 2018

€ million	Acquired goodwill	Other intangible assets	Advance payments	**Total**
Cost of acquisition or generation, Dec. 31, 2017	881	1,196	49	2,126
Adjustments in accordance with IFRS 5	(70)	(119)	(2)	(191)
Acquisitions	12	13	–	25
Capital expenditures	–	21	40	61
Disposals	–	(3)	–	(3)
Reclassifications	–	13	(13)	0
Adjustments in accordance with IAS 29	–	2	–	2
Exchange differences	34	26	0	60
Cost of acquisition or generation, Dec. 31, 2018	**857**	**1,149**	**74**	**2,080**
Accumulated amortization and write-downs, Dec. 31, 2017	(11)	(331)	0	(342)
Adjustments in accordance with IFRS 5	4	106	–	110
Amortization in 2018	–	(84)	0	(84)
of which write-downs	–	(1)	–	(1)
Reversals of impairment charges	–	0	–	0
Disposals	–	3	–	3
Reclassifications	–	0	0	0
Adjustments in accordance with IAS 29	–	(1)	–	(1)
Exchange differences	0	(2)	–	(2)
Accumulated amortization and write-downs, Dec. 31, 2018	**(7)**	**(309)**	**0**	**(316)**
Carrying amounts, Dec. 31, 2018	**850**	**840**	**74**	**1,764**

Prior-year figures restated

Changes in Intangible Assets in 2019

€ million	Acquired goodwill	Other intangible assets	Advance payments	Total
Cost of acquisition or generation, Dec. 31, 2018	857	1,149	74	2,080
Adjustments in accordance with IFRS 5	–	(15)	(4)	(19)
Capital expenditures	–	16	50	66
Disposals	–	(11)	3	(8)
Reclassifications	–	32	(32)	0
Adjustments in accordance with IAS 29	–	0	–	0
Exchange differences	16	19	0	35
Cost of acquisition or generation, Dec. 31, 2019	**873**	**1,190**	**91**	**2,154**
Accumulated amortization and write-downs, Dec. 31, 2018	(7)	(309)	0	(316)
Adjustments in accordance with IFRS 5	–	10	0	10
Amortization in 2019	–	(87)	0	(87)
of which write-downs	–	0	0	0
Reversals of impairment charges	–	0	–	0
Disposals	–	7	0	7
Reclassifications	–	0	0	0
Adjustments in accordance with IAS 29	–	0	–	0
Exchange differences	(1)	(2)	–	(3)
Accumulated amortization and write-downs, Dec. 31, 2019	**(8)**	**(381)**	**0**	**(389)**
Carrying amounts, Dec. 31, 2019	**865**	**809**	**91**	**1,765**

The adjustments in accordance with IFRS 5 result from the reporting of the Leather business unit as a discontinued operation. In the previous year, the adjustments in accordance with IFRS 5 related to the reporting of ARLANXEO as a discontinued operation. The depreciation and amortization allocable to the Leather business unit are also recognized here.

Other intangible assets include customer lists, trademark rights, software and other rights.

2 | Property, Plant and Equipment

Changes in property, plant and equipment were as follows:

Changes in Property, Plant and Equipment in 2018

€ million	Land and buildings	Technical equipment and machinery	Other fixtures, fittings and equipment	Advance payments and assets under construction	**Total**
Cost of acquisition or construction, Dec. 31, 2017	2,049	8,293	372	490	11,204
Adjustments in accordance with IFRS 5	(801)	(3,005)	(87)	(149)	(4,042)
Acquisitions	9	14	1	0	24
Capital expenditures	8	77	19	352	456
Disposals	(3)	(50)	(18)	(2)	(73)
Reclassifications	37	188	16	(241)	0
Adjustments in accordance with IAS 29	6	3	1	0	10
Exchange differences	(7)	0	(3)	0	(10)
Cost of acquisition or construction, Dec. 31, 2018	**1,298**	**5,520**	**301**	**450**	**7,569**
Accumulated depreciation and write-downs, Dec. 31, 2017	(1,090)	(5,773)	(280)	(2)	(7,145)
Adjustments in accordance with IFRS 5	358	1,979	67	0	2,404
Depreciation and write-downs in 2018	(40)	(259)	(32)	(1)	(332)
of which write-downs	(5)	(7)	(1)	(1)	(14)
Reversals of impairment charges	0	1	–	0	1
Disposals	3	50	18	0	71
Reclassifications	0	0	0	0	0
Adjustments in accordance with IAS 29	(1)	(2)	(1)	–	(4)
Exchange differences	4	7	2	0	13
Accumulated depreciation and write-downs, Dec. 31, 2018	**(766)**	**(3,997)**	**(226)**	**(3)**	**(4,992)**
Carrying amounts, Dec. 31, 2018	**532**	**1,523**	**75**	**447**	**2,577**

Prior-year figures restated

Changes in Property, Plant and Equipment in 2019

€ million	Land and buildings	Technical equipment and machinery	Other fixtures, fittings and equipment	Advance payments and assets under construction	Total
Cost of acquisition or construction, Dec. 31, 2018	1,298	5,520	301	450	7,569
Adjustments in accordance with IFRS 16	108	10	17	0	135
Adjustments in accordance with IFRS 5	(79)	(163)	(12)	(12)	(266)
Capital expenditures	27	126	28	331	512
Disposals	(6)	(105)	(16)	(6)	(133)
Reclassifications	37	224	17	(278)	0
Adjustments in accordance with IAS 29	2	2	0	1	5
Exchange differences	5	15	1	2	23
Cost of acquisition or construction, Dec. 31, 2019	**1,392**	**5,629**	**336**	**488**	**7,845**
Accumulated depreciation and write-downs, Dec. 31, 2018	(766)	(3,997)	(226)	(3)	(4,992)
Adjustments in accordance with IFRS 5	35	124	10	0	169
Depreciation in 2019	(65)	(312)	(39)	(1)	(417)
of which write-downs	(5)	(37)	(1)	(1)	(44)
Reversals of impairment charges	1	0	0	–	1
Disposals	5	105	15	0	125
Reclassifications	0	0	0	0	0
Adjustments in accordance with IAS 29	(1)	(1)	0	–	(2)
Exchange differences	(1)	(5)	0	1	(5)
Accumulated depreciation and write-downs, Dec. 31, 2019	**(792)**	**(4,086)**	**(240)**	**(3)**	**(5,121)**
Carrying amounts, Dec. 31, 2019	**600**	**1,543**	**96**	**485**	**2,724**

The adjustments in accordance with IFRS 5 result from the reporting of the Leather business unit as a discontinued operation. In the previous year, the adjustments in accordance with IFRS 5 related to the reporting of ARLANXEO as a discontinued operation. The depreciation and amortization allocable to the Leather business unit are also recognized here.

The adjustments in accordance with IFRS 16 relate to the recognition of right-of-use assets from leases in connection with the initial application of the new standard IFRS 16 as of the transition date of January 1, 2019. Please refer to Note [36] for information on leases.

The write-downs on land and buildings, technical equipment and machinery, and other fixtures, fittings and equipment primarily relate to decreases in value in connection with the sale of the business with gallium-based organometallics of €20 million and the sale of the business with tin-based organometallics of €15 million (see “Companies Consolidated”). In addition, write-downs were recognized due to other value-decreasing events.

In the previous year, capitalized property, plant and equipment included assets with the following gross and net values held under finance leases:

Assets Held Under Finance Leases

€ million	Dec. 31, 2018 Gross carrying amount	Dec. 31, 2018 Net carrying amount
Buildings	2	1
Technical equipment and machinery	13	6
Fittings and equipment	20	10
	35	**17**

Directly attributable borrowing costs of €3 million (previous year: €3 million) were capitalized. An annual average cost of debt for the LANXESS Group of 2.0% (previous year: 2.6%) was used for capitalization.

3 | Investments Accounted for Using the Equity Method

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

The following tables show the main items of the income statement, statement of comprehensive income and statement of financial position of that company in the previous year:

Data from the Income Statement and Statement of Comprehensive Income

€ million	2018
Sales	1,432
Operating result (EBIT)	128
Income after income taxes	82
Other comprehensive income, net of income tax	(17)
Total comprehensive income	65

Data from the Statement of Financial Position

€ million	Dec. 31, 2018
Non-current assets	887
Current assets	481
Total assets	**1,368**
Non-current liabilities	1,099
Current liabilities	347
Total liabilities	**1,446**
Equity	**(78)**
Adjustment of LANXESS's interest and equity valuation	37
Pro rata loss not recognized in consolidated financial statements	41
Investments accounted for using the equity method	**0**

As of December 31, 2019, the carrying amount of the investment in Currenta GmbH & Co. OHG, Leverkusen, Germany, of €0 million was recognized as held for sale and no longer accounted for using the equity method (see "Companies consolidated" section).

4 | Investments in Other Affiliated Companies

This item contains interests in other affiliated companies totaling €1 million (previous year: €2 million).

5 | Derivative Financial Instruments

The derivative financial instruments held by the LANXESS Group comprise forward exchange, forward commodity and forward interest rate contracts as well as embedded derivatives separated from contracts not designated as hedging instruments. At LANXESS, derivative financial instruments are used to hedge items of the statement of financial position and to hedge future sales and raw material purchases. As of the closing date, derivative assets are capitalized in the consolidated financial statements for fiscal year 2019 at a total fair value of €6 million (previous year: €4 million). Instruments with a negative fair value totaling €19 million (previous year: €28 million) are recognized as derivative liabilities.

Derivative Financial Instruments

	Dec. 31, 2018		
€ million	Notional amount	Positive fair values	Negative fair values
Current forward exchange contracts	1,139	4	(25)
Current forward commodity contracts	5	0	0
Non-current forward exchange contracts	68	0	(3)
Non-current embedded derivatives not designated as hedging instruments	–	–	0
	1,212	**4**	**(28)**

Derivative Financial Instruments

	Dec. 31, 2019		
€ million	Notional amount	Positive fair values	Negative fair values
Current forward exchange contracts	1,431	5	(17)
Current forward commodity contracts	3	0	0
Non-current forward exchange contracts	118	1	(2)
Non-current embedded derivatives not designated as hedging instruments	–	–	–
	1,552	**6**	**(19)**

The remarks below relate exclusively to transactions that qualify for hedge accounting and are recognized accordingly:

Forward exchange hedges

Currency hedges are used for the future revenue of companies of the LANXESS Group when the currency in which the planned revenue is denominated differs from the company's functional currency and significant foreign currency positions are expected. Set hedging ratios have been defined for subsequent years. The hedges are due to mature in the respective planning months. The hedges could become ineffective as a result of revenue possibly deferred to other periods. There are currently no cases of changes in the timing of revenue in excess of the hedged volume.

Forward commodity contracts

Hedges on the prices of raw materials can be used for future purchases of raw materials by the companies of the LANXESS Group where procurement volumes are planned on the basis of existing procurement agreements. The hedges are forward commodity contracts and based on a monthly planned procurement volume. Production facility shutdowns could reduce procurement volumes and cause the hedges to become ineffective. No relevant production facility shutdowns are currently known.

Forward interest rate contracts

Interest rate risks for future refinancing of the LANXESS Group can be hedged with interest rate swaps. For this purpose, the hedging instruments are concluded with matching maturities on the basis of a planned refinancing requirement. The hedges can become ineffective if the refinancing date is moved. The forward interest rate contracts were in place in fiscal year 2017 and were recognized in other comprehensive income on the issue of a new bond in May 2018. The amounts recognized in other comprehensive income are reversed in profit or loss over the term of the bond.

Forward Exchange, Forward Interest Rate and Forward Commodity Hedges 2018

€ million	Nominal amount	Carrying amount		Line item in statement of financial position	Change in value of hedged item[1]	Change in value of hedging instrument[1]
		Asset	Liability			
Forward exchange contracts						
EUR/JPY	27	–	(1)	Current and non-current derivative liabilities	2	(2)
EUR/USD	306	1	(13)	Current and non-current derivative assets/liabilities	25	(25)
USD/BRL	60	0	(5)	Current and non-current derivative assets/liabilities	4	(4)
Forward commodity contracts	5	–	(1)	Current derivative liabilities	1	(1)
	398	**1**	**(20)**		**32**	**(32)**

1) The changes in value are changes in the hedged component in the period.

Forward Exchange, Forward Interest Rate and Forward Commodity Hedges 2019

€ million	Nominal amount	Carrying amount		Line item in statement of financial position	Change in value of hedged item[1]	Change in value of hedging instrument[1]
		Asset	Liability			
Forward exchange contracts						
EUR/JPY	38	0	(1)	Current and non-current derivative assets/liabilities	0	0
EUR/USD	307	1	(8)	Current and non-current derivative assets/liabilities	(5)	5
USD/BRL	77	1	(2)	Current and non-current derivative assets/liabilities	(5)	5
Forward commodity contracts	3	0	0	Current derivative assets/liabilities	0	0
	425	**2**	**(11)**		**(10)**	**10**

1) The changes in value are changes in the hedged component in the period.

Maturities and Average Prices 2018

€ million		2019		≥ 2020	
		Nominal amount	Average rate[1]	Nominal amount	Average rate[1]
Forward exchange contracts					
EUR/JPY	Euro	17	130	10	128
EUR/USD	Euro	269	1.21	37	1.21
USD/BRL	Euro	40	3.54	20	3.55
Forward commodity contracts	Euro	5	561.93	–	–
		331		**67**	

1) Average hedging rate corresponds to the fixed side of the interest rate swap for forward interest rate contracts and the fixed side of the contract for forward commodity contracts.

Maturities and Average Prices 2019

€ million		2020		≥ 2021	
		Nominal amount	Average rate[1]	Nominal amount	Average rate[1]
Forward exchange contracts					
EUR/JPY	Euro	22	125	16	124
EUR/USD	Euro	233	1.16	74	1.18
USD/BRL	Euro	49	3.98	28	4.29
Forward commodity contracts	Euro	3	567.74	–	–
		307		**118**	

1) Average hedging rate corresponds to the fixed side of the interest rate swap for forward interest rate contracts and the fixed side of the contract for forward commodity contracts.

As in the previous year, the hedged cash flows for the forward exchange hedges will be realized within the next three years. The hedged cash flows of the forward commodity contracts relate to the raw material n-paraffin and, as in the previous year, will be realized within the next year.

Hedge Accounting Reconciliation Other Comprehensive Income 2018

	Cash flow hedges				Cost of hedging			Sum other comprehensive income
€ million	Currency hedging contracts	Forward commodity contracts	Forward interest rate contracts	Total	Forward-to-Forward	Spot-to-Spot	Total	
January 1	19	0	0	19	(2)	(3)	(5)	14
Adjustments according to IFRS 5	(7)	–	–	(7)	1	2	3	**(4)**
Changes other comprehensive income	(16)	0	–	(16)	0	(4)	(4)	**(20)**
Reclassification in profit or loss due to recognition of underlying transaction	(2)	–	0	(2)	–	–	–	**(2)**
December 31	**(6)**	**0**	**0**	**(6)**	**(1)**	**(5)**	**(6)**	**(12)**

Hedge Accounting Reconciliation Other Comprehensive Income 2019

	Cash flow hedges				Cost of hedging			Sum other comprehensive income
€ million	Currency hedging contracts	Forward commodity contracts	Forward interest rate contracts	Total	Forward-to-Forward	Spot-to-Spot	Total	
January 1	(6)	0	0	(6)	(1)	(5)	(6)	(12)
Adjustments according to IFRS 5	–	–	–	–	–	–	–	**–**
Changes other comprehensive income	18	0	0	18	0	7	7	**25**
Reclassification in profit or loss due to recognition of underlying transaction	(19)	–	0	(19)	–	–	–	**(19)**
December 31	**(7)**	**0**	**0**	**(7)**	**(1)**	**2**	**1**	**(6)**

The LANXESS Group expects that, of the unrealized losses on currency hedges recognized in other comprehensive income as of the reporting date, €5 million will be reclassified from equity to profit or loss in fiscal year 2020 and €1 million in fiscal year 2021 (previous year: unrealized losses of €10 million in fiscal year 2019 and €2 million in fiscal year 2020).

Information on long-term embedded derivatives not designated as hedging instruments and the maturity structure of derivative assets and liabilities is given in Note [37].

6 | Other Non-Current and Current Financial Assets

Other Financial Assets

€ million	Dec. 31, 2018 Non-current	Current	Total
Financial assets	–	542	542
Contract assets	17	44	61
Other financial receivables	8	12	20
	25	**598**	**623**

Other Financial Assets

€ million	Dec. 31, 2019 Non-current	Current	Total
Financial assets	–	780	780
Contract assets	18	76	94
Other financial receivables	11	8	19
	29	**864**	**893**

Financial assets essentially comprise invested cash funds and securities that can be sold at any time. The change compared with the previous year is mainly due to increased investment of cash funds. The non-current contract assets relate to revenue measured at the average contract price for the manufacture of products with contractually defined minimum purchase requirements. Differences between average pricing and the invoice prices are shown as contract assets and reversed over the remaining term of the contract. The current contract assets relate to revenue recognized at the average contract price for the manufacture of customer-specific products with contractually defined minimum purchase requirements as of the production date that are not expected to be delivered to the customer until the next fiscal year. The year-on-year increase mainly results from preproductions for new contracts. The miscellaneous financial receivables primarily include investments in High-Tech Gründerfonds, loan receivables and other financial receivables. The latter are reduced by expected credit losses in the amount of €1 million (previous year: €2 million).

Change in contract assets

€ million	2018	2019
January 1	56	61
Adjustments in accordance with IFRS 5	(4)	–
Cumulative catch-up adjustments to revenues of the reporting period	(3)	2
Cumulative catch-up adjustments to revenues of previous reporting periods	7	3
Additions	45	74
(Reversals of) impairment losses	0	0
Reclassifications to trade receivables	(40)	(46)
Exchange differences	0	0
December 31	**61**	**94**

The additions and reclassifications to trade receivables mainly relate to the business model of manufacturing customer-specific products on the basis of long-term supply agreements with a contractually defined minimum purchase requirement. The additions comprise revenue recognized in the reporting period already as of the production date. When the customer-specific products manufactured in the previous year are delivered, the contract assets are reclassified as trade receivables. In addition, the reclassifications to trade receivables include the recognition of the values for the quantities delivered in the reporting period from the business model of manufacturing products on the basis of long-term supply agreements with a contractually defined minimum purchase requirement, which are included in the opening balance.

7 | Non-Current and Current Income Tax Receivables

The non-current income tax receivables of €89 million (previous year: €14 million) essentially comprise uncertain tax positions.

The current income tax receivables of €110 million (previous year: €55 million) mainly include tax prepayments and receivables relating to disputed tax issues where reimbursement is considered probable.

8 | Other Non-Current Assets

The other non-current assets amounting to €132 million (previous year: €117 million) mainly include receivables relating to pension obligations, periodic accruals and other reimbursement claims.

Other non-current assets are carried at amortized cost less any write-downs. No write-downs were made in fiscal years 2018 or 2019.

9 | Inventories

The inventories of the LANXESS Group comprise:

Inventories

€ million	Dec. 31, 2018	Dec. 31, 2019
Raw materials and supplies	286	264
Work in process, finished goods and merchandise	1,061	931
	1,347	**1,195**

Inventories of €107 million (previous year: €174 million) are recognized at net realizable value. The decline in inventories compared to the previous year results from the reporting of the Leather business unit as a discontinued operation as well as lower quantities.

Due to inflation adjustments in accordance with IAS 29, inventories increased by less than €1 million.

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

Write-Downs of Inventories

€ million	2018	2019
January 1	(97)	(93)
Adjustments in accordance with IFRS 5	27	6
Additions charged as expenses	(41)	(29)
Reversals/utilization	18	26
Exchange differences	0	0
December 31	**(93)**	**(90)**

Prior-year figures restated

The adjustments in accordance with IFRS 5 result from the reporting of the Leather business unit as a discontinued operation. In the previous year, the adjustments in accordance with IFRS 5 related to the reporting of ARLANXEO as a discontinued operation. The write-downs allocable to the Leather business unit are also recognized here.

10 | Trade Receivables

All trade receivables – totaling €769 million (previous year: €903 million) – are due within one year. Of the trade receivables, €4 million (previous year: €4 million) pertained to the investment in Currenta GmbH & Co. OHG, Leverkusen, Germany, and €765 million (previous year: €899 million) pertained to other customers. The decline in trade receivables results from adjustments driven by raw material prices in the fourth quarter of 2019 as well as the reporting of the Leather business unit as a discontinued operation.

Necessary loss allowances of €12 million were recognized at the end of the reporting period (previous year: €15 million). The underlying gross receivables amount to €12 million (previous year: €15 million). The loss allowance for trade receivables and the maturity structure classes for the loss allowance in fiscal years 2018 and 2019 are shown under "Credit risk management" in Note [37].

11 | Other Current Assets

Other current assets totaling €186 million (previous year: €197 million) are stated at amortized cost less any write-downs. They principally comprise miscellaneous claims for tax refunds amounting to €129 million (previous year: €138 million), mainly pertaining to sales taxes, and other reimbursement claims from goods and service transactions totaling €36 million (previous year: €39 million). As of December 31, 2019, write-downs of €3 million were included (previous year: €1 million).

12 | Assets and Liabilities Held for Sale and Discontinued Operations

In the current fiscal year, there are assets held for sale resulting from the planned sale of the 40% interest in Currenta GmbH & Co. OHG, Leverkusen, Germany, and the planned sale of the 100% interest in the subsidiary LANXESS Electronic Materials L.L.C., Pyeongtaek, Republic of Korea. In addition, the Leather business unit is recognized as a discontinued operation in the reporting year. Detailed information on this is presented in the "Companies Consolidated" section.

13 | Equity

Capital stock

The capital stock of LANXESS AG amounted to €87,447,852 as of December 31, 2019, and is composed of 87,447,852 no-par bearer shares. On the basis of a Board of Management resolution dated July 9, 2019, the company, after implementing a stock repurchase, resolved to reduce the capital stock by way of simplified capital reduction in accordance with Section 71, Paragraph 1, No. 8, Sentence 6 of the German Stock Corporation Act by €4,075,084 from €91,522,936 to €87,447,852 by withdrawing 4,075,084 no-par bearer shares with a notional share in the capital stock of €1.00 per share. All shares carry the same rights and obligations. One vote is granted per share, and profit is distributed per share.

Authorized capital

Authorized capital was composed as follows as of December 31, 2019:

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 disapplied 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 disapplied 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.

Conditional capital

Conditional capital was composed as follows as of December 31, 2019:

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 disapplied in its decision to disapply stockholders' subscription rights when issuing convertible bonds and/or bonds with warrants, profit participation rights and/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 disapplied 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 disapplied 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 not yet been utilized.

Share buyback and withdrawal

At the beginning of fiscal year 2019, neither the company nor dependent or majority-owned entities, or third parties acting for the account of the company or for the account of dependent or majority-owned entities, held shares in the company. On the basis of the resolution of the Annual Stockholders' Meeting of LANXESS AG of May 20, 2016, the Board of Management was authorized in accordance with Section 71, Paragraph 1, No. 8 of the German Stock Corporation Act to acquire shares in the company representing up to 10% of the capital stock until May 19, 2021, and to utilize them for any purpose permitted by law. Subsidiaries of the company or third parties acting for the account of the company or its subsidiaries were also permitted to utilize this authorization. At the discretion of the Board of Management, such shares were able to be acquired either on the market or via a public tender offer. The Board of Management was authorized to use them for any purpose permitted by law, especially the purposes specifically listed in the authorization.

The Board of Management of the company resolved on January 10, 2019, to exercise its stock repurchase authorization and to buy treasury shares at a purchase price of up to €200 million (not including incidental expenses) on the stock exchange. In the period from January 14, 2019, to June 12, 2019, the company then purchased a total of 4,075,084 no-par bearer shares of the company with a pro rata amount of €1.00 per share. The amount of capital stock attributable to these shares is €4,075,084. This equates to 4.453% of the company's capital stock of €91,522,936 at that time. The purchases were made exclusively via the stock market by a bank commissioned by the company. They were carried out in electronic trading on the Frankfurt Stock Exchange on 94 Xetra trading days. The weighted average price amounts to €49.0787 per repurchased share. The total price for the repurchased shares, not including incidental expenses, amounted to €199,999,958.47. The treasury shares were acquired for the purpose of withdrawing them and reducing the company's capital stock. On July 9, 2019, the Board of Management resolved to withdraw all repurchased shares in line with the stock repurchase authorization in accordance with Section 71, Paragraph 1, No. 8, Sentence 6 of the German Stock Corporation Act. The shares were withdrawn on July 12, 2019, without a further resolution by the Annual Stockholders' Meeting. The company's capital stock was accordingly reduced to €87,447,852. On May 23, 2019, the Annual Stockholders' Meeting of LANXESS AG resolved, with effect after a time delay, to suspend the stock repurchase authorization of May 20, 2016, and issue a new authorization for the purchase and utilization of treasury shares. The suspension and the new authorization took effect on August 13, 2019, i.e. at the beginning of the day that lay two months after the day on which the last notification relating to the stock repurchase program announced on January 10, 2019, announcing its completion, was published via a European media pool. The new authorization allows the Board of Management to acquire shares in the company representing up to 10% of the capital stock until May 22, 2024, and to utilize them for any purpose permitted by law. This authorization may also be utilized by subsidiaries of the company or by third parties on behalf of the company or its subsidiaries. At the discretion of the Board of Management, such shares may be acquired either on the market or via a public tender offer. The Board of Management is authorized to use them for any purpose permitted by law, especially the purposes specifically listed in the authorization. No treasury shares were purchased on the basis of this new authorization in fiscal year 2019. At the end of fiscal year 2019, neither the company nor dependent or majority-owned entities, or third parties acting for the account of the company or for the account of a dependent or majority-owned entity, held shares in the company.

Capital reserves

The capital reserves of LANXESS AG amounted to €1,229,727,364 as of December 31, 2019 (previous year: €1,225,652,280). An amount of €4,075,084, equal to the reduction of the capital stock in connection with the stock repurchase, was added to the capital reserves in accordance with Section 237, Paragraph 5 of the German Stock Corporation Act in the reporting year.

Other reserves

The €38 million increase in other reserves to €1,429 million is attributable to the increase in retained earnings from €1,232 million to €1,270 million.

Retained earnings comprise prior years' undistributed income of companies included in the consolidated financial statements. They also contain remeasurements of the net defined benefit liability from post-employment benefit plans and the related tax effects. In addition, retained earnings are reduced by the portion of the stock repurchase price exceeding the nominal value by and the costs of the stock repurchase.

Other equity components

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

Capital management

The main purpose of capital management in the LANXESS Group is to maintain the long-term viability of the business operations and achieve an attractive return on capital compared with the chemical industry average. LANXESS's financial policy defines an additional condition for capital management, which is to maintain an investment-grade rating. To achieve this goal, the Group has to meet indicators set by the rating agencies. Most of these are derived from the statement of financial position, the income statement or the statement of cash flows. Details can be found in the section headed "Value management and control system" in the combined management report for fiscal year 2019. Capital management in the LANXESS Group entails decisions by the relevant internal bodies on the capital structure shown in the statement of financial position, the appropriateness of the company's equity, the use of the distributable profit, the amount of the dividend, the financing of capital expenditures, and thus on issuances or repayments of debt. The articles of association of LANXESS AG do not contain any specific capital requirements.

14 | Provisions for Pensions and Other Post-Employment Benefits

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

Defined contribution plans

In the case of defined contribution plans, the company pays contributions into separate pension funds. These contributions are included in the functional cost items as expenses for the respective year, and thus in the operating result. Once the contributions have been paid, the company has no further payment obligations. Payments to defined contribution plans in fiscal year 2019 totaled €43 million (previous year: €43 million).

Multi-employer plans

The pension plan in Germany financed through Bayer-Pensionskasse is also accounted for in the consolidated financial statements as a defined contribution plan. The above amounts include contributions of €23 million (previous year: €23 million) to Bayer-Pensionskasse. Contributions of about the same amount are expected for fiscal year 2020.

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

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

There are no minimum funding requirements, nor is there any information that could be used to estimate the future contributions on the basis of current under-or overfunding. The statutes do not provide for the sharing of any surplus or shortfall in the event that Bayer-Pensionskasse is wound up or LANXESS ceases to participate. LANXESS's share of the total contributions to Bayer-Pensionskasse is 15% (previous year: 15%). Bayer-Pensionskasse has been closed to new members since January 1, 2005.

Defined benefit plans

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

Contractually based defined benefit pension plans exist primarily in Germany, the U.S. and Great Britain.

The defined benefit pension obligations in Germany mainly relate to lifelong benefits payable in the event of death or disability or when the employee reaches retirement age. Benefits are determined on the basis of the total annual pension increments earned during the period of employment and vary according to employees' individual salaries. Additional pension entitlements exist that are related to salary components set aside by employees and are payable when they reach retirement age. Alongside direct commitments, the pension adjustment obligation assumed by Bayer-Pensionskasse is accounted for in a separate defined benefit plan in accordance with Section 16 of the German Occupational Pensions Improvement Act (BetrAVG). A new pension plan was agreed for employees joining from fiscal year 2017 in the form of a congruently defined benefit scheme which is funded on the basis of life insurance policies. The employer's obligation is fulfilled by the payment of the contribution to the covering life insurance policies. The covering life insurance policies are carried as plan assets via a CTA.

In the U.S. and Great Britain, the defined benefit obligations comprise, in particular, lifelong pension benefits, which are payable in the event of disability or death or when the employee reaches retirement age. The level of these benefits is determined from the total annual pension increments earned during the period of employment, depending on the employee's individual salary and the actual date of retirement. The existing defined benefit pension plans are closed to new members. In some of the closed pension plans, no new pension entitlements are accrued and the employees are transferred to a defined contribution plan.

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

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

Financing of the defined benefit pension obligations is achieved both internally through provisions and externally through legally independent pension funds. The pension obligations in Germany are partly covered on a voluntary basis via LANXESS Pension Trust e.V., Leverkusen, Germany. The allocation of funds to LANXESS Pension Trust e.V. is dependent on future decisions by the company. In the U.S. and Great Britain, it is mandatory to primarily finance pension obligations through pension funds. Allocations to pension funds in the U.S. and Great Britain are determined by the regulatory environments and the need to comply with funding regulations. Contributions are paid mainly by the employer. The investment strategy is determined principally by the LANXESS Corporate Pension Committee and is designed to protect the capital, optimally manage risks, take into account changes in pension obligations and ensure the timely availability of pension assets. At the regional level, the strategy is generally directly coordinated and monitored by representatives of LANXESS via the relevant committees of the pension funds or of LANXESS Pension Trust e.V., taking regulatory requirements into account. On the basis of local regulations, the pension assets in Great Britain are managed by external trustees in close coordination with LANXESS.

Funding surpluses from defined benefit plans are recognized as receivables relating to pension obligations to the extent that they can be used to reduce future contributions, taking into account the *asset ceiling*. Defined benefit pension plans with asset ceilings exist primarily in the U.S. and Great Britain. The respective calculations are based on actuarial valuations. *Minimum funding requirements* for defined benefit plans may exist in Great Britain as well as in other countries. These depend on the local regulatory framework and are recognized as additional pension provisions.

In the reporting year, total expenses of €62 million (previous year: €67 million) for defined benefit plans were recognized in profit or loss and are split between the operating result and the financial result as follows:

Expenses for Defined Benefit Plans

	Pension plans		Other post-employment benefit plans	
€ million	**2018**	**2019**	**2018**	**2019**
Operating result				
Current service cost	37	38	2	3
Past service cost	2	0	–	–
Gains from settlements	–	(3)	–	0
Administration expenses/taxes	2	1	0	0
Actuarial gains/losses from changes in financial assumptions	–	–	0	1
Financial result				
Net interest	20	18	4	4
Amounts recognized in profit or loss	**61**	**54**	**6**	**8**

Prior-year figures restated

The gains from settlements resulted from settlement payments in the U.S. of €13 million made for vested entitlements of €16 million. The difference of €3 million is recognized as gain from settlements.

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

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

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

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

Amounts Recognized in Other Comprehensive Income

	Pension plans		Other post-employment benefit plans	
€ million	**2018**	**2019**	**2018**	**2019**
Return on plan assets excluding amounts included in interest	(56)	156	(2)	4
Actuarial gains/losses from changes in demographic assumptions	(2)	9	0	4
Actuarial gains/losses from changes in financial assumptions	29	(265)	5	(11)
Actuarial gains/losses from experience adjustments	2	(6)	2	0
Changes in effects of the asset ceiling	(1)	(11)	1	(6)
Amounts recognized in other comprehensive income	**(28)**	**(117)**	**6**	**(9)**

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

Changes in Net Defined Benefit Liability

	Pension plans		Other post-employment benefit plans	
€ million	**2018**	**2019**	**2018**	**2019**
Net defined benefit liability, January 1	1,256	890	177	118
Adjustments in accordance with IFRS 5	(206)	(18)	(39)	–
Amounts recognized in profit or loss	61	54	6	8
Amounts recognized in other comprehensive income	28	117	(6)	9
Employer contributions	(216)	(18)	(1)	(1)
Benefits paid	(35)	(43)	(20)	(15)
Other addition	0	1	–	–
Exchange differences	2	(4)	1	2
Net defined benefit liability, December 31	**890**	**979**	**118**	**121**
Amounts recognized in the statement of financial position				
Receivables from pension obligations	(75)	(78)	–	–
Provisions for pensions and other post-employment benefits	965	1,057	118	121
Net defined benefit liability, December 31	**890**	**979**	**118**	**121**

Prior-year figures restated

In the reporting year, the adjustments in accordance with IFRS 5 resulted from the recognition of the Leather business unit as a discontinued operation in the amount of minus €17 million and from the planned sale of the business with gallium-based organometallics in the amount of minus €1 million. In the previous year, the adjustments in accordance with IFRS 5 for pension plans resulted from the recognition of ARLANXEO as a discontinued operation in the amount of minus €208 million and the recognition of the costs for defined benefit plans of the Leather business unit as a discontinued operation in the amount of €2 million. In the previous year, the adjustments in accordance with IFRS 5 for other post-employment benefit plans resulted from the recognition of ARLANXEO as a discontinued operation.

The expected cash outflows for employer contributions and benefit payments in fiscal year 2020 are €19 million and €58 million, respectively, based on year-end 2019 exchange rates. In the previous year, the expected cash outflows for employer contributions and benefit payments in fiscal year 2019 were €16 million and €56 million, respectively, based on exchange rates at year end 2018.

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

The defined benefit obligation developed as follows:

Changes in Defined Benefit Obligation

	Pension plans		Other post-employment benefit plans	
€ million	**2018**	**2019**	**2018**	**2019**
Defined benefit obligation				
Defined benefit obligation, January 1	3,104	2,162	192	135
Adjustments in accordance with IFRS 5	(939)	(18)	(39)	0
Current service cost	37	38	2	3
Interest expense	48	52	5	4
Actuarial gains/losses from changes in demographic assumptions	2	(9)	0	(4)
Actuarial gains/losses from changes in financial assumptions	(29)	265	(5)	12
Actuarial gains/losses from experience adjustments	(2)	6	(2)	0
Past service cost	2	0	0	–
Settlements	0	(16)	–	0
Employee contribution	0	1	0	0
Benefits paid	(67)	(79)	(21)	(17)
Other additions	0	1	–	–
Administration expenses/taxes	0	(1)	0	0
Exchange differences	6	20	3	2
Defined benefit obligation, December 31	**2,162**	**2,422**	**135**	**135**

Prior-year figures restated

In the reporting year, the adjustments in accordance with IFRS 5 resulted from the recognition of the Leather business unit as a discontinued operation in the amount of minus €17 million and from the planned sale of the business with gallium-based organometallics in the amount of minus €1 million. In the previous year, adjustments in accordance with IFRS 5 for pension plans resulted from the recognition of ARLANXEO as a discontinued operation in the amount of minus €941 million and the recognition of the costs for defined benefit plans of the Leather business unit as a discontinued operation in the amount of €2 million. In the previous year, the adjustments in accordance with IFRS 5 for other post-employment benefit plans resulted from the recognition of ARLANXEO as a discontinued operation.

Of the defined benefit obligation for pensions, Germany accounts for 72% (previous year: 71%), Great Britain for 12% (previous year: 12%) and the U.S. for 11% (previous year: 11%).

The other post-employment benefit obligations comprise €103 million (previous year: €98 million) for the reimbursement of health care costs and €32 million (previous year: €37 million) for miscellaneous other benefit commitments.

Actuarial gains and losses from changes in demographic assumptions resulted from the updating of demographic assumptions in the U.S. and Great Britain. In the U.S., actuarial gains resulted from the application of the newly published and adopted MP2019 mortality improvement tables, which assume lower future mortality improvement than in 2018. In Great Britain, actuarial gains resulted from the application of the newly published and adopted CMI 2018 mortality improvement tables.

In the previous year, actuarial gains and losses of €13 million from changes in demographic assumptions essentially arose in Germany as a result of the application of the newly published and adopted Heubeck 2018 G mortality tables. This was offset by the reduction in defined benefit obligations due to the application of the newly published and adopted CMI 2017 mortality improvement tables in Great Britain, which assume lower future mortality improvement than in 2016. Furthermore, actuarial losses arose in the previous year from changes in the estimated conversion factors for the Great Lakes Plan.

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

In the previous year, the past service cost for pension obligations resulted primarily from effects in Great Britain arising from the Barber judgment on minimum pension benefits guaranteed by law.

The settlements relate to the disposal of vested entitlements in the U.S. of €16 million in return for settlement payments of €13 million. The difference of €3 million is recognized as gain from settlements.

The exchange differences pertaining to defined benefit obligations mainly resulted from changes in the exchange rates for the U.S. dollar and the British pound.

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

Changes in External Plan Assets

	Pension plans		Other post-employment benefit plans	
€ million	**2018**	**2019**	**2018**	**2019**
Plan assets at fair value				
Plan assets, January 1	1,874	1,278	29	30
Adjustments in accordance with IFRS 5	(754)	0	–	0
Interest income	28	34	1	1
Return on plan assets excluding amounts included in interest	(56)	156	(2)	4
Losses from settlements	–	(13)	–	–
Employer contributions	216	18	1	1
Employee contributions	0	1	0	0
Benefits paid	(32)	(36)	(1)	(2)
Administration expenses/taxes	(2)	(2)	0	0
Exchange differences	4	24	2	0
Plan assets, December 31	**1,278**	**1,460**	**30**	**34**

In the reporting year, the adjustments in accordance with IFRS 5 resulted from the recognition of the Leather business unit as a discontinued operation in the amount of €0 million and from the planned sale of the business with gallium-based organometallics in the amount of €0 million. In the previous year, the adjustments in accordance with IFRS 5 resulted from the recognition of ARLANXEO as a discontinued operation in the amount of minus €754 million and the recognition of the costs for defined benefit plans of the Leather business unit as a discontinued operation in the amount of €0 million.

Of the plan assets, Germany accounts for 52% (previous year: 51%), Great Britain for 27% (previous year: 27%) and the U.S. for 14% (previous year: 16%).

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

The settlements relate to the disposal of vested entitlements in the U.S. of €16 million in return for settlement payments of €13 million. The difference of €3 million was recognized as gain from settlements.

External funding where subsequent pension payments are made directly out of external plan assets totaled €18 million (previous year: €16 million). External funding where LANXESS can assert reimbursement claims mainly pertains to LANXESS Pension Trust e.V. No payments were made in the reporting year. Additional funding of €200 million was provided to LANXESS Pension Trust e.V. in the previous year.

The exchange differences pertaining to plan assets mainly resulted from changes in the exchange rates for the U.S. dollar and the British pound.

Changes in the effects of the asset ceiling are shown in the following table:

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

	Effects of the asset ceiling		Minimum funding requirements	
€ million	**2018**	**2019**	**2018**	**2019**
January 1	**19**	**19**	**21**	**0**
Adjustments in accordance with IFRS 5	–	–	(21)	–
Interest expense	0	1	–	–
Additions (deductions)	–	17	–	–
Exchange differences	0	0	–	–
December 31	**19**	**37**	**0**	**0**

Changes in the effects of the asset ceiling mainly relate to the British defined benefit pension plans and the North American defined benefit obligations for other post-employment benefits. As of December 31, 2019, asset ceilings amounted to €17 million (previous year: €6 million) for defined benefit pension plans and €20 million (previous year: €13 million) for other post-employment benefits. In fiscal year 2019, as in the previous year, there were no effects from minimum funding requirements.

In the previous year, the adjustments in accordance with IFRS 5 resulted from the reporting of ARLANXEO as a discontinued operation.

The fair value of plan assets comprises:

Breakdown of Plan Assets as of December 31

in Mio. €	**2018**	**2019**
Cash and cash equivalents	224	67
of which quoted in an active market	224	67
Equity instruments	138	395
of which quoted in an active market	138	395
Government bonds	391	234
of which quoted in an active market	391	234
Corporate bonds	446	567
of which quoted in an active market	446	567
Investment funds	30	30
of which quoted in an active market	21	14
Real estate	5	17
of which quoted in an active market	5	17
Insurance contracts	56	67
of which quoted in an active market	–	–
Other	18	117
of which quoted in an active market	18	117
	1,308	**1,494**

The plan assets do not include any real estate used by the company. Financial instruments owned by the company account for approximately 3% (previous year: 3%) of the plan assets. Index products could conceivably include LANXESS securities.

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

Discount Rates as of December 31

	Pension plans		Other post-employment benefit plans	
%	**2018**	**2019**	**2018**	**2019**
Discount rate	2.41	1.64	3.88	3.33
Germany	2.00	1.30	0.36	0.39
U.S.	4.25	3.20	4.25	3.20
Great Britain	2.75	1.90	–	–

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

Valuation Assumptions as of December 31

	Pension plans		Other post-employment benefit plans	
%	**2018**	**2019**	**2018**	**2019**
Expected salary increases	2.3	2.3	2.6	2.6
Expected benefit increases	1.7	1.7	–	–
Expected increases in medical costs	–	–	7.0	7.0
Expected long-term increases in medical costs	–	–	5.2	5.2

The assumptions are weighted on the basis of the defined benefit obligation at year end. The discount rates used for Germany, the U.S. and Great Britain are derived from high-quality fixed-interest corporate bonds with the same maturities. The rounding method for determining the discount rates for defined benefit plans has changed compared with the previous year in the principal countries. In fiscal year 2019, the effect of this change reduced the defined benefit obligation in Germany by €17 million, increased the defined benefit obligation in the U.S. by €2 million, and increased the defined benefit obligation in Great Britain by €5 million.

The long-term cost increase for medical care is expected to take place within 8 years (previous year: 9 years).

The Heubeck mortality tables 2018 G form the biometric basis for the computation of pension obligations in Germany. Current national biometric assumptions are used to compute benefit obligations at other Group companies.

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

Sensitivities of Defined Benefit Obligations as of December 31

	Pension plans		Other post-employment benefit plans	
%	**2018**	**2019**	**2018**	**2019**
Discount rate				
+0.5%-pt.	(8.1)	(8.3)	(3.7)	(4.7)
–0.5%-pt.	9.2	9.6	4.0	5.2
Expected salary increases				
+0.25%-pt.	0.4	0.2	0.3	0.5
–0.25%-pt.	(0.4)	(0.2)	(0.2)	(0.5)
Expected benefit increases				
+0.25%-pt.	4.3	4.7	–	–
–0.25%-pt.	(4.0)	(4.5)	–	–
Mortality				
–10%	2.9	3.8	1.8	2.0
Expected increases in medical costs				
+1%-pt.	–	–	3.8	5.3
–1%-pt.	–	–	(3.4)	(4.3)

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

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

The weighted average duration of defined benefit pension obligations was 19 years (previous year: 18 years). This figure was based on weighted average durations of 20 years (previous year: 19 years) for Germany, 11 years (previous year: 9 years) for the U.S. and 18 years (previous year: 18 years) for Great Britain. The weighted average duration of the defined benefit obligations for other post-employment benefits was 11 years (previous year: 9 years).

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

Funded Status as of December 31

€ million	Pension plans 2018	Pension plans 2019	Other post-employment benefit plans 2018	Other post-employment benefit plans 2019
Funded status				
Defined benefit obligation for funded plans	1,628	1,816	22	22
External plan assets	(1,278)	(1,460)	(30)	(34)
Underfunding of funded plans	**350**	**356**	**(8)**	**(12)**
Defined benefit obligation for unfunded plans	534	606	113	113
Funded status, December 31	**884**	**962**	**105**	**101**

15 | Other Non-Current and Current Provisions

As of December 31, 2019, the LANXESS Group had other current provisions of €409 million (previous year: €465 million) and other non-current provisions of €338 million (previous year: €337 million). The maturity structure of other provisions is shown in the following table:

Other Provisions

€ million	Dec. 31, 2018 Up to 1 year	Dec. 31, 2018 1–5 years	Dec. 31, 2018 Over 5 years	Dec. 31, 2018 Total	Dec. 31, 2019 Up to 1 year	Dec. 31, 2019 1–5 years	Dec. 31, 2019 Over 5 years	Dec. 31, 2019 Total
Personnel	188	29	34	251	155	33	31	219
Environmental protection	31	49	118	198	32	42	117	191
Trade-related commitments	86	1	0	87	92	5	0	97
Restructuring	23	24	5	52	23	16	5	44
Miscellaneous	137	24	53	214	107	26	63	196
	465	**127**	**210**	**802**	**409**	**122**	**216**	**747**

The total of other provisions decreased from €802 million to €747 million in the reporting year. The changes in other provisions were as follows:

Changes in Other Provisions in 2019

€ million	Jan. 1, 2019	Adjustments in accordance with IFRS 5	Additions	Interest effect	Utilization	Reversals	Exchange differences	Dec. 31, 2019
Personnel	251	(11)	156	0	(168)	(10)	1	219
Environmental protection	198	(6)	7	5	(15)	(4)	6	191
Trade-related commitments	87	(3)	68	–	(49)	(6)	0	97
Restructuring	52	–	16	–	(19)	(6)	1	44
Miscellaneous	214	(5)	42	2	(41)	(17)	1	196
	802	**(25)**	**289**	**7**	**(292)**	**(43)**	**9**	**747**

Personnel-related provisions

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

Multi-year compensation programs

Stock-based compensation

LANXESS AG offers a stock-based compensation program to members of the Management Board and top-level managers. The program provides for cash settlement. The three present Long-Term Stock Performance Plans (LTSP) were introduced in fiscal years 2010, 2014 and 2018. Under the LTSP 2010–2013 program introduced in fiscal year 2010, rights were granted for the years 2010–2013. Awards are based on the performance of LANXESS stock relative to the Dow Jones STOXX 600 Chemicals℠ Index. The LTSP 2014–2017 program introduced in fiscal year 2014 is largely identical to the LTSP 2010–2013. The main difference is that awards are based on the performance of LANXESS stock relative to the MSCI World Chemicals Index. The total term of all tranches in both programs is generally seven years. In fiscal year 2016, the exercise periods for the 2012 and 2013 tranches of the LTSP 2010–2013 compensation program were extended by two years each, so the full term of these two tranches is now nine years. The vesting period is four years for each tranche. The base price of the stock and the benchmark index for the LTSP programs are calculated using a volume-weighted average of the closing prices on the first ten trading days in January of the year of issue of the tranche. The date of issue of the rights granted and still outstanding and the rights from the outstanding tranches is February 1 each year. Participation in the programs is conditional upon each manager making a personal investment in LANXESS stock, depending on his/her base salary. If LANXESS stock outperforms the index, a payment of at least €0.75 per right is made. For each percentage point by which the stock outperforms the index, €0.125 is paid in addition. The maximum possible payment per right, however, is €2.00.

LTSP 2018–2021 was introduced in Germany and the U.S. in fiscal year 2018. The tranche has a total term of four years and exclusively comprises the vesting period. The issue date for the rights granted and still outstanding is January 1 of each year. For each year during the term of the LTSP plan, the basic price of the company's stock is calculated from the average closing prices for the stock in Xetra trading on the Frankfurt Stock Exchange. To calculate the average, for each tranche year the closing prices of the last ten trading days in the calendar month of December of the previous year and the closing prices for the first ten trading days of the calendar month of January of the current tranche year are calculated. 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 values for the four fiscal years falling in the respective tranche are then added together and averaged. Rights are exercised automatically at the end of the vesting period. If the stock outperforms the index by 85 percentage points or more, at least €0.50/$0.50 is paid out. An additional €0.03/$0.03 is paid out for each percent up to a performance of 100 percentage points. If the stock outperforms the index by between 100 and 115 percentage points, a further €0.06/$0.06 will be paid per percentage point, resulting in a maximum possible payment of €2.00/$2.00.

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

Principal Parameters as of December 31

%	2018	2019
Expected share price volatility	27.0	28.0
Expected dividend payment	2.0	2.0
Expected volatility of Dow Jones STOXX 600 Chemicals℠	18.0	16.0
Correlation between LANXESS stock and Dow Jones STOXX 600 Chemicals℠	72.0	72.0
Expected volatility of MSCI World Chemicals Index	13.0	13.0
Correlation between LANXESS stock and MSCI World Chemicals Index	63.0	65.0

The relevant risk-free interest rate in the reporting year was minus 0.54% (previous year: minus 0.44%).

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

The following table provides information on the tranches outstanding:

Long-Term Stock Performance Plan

	LTSP 2010–2013		LTSP 2014–2017			LTSP 2018–2021	
	Tranche 2012	**Tranche 2013**	**Tranche 2015**	**Tranche 2016**	**Tranche 2017**	**Tranche 2018**	**Tranche 2019**
Duration	9 years	9 years	7 years	7 years	7 years	4 years	4 years
Vesting period	4 years	4 years	4 years	4 years	4 years	4 years	4 years
Lock-up period for personal investment shares	Dec. 31, 2017	Dec. 31, 2017	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2021	Dec. 31, 2021	Dec. 31, 2022
Initial LANXESS share price	44.54 €	63.25 €	35.04 €	38.39 €	64.84 €	66.90 €[1]	42.57 €
Initial Dow Jones STOXX 600 Chemicals[SM] price	533.45 points	665.98 points	–	–	–	–	–
Initial MSCI World Chemicals Index price	–	–	254.06 points	233.45 points	276.04 points	337.09 points	280.46 points
Fair value per right as of December 31, 2018	0.03 €	0.02 €	1.62 €	0.86 €	0.22 €	0.73 €/ 0.73 $[1]	–
Fair value per right as of December 31, 2019	0.04 €	0.04 €	0.00 €	1.89 €	0.54 €	1.09 €/ 1.09 $[1]	1.31 €/ 1.31 $
Change in number of outstanding rights							
Outstanding rights as of January 1, 2019	7,194,747	7,815,808	8,549,467	9,651,994	10,258,995	13,565,435[1]	–
Adjustments in accordance with IFRS 5	116,382	128,820	144,749	158,364	159,537	196,320	–
Rights granted	–	–	–	–	–	–	14,572,597
Rights exercised	–	–	8,107,727	–	–	–	–
Rights compensated	209,870	223,704	62,790	324,100	321,290	305,228	292,927
Rights forfeited	218,670	216,596	234,201	304,576	346,082	396,739	78,305
Outstanding rights as of December 31, 2019	**6,649,825**	**7,246,688**	**0**	**8,864,954**	**9,432,086**	**0**	**14,201,365**

1) Prior-year figures restated

The adjustments in accordance with IFRS 5 result from the reporting of the Leather business unit as a discontinued operation.

LANXESS shares were trading at €59.82 at year end 2019. The Dow Jones STOXX 600 Chemicals[SM] benchmark index stood at 1,029.61 points, while the MSCI World Chemicals Index was 329.34 points.

Due to the performance of the LANXESS share relative to the benchmark and to the granting, settlement or forfeiture of rights, net expense in fiscal year 2019 was €26 million (previous year: €4 million). A provision of €31 million existed as of December 31, 2019 (previous year: €23 million). In the current fiscal year, as in the prior year, the rights exercisable as of the closing date had no intrinsic value.

Environmental provisions

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

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

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

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

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

Provisions for trade-related commitments

The provisions essentially relate to energy and waste disposal services not yet invoiced and outstanding invoices for performance completed to date. They also comprise provisions for impending losses and onerous contracts.

Provisions for restructuring

Provisions for restructuring totaled €44 million (previous year: €52 million) on December 31, 2019, comprising €20 million (previous year: €12 million) for human resources measures, €16 million (previous year: €19 million) for environmental protection measures and €8 million (previous year: €21 million) for demolitions necessary for fulfilling environmental obligations and other expenses.

Miscellaneous provisions

The miscellaneous provisions principally comprise provisions for onerous contracts and for other obligations.

16 | Other Non-Current and Current Financial Liabilities

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

Other Financial Liabilities as of December 31, 2018

	Current	Non-current					
€ million	**2019**	**2020**	**2021**	**2022**	**2023**	**> 2023**	**Total**
Bonds	–	–	497	597	–	1,575	2,669
Liabilities to banks	29	–	–	–	–	–	0
Liabilities under finance leases	5	3	3	2	2	2	12
Other primary financial liabilities	25	0	0	0	0	5	5
	59	**3**	**500**	**599**	**2**	**1,582**	**2,686**

Other Financial Liabilities as of December 31, 2019

	Current	Non-current					
€ million	**2020**	**2021**	**2022**	**2023**	**2024**	**> 2024**	**Total**
Bonds	–	498	598	–	–	1,577	2,673
Liabilities to banks	0	–	–	–	–	–	0
Lease liabilities	41	33	26	10	6	25	100
Other primary financial liabilities	25	0	0	1	0	3	4
	66	**531**	**624**	**11**	**6**	**1,605**	**2,777**

In the LANXESS Group, the following bonds were outstanding on December 31, 2019:

Bonds

Issuance	Nominal amount € million	Carrying amount € million	Interest rate %	Maturity
April 2012	100	100	3.500	April 2022
April 2012	100	99	3.950	April 2027
November 2012	500	498	2.625	November 2022
October 2016	500	498	0.250	October 2021
October 2016	500	494	1.000	October 2026
December 2016	500	490	4.500	December 2076
May 2018	500	494	1.125	May 2025

The weighted average interest rate for the LANXESS Group's financial liabilities denominated in euros and other currencies was 2.0% at the end of fiscal year 2019 and thus on the previous year's level.

Lease payments of €173 million (previous year: €21 million), including €32 million (previous year: €4 million) in interest, are to be made to the respective lessors in future years. The increase in lease liabilities results primarily from the initial application of IFRS 16.

Other primary financial liabilities include accrued interest of €25 million (previous year: €25 million) on financial liabilities, which primarily relate to bonds.

Information on the fair values of financial liabilities and the contractually agreed payments, especially interest payments, is given in Note [37].

17 | Non-Current and Current Income Tax Liabilities

The non-current and current income tax liabilities comprised:

Income Tax Liabilities

	Dec. 31, 2018		
€ million	Non-current	Current	**Total**
Provisions	117	41	158
Payables	–	3	3
	117	**44**	**161**

Income Tax Liabilities

	Dec. 31, 2019		
€ million	Non-current	Current	**Total**
Provisions	95	119	214
Payables	–	3	3
	95	**122**	**217**

The non-current income tax liabilities essentially comprise uncertain tax positions for ongoing tax proceedings. The current income tax liabilities include provisions for disputed tax issues from tax proceedings whose utilization within the next year is considered probable.

18 | Other Non-Current and Current Liabilities

At year end the other non-current liabilities comprised:

Other Non-Current Liabilities

€ million	**Dec. 31, 2018**	**Dec. 31, 2019**
Asset subsidies granted by third parties	42	32
Contract liabilities	14	12
Social security liabilities	3	5
Miscellaneous liabilities	21	18
	80	**67**

The asset subsidies granted by third parties include government grants that are contingent upon the maintenance of employment or the use of assets for the company's own production purposes over defined periods of time.

Other Current Liabilities

€ million	**Dec. 31, 2018**	**Dec. 31, 2019**
Other tax liabilities	45	43
Contract liabilities	25	17
Social security liabilities	12	13
Payroll liabilities	14	12
Miscellaneous liabilities	35	26
	131	**111**

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

Contract liabilities are recognized in accordance with IFRS 15 for advance payments received for which performance has not yet been rendered.

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

The miscellaneous liabilities principally comprise accruals for outstanding invoices relating to the reporting period. In the previous year, the corresponding liabilities to Currenta GmbH & Co. OHG, Leverkusen, Germany, were less than €1 million.

Contract Liabilities

€ million	2018	2019
January 1	40	39
Adjustments in accordance with IFRS 5	(10)	–
Cumulative catch-up adjustments to revenues of the reporting period	9	3
Cumulative catch-up adjustments to revenues of previous reporting periods	(4)	(4)
Additions	32	22
Revenue recognized that was included in the beginning balance	(28)	(31)
Exchange differences	0	0
December 31	**39**	**29**

The additions mainly relate to advance payments from customers for outstanding performance obligations. The revenue recognized from the opening balance mainly relates to prior-year payments from customers and the recognition of the values for the quantities delivered in the reporting period from the business model of manufacturing products on the basis of long-term supply agreements with a contractually defined minimum purchase requirement, which are included in the opening balance.

19 | Trade Payables

Trade accounts are payable mainly to third parties. As in the previous year, the entire amount totaling €656 million (previous year: €795 million) is due within one year.

Trade payables of €113 million (previous year: €117 million) relate to the investment in Currenta GmbH & Co. OHG, Leverkusen, Germany, and its affiliated companies, while trade payables of €543 million (previous year: €678 million) relate to other suppliers. The year-on-year decline resulted from effects of raw material prices in the fourth quarter of 2019 as well as the reporting of the Leather business unit as a discontinued operation.

20 | Further Information on Liabilities

€1,614 million of total liabilities (previous year: €1,587 million) have maturities of more than five years.

NOTES TO THE INCOME STATEMENT

21 | Sales

Sales, which amounted to €6,802 million (previous year: €6,824 million), mainly comprise sales of internally generated chemical products less discounts and rebates. The services relate to sales- and product-related services, tolling agreements and other long-term services. A breakdown of sales and the change in sales by segment and region is given in the segment information (see Note [39]).

Type of Revenues

€ million	2018	2019
Sales of goods	6,756	6,708
Services	68	94
	6,824	**6,802**

Prior-year figures restated

Revenue Recognition

€ million	2018	2019
Point in time	6,517	6,443
Over time	307	359
	6,824	**6,802**

Prior-year figures restated

The sales recognized over time relate to the business model of manufacturing customer-specific products on the basis of long-term sales contracts with contractually defined minimum purchase requirements of €265 million (previous year: €239 million) and to services rendered over time of €94 million (previous year: €68 million).

For information on the effects of changes in contract assets and contract liabilities on sales, please refer to the respective reconciliations in Notes [6] and [18].

Under the business models of manufacturing products or customer-specific products on the basis of long-term sales contracts with contractually defined minimum purchase requirements, there were unfulfilled performance obligations totaling €2,304 million as of December 31, 2019 (previous year: €1,907 million). The associated sales are expected to be as follows:

Maturity Structure of Revenues

€ million	2018	2019
Up to 1 year	618	662
1 to 2 years	360	491
2 to 3 years	260	366
3 to 4 years	185	182
4 to 5 years	101	175
More than 5 years	383	428
	1,907	2,304

22 | Cost of Sales

Cost of Sales

€ million	2018	2019
Expenses for raw materials and merchandise	3,013	2,901
Direct manufacturing and other production costs	2,073	2,142
	5,086	5,043

Prior-year figures restated

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

23 | Selling Expenses

Selling Expenses

€ million	2018	2019
Marketing costs	465	504
Outward freight charges and other selling expenses	294	308
	759	812

Prior-year figures restated

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

24 | Research and Development Expenses

The research and development expenses of €114 million (previous year: €109 million) mainly include the costs incurred to gain new scientific and technical knowledge, expenses relating to the search for alternative products and production processes, and costs for applying the results of research.

25 | General Administration Expenses

The general administration expenses, amounting to €274 million (previous year: €295 million), comprise costs not directly related to operational business processes and the costs for the country organizations.

26 | Other Operating Income

Other Operating Income

€ million	2018	2019
Income from non-core business	58	43
Exceptional items	16	8
Income from the reversal of provisions	4	7
Gains from the disposal of non-current assets	1	2
Miscellaneous operating income	35	35
	114	95

Prior-year figures restated

The exceptional items mostly contain compensation payments in connection with restructuring measures to adapt the production network as well as income from the reversal of provisions recognized as exceptional items in previous years. Based on economic relevance, they comprise €5 million (previous year: €13 million) allocated to the cost of sales and €3 million (previous year: €3 million) allocated to general administration expenses.

27 | Other Operating Expenses

Other Operating Expenses

€ million	2018	2019
Exceptional items	106	158
Expenses for non-core business	58	42
Expenses for hedging with derivative financial instruments	3	27
Loss allowance on trade receivables and other current assets	3	4
Losses from the disposal of non-current assets	0	1
Miscellaneous operating expenses	28	15
	198	**247**

Prior-year figures restated

In fiscal year 2019, the exceptional items include costs for the strategic realignment of €76 million. These mostly relate to the sale of the business with tin-based organometallics at the site in Bergkamen, Germany, in December 2019 and to the sale of the business with gallium-based organometallics in Pyeongtaek, Republic of Korea. Furthermore, there were exceptional items for restructuring measures of €6 million to adapt the production network. This especially affected the Inorganic Pigments business unit's Jinshan site in China (Performance Chemicals segment). There were also exceptional items of €25 million for strategic IT projects and of €51 million for digitalization, costs for mergers and acquisitions, and other measures.

Exceptional items in the previous year related to costs of €30 million for the strategic alignment, which also included exceptional items in connection with the integration of the U.S. chemical group Chemtura. Furthermore, there were exceptional items for restructuring measures of €16 million to optimize the production network. This especially affected the Inorganic Pigments business unit's Jinshan site in China (Performance Chemicals segment) and the Polymer Additives business unit's Reynosa site in Mexico (Specialty Additives segment). There were also exceptional items of €60 million for digitalization, costs for mergers and acquisitions, and other measures.

Of the exceptional items of €158 million (previous year: €106 million), €68 million (previous year: €27 million) was allocable to the cost of sales in line with its economic relevance, while €6 million (previous year: €1 million) was allocable to selling expenses and €84 million (previous year: €78 million) to general administration expenses.

28 | Financial Result

The financial result breaks down as follows:

Financial Result

€ million	2018	2019
Income from investments accounted for using the equity method	**0**	**0**
Interest income	6	22
Interest expense	(75)	(76)
Net interest expense	**(69)**	**(54)**
Interest expense from compounding interest-bearing provisions	(30)	(29)
Net exchange gain/loss	(16)	2
Miscellaneous financial expense and income	(1)	0
Dividends and income from other affiliated companies	6	20
Other financial income and expense	**(41)**	**(7)**
Financial result	**(110)**	**(61)**

Prior-year figures restated

The change in interest income is primarily due to the interest on income tax receivables. Interest expense includes in particular payments of bond interest adjusted for capitalized borrowing costs of €3 million (previous year: €3 million) and interest on income tax liabilities. Interest expense also includes the interest portion of the lease payments under leases, amounting to €5 million (previous year: €2 million). The change in the net exchange result depends in particular on the development of the currency hedges. Other financial expenses and income include income of €1 million (previous year: expense of €1 million) from loss allowances for financial assets. This item also includes the monetary loss of €3 million (previous year: €1 million) from restating the price level in the context of financial reporting in hyperinflationary economies. The increase in dividends and other income from affiliated companies primarily resulted from the higher profit transfer from Currenta GmbH & Co. OHG, Leverkusen, Germany.

29 | Income Taxes

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

The breakdown of income taxes by origin is as follows:

Income Taxes by Origin

€ million	2018	2019
Current taxes	(81)	(118)
Deferred taxes resulting from		
temporary differences	(17)	34
statutory changes in tax rates	(2)	1
loss carryforwards	1	(22)
Income taxes	**(99)**	**(105)**

Prior-year figures restated

The actual tax expense for fiscal year 2019 was €105 million (previous year: €99 million). This was €7 million (previous year: €24 million) less than the expected tax expense of €112 million (previous year: €123 million).

In calculating the expected tax expense for the LANXESS Group, the aggregated income tax rate of 32.3% (previous year: 32.3%) for the German tax entity was applied. This comprises a corporation tax rate of 15.0%, plus a solidarity surcharge (5.5% of corporation tax) and trade tax.

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

Reconciliation to Actual Tax Result

€ million	2018	2019
Income before income taxes	381	346
Aggregated income tax rate of LANXESS AG	32.3%	32.3%
Expected tax result	(123)	(112)
Tax difference due to differences between local tax rates and the hypothetical tax rate	18	21
Reduction in taxes due to tax-free income and reduction of tax bases	1	11
Increase in taxes due to		
non-tax-deductible expenses	(7)	(15)
unrecognized deferred taxes on tax losses and temporary differences	(28)	(47)
Other tax effects	40	37
Actual tax result	**(99)**	**(105)**
Effective tax rate	26.0%	30.3%

Prior-year figures restated

As in the previous year, the other tax effects of €37 million (previous year: €40 million) primarily include the reversal of impairment on deferred taxes and taxes for previous years.

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

Deferred Taxes

€ million	Dec. 31, 2018 Deferred tax assets	Dec. 31, 2018 Deferred tax liabilities	Dec. 31, 2019 Deferred tax assets	Dec. 31, 2019 Deferred tax liabilities
Intangible assets	7	172	6	163
Property, plant and equipment	4	152	4	186
Inventories	23	11	29	16
Receivables and other assets	55	44	78	54
Pension provisions	279	–	288	1
Other provisions	77	1	87	–
Liabilities	23	17	42	3
Loss carryforwards	127	–	104	–
	595	**397**	**638**	**423**
of which non-current	417	337	402	363
Set-off	(308)	(308)	(314)	(314)
	287	**89**	**324**	**109**

The deferred taxes on receivables and other assets include €27 million of deferred tax assets on the difference between the carrying amount of the investment in Currenta GmbH & Co. OHG, Leverkusen, Germany, recognized in the consolidated statement of financial position and the carrying amount of the investment recognized in the parent company's tax accounts ("outside basis differences"), the realization of which is expected when the sale is completed.

The change in deferred taxes is calculated as follows:

Changes in Deferred Taxes

€ million	2018	2019
Deferred taxes, January 1	**329**	**198**
Adjustments in accordance with IFRS 5	(129)	4
Tax income/expense recognized in the income statement	(18)	13
Deferred taxes recognized in other comprehensive income	21	7
Exchange differences	(5)	(7)
Deferred taxes, December 31	**198**	**215**

Prior-year figures restated

The adjustments in accordance with IFRS 5 result from the reporting of the Leather business unit as a discontinued operation. In this context, only the deferred taxes that will be disposed of when the interest is sold were reclassified. In the previous year, the adjustments in accordance with IFRS 5 related to the reporting of ARLANXEO as a discontinued operation. The deferred taxes allocable to the share disposals of the Leather business unit are also recognized here.

The deferred taxes recognized in other comprehensive income comprised €11 million (previous year: €11 million) relating to remeasurements of the net defined benefit liability for post-employment benefit plans and minus €4 million (previous year: €10 million) relating to financial instruments. In addition, other comprehensive income contains current taxes of €3 million (previous year: less than €1 million).

Deferred tax assets of €16 million (previous year: €30 million), which exceed the reversal of taxable temporary differences, relate to tax jurisdictions in which losses were incurred in fiscal year 2019 or the previous year. This amount includes deferred taxes of €1 million on loss carryforwards. Based on tax planning calculations and strategies, LANXESS assumes that it will generate sufficient taxable income in the future to realize the deferred tax assets.

Based on tax planning calculations and strategies, deferred tax assets of €104 million (previous year: €127 million) were recognized on the €400 million (previous year: €511 million) in tax loss carryforwards that represent income likely to be realized in the future. This amount included deferred taxes of €14 million (previous year: €15 million) on loss carryforwards with an unlimited carryforward period.

Deferred taxes were not recognized for €917 million (previous year: €813 million) of tax loss carryforwards. Of this amount, €119 million (previous year: €124 million) can theoretically be used over more than five years. Further, deferred tax assets were not recognized in fiscal year 2019 for tax-deductible temporary differences of €191 million (previous year: €225 million). Accordingly, deferred taxes on loss carryforwards of €231 million (previous year: €216 million) and deferred tax assets on tax-deductible temporary differences of €49 million (previous year: €56 million) were not recognized.

30 | Earnings and Dividend per Share

Earnings per share for fiscal year 2019 amount to €2.32, consisting of €2.72 from continuing operations and minus €0.40 from discontinued operations. These values were calculated based on the weighted average number of shares outstanding in the reporting period.

As of December 31, 2019, 87,447,852 shares were outstanding. Since there are currently no equity instruments in issue that could dilute earnings per share, basic and diluted earnings per share are identical. Further information on equity instruments that could dilute earnings per share in the future is contained in Note [13].

Earnings per Share

	2018	2019	Change %
Net income (€ million)	431	205	(52.4)
from continuing operations	282	240	(14.9)
from discontinued operations	149	(35)	<(100)
Weighted average number of shares outstanding	91,522,936	88,334,641	(3.5)
Earnings per share in € (undiluted/diluted)	**4.71**	**2.32**	**(50.7)**
from continuing operations	3.08	2.72	(11.7)
from discontinued operations	1.63	(0.40)	< (100)

Prior-year figures restated

LANXESS AG reported a distributable profit of €279 million for fiscal year 2019 (previous year: €127 million). The dividend payment made to stockholders of LANXESS AG for fiscal year 2018 during the reporting year amounted to €0.90 per share (previous year: €0.80 per share).

31 | Personnel Expenses

The breakdown of personnel expenses is as follows:

Personnel Expenses

€ million	2018	2019
Wages and salaries	1,009	1,080
Social security contributions	151	162
Retirement benefit expenses	86	90
Social assistance benefits	12	13
	1,258	**1,345**

Prior-year figures restated

Total personnel expenses rose in fiscal year 2019. This was largely due to salary adjustments and a slight increase in the workforce. The site closure in Brazil had an opposite effect. The personnel expenses shown here do not contain the interest expenses for compounding personnel-related provisions, especially pension provisions, which is reflected in the financial result (see Note [28]).

OTHER INFORMATION

32 | Employees

The average number of employees in the LANXESS Group in 2019 was 14,285 (previous year: 14,243). The year-on-year increase in the workforce mainly results from organic growth in Germany. It is countered by effects from site closures in China and Brazil.

Employees by Function

	2018	2019
Production	10,287	10,264
Administration	1,838	1,848
Marketing	1,617	1,658
Research	501	515
	14,243	**14,285**

Prior-year figures restated

33 | Contingent Liabilities and Other Financial Commitments

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

As in the previous year, contingent liabilities to third parties amounted to less than €1 million as of December 31, 2019. There are no contingent liabilities relating to the investment in Currenta GmbH & Co. OHG, Leverkusen, Germany. As a personally liable partner in Currenta GmbH & Co. OHG, Leverkusen, Germany, LANXESS may be required to inject further capital into this company.

In addition, other financial commitments also resulted from operating leases in the previous year. As explained in the description of accounting policies and valuation principles in the “Leases (IAS 17)” section, operating leases were those which – unlike finance leases – did not transfer substantially all risks and rewards incidental to the ownership of the leased assets to the lessee. In the LANXESS Group, operating leases were mainly used for operational reasons and not as a means of financing. The introduction of IFRS 16 on January 1, 2019, means that all leases are now recognized in property, plant and equipment as right-of-use assets. Please see Note [36] for further information.

Under IAS 17 in the previous year, the expected non-discounted future lease and rental payments relating to operating leases totaled €176 million.

The maturities of the respective payment obligations were as follows:

Maturity Structure of Lease and Rental Payments

€ million	Dec. 31, 2018
Up to 1 year	38
1 to 2 years	31
2 to 3 years	25
3 to 4 years	20
4 to 5 years	17
More than 5 years	45
	176

Of the expected lease and rental payments, €3 million was attributable to the Leather business unit as a discontinued operation. Of these payments, €1 million is due within one year, €1 million within one to two years, and €1 million within two to three years.

Payments under operating leases in fiscal year 2018 amounted to €44 million. Future lease and rental payments related to the Group's headquarters in Cologne in particular. Other significant agreements related to the global leasing of land, office buildings and warehouses. In addition, rail tankers and tank containers are leased for transporting raw materials and goods.

Financial commitments resulting from orders already placed under purchase agreements relating to planned or ongoing capital expenditure projects in the area of property, plant and equipment and intangible assets totaled €137 million (previous year: €144 million). All of these payments are due in fiscal year 2020.

Description of the master agreement

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

34 | Related Parties

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

Transactions with Currenta GmbH & Co. OHG, Leverkusen, Germany, and its affiliated companies mainly comprised the purchase of site services in the fields of utilities, infrastructure and logistics totaling €423 million (previous year: €426 million). As of December 31, 2019, trade payables of €113 million (previous year: €117 million), other liabilities of €0 million (previous year: €0 million), lease liabilities of €6 million (previous year: payment obligations under operating leases of €7 million) and obligations under purchase agreements of €9 million (previous year: €9 million) existed as a result of these transactions. The LANXESS Group also generated sales of €29 million (previous year: €22 million) from transactions with Currenta GmbH & Co. OHG and its affiliated companies. There were also trade receivables of €4 million (previous year: €4 million) and other receivables of €1 million (previous year: €0 million) from Currenta GmbH & Co. OHG and its affiliated companies. Contingent liabilities relating to Currenta GmbH & Co. OHG are outlined in the previous section.

In addition, members of the Board of Management and the Supervisory Board as well as their close family members were identified as related parties. As in the previous year, there were no business transactions subject to reporting requirements in fiscal year 2019. Information on the compensation of the Board of Management and Supervisory Board can be found in the next section.

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

For fiscal year 2019, total compensation of €11,790 thousand (previous year: €12,183 thousand) was paid to the members of the Board of Management of LANXESS AG, comprising €7,101 thousand (previous year: €8,597 thousand) in short-term compensation (annual base salary, Annual Performance Payment (APP), benefits in kind and other), minus €34 thousand (previous year: €0 thousand) in adjustments for previous years, and other long-term compensation components totaling €2,688 thousand (previous year: €1,726 thousand) as part of the Long-Term Performance Bonus (LTPB). The total also includes compensation paid under the stock-based Long-Term Stock Performance Plan (LTSP). A total of 2,035,000 (previous year: 1,860,000) compensation rights were granted to the members of the Board of Management in fiscal year 2019. The fair value of these rights at the grant date was €2,035 thousand (previous year: €1,860 thousand). Personnel expenses for stock-based compensation amounted to €4,518 thousand in fiscal year 2019 (previous year: income of €81 thousand).

Details of the compensation system for members of the Board of Management and an individual breakdown of the compensation are given in the “Compensation report” section of the combined management report for fiscal year 2019.

In addition, service costs of €1,599 thousand (previous year: €1,541 thousand) relating to defined benefit pension plans were incurred in fiscal year 2019 for members of the Board of Management as part of their compensation package. The present value of the defined benefit obligation as of December 31, 2019, was €26,899 thousand (previous year: €19,977 thousand).

In accordance with IAS 24, the total net expense for the compensation of the members of the Board of Management in fiscal year 2019 was €15,872 thousand (previous year: €11,783 thousand). The balances outstanding to members of the Board of Management as of December 31, 2019, totaled €12,757 thousand (previous year: €10,879 thousand), comprising provisions of €3,483 thousand (previous year: €4,225 thousand) for the APP, €3,555 thousand (previous year: €3,053 thousand) for the LTPB and €5,719 thousand (previous year: €3,601 thousand) for stock-based compensation.

Payments totaling €7,070 thousand (previous year: €473 thousand) and relating to pension benefits were made to former members of the Board of Management in fiscal year 2019, of which €6,459 thousand (previous year: €0 thousand) related to one-time capital payments. The total pension obligation toward former members of the Board of Management as of December 31, 2019, was €34,629 thousand (previous year: €35,261 thousand).

The members of the Supervisory Board received total compensation of €1,864 thousand in fiscal year 2019 (previous year: €1,981 thousand). This compensation is paid at the start of the following year. The provisions recognized for stock-based compensation for Supervisory Board members as of December 31, 2019, amounted to €1,670 thousand (previous year: €1,310 thousand).

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

Details of the compensation system for members of the Supervisory Board and an individual breakdown of the amounts paid are contained in the section headed “Compensation report” in the combined management report for fiscal year 2019.

No loans were granted to members of the Board of Management or the Supervisory Board in fiscal year 2019 or the previous year.

36 | Leases

The LANXESS Group rents land, office buildings and warehouses for its business activities. In addition, rail tankers and tank containers are leased to transport raw materials and goods. The right-of-use assets recognized in this context developed as follows compared with the finance lease assets recognized in accordance with IAS 17 in the previous year:

Change in Right-of-Use Assets from Leases 2019

€ million	Land and buildings	Technical equipment and machinery	Other fixtures, fittings and equipment	Total
Cost of acquisition or construction, Dec. 31, 2018	2	13	20	35
Adjustments in accordance with IFRS 16	108	10	17	135
Adjustments in accordance with IFRS 5	(3)	0	(1)	(4)
Additions	14	19	14	47
Retirements	(1)	0	0	(1)
Exchange differences	1	0	0	1
Cost of acquisition or construction, Dec. 31, 2019	**121**	**42**	**50**	**213**
Accumulated depreciation and write-downs, Dec. 31, 2018	(1)	(7)	(10)	(18)
Adjustments in accordance with IFRS 5	1	–	0	1
Depreciation and write-downs in 2019	(28)	(10)	(11)	(49)
of which write-downs	(1)	0	0	(1)
Retirements	1	0	0	1
Exchange differences	0	0	0	0
Accumulated depreciation and write-downs, Dec. 31, 2019	**(27)**	**(17)**	**(21)**	**(65)**
Carrying amounts, Dec. 31, 2019	**94**	**25**	**29**	**148**

The interest expense for lease liabilities recognized in the income statement amounted to €5 million in the reporting year. The expected future payments for lease liabilities total €173 million. Information on agreed undiscounted cash flows and the division of these cash flows into payments of principal and interest is given in Note [37]. Disclosures regarding the remaining terms and maturities of the lease liabilities are made in Note [16].

In fiscal year 2019, expenses for short-term leases amounted to €6 million and expenses for leases for low-value assets amounted to €3 million. This essentially equals the payments made for these leases. Expenses for leases for which the lease term ends within twelve months of the date of initial application of IFRS 16 are included in the expenses for short-term leases.

Of the €49 million in depreciation and amortization recognized in fiscal year 2019, €42 million is attributable to the introduction of IFRS 16 and €7 million to leases that were to be classified as finance leases under IAS 17.

The leases in the LANXESS Group may contain options to extend or terminate the lease in order to ensure the greatest possible operational flexibility. Leases are negotiated individually and contain differing terms and conditions. Extension options are included in the calculation of the lease liability if they are reasonably certain to be exercised. Potential future lease payments from extension options whose exercise is not reasonably certain amount to €225 million. These primarily relate to the global leasing of office buildings and land. For leases of indefinite duration ("evergreen leases"), the next extension option was accounted for in each instance.

There were no sale and leaseback transactions in fiscal year 2019. There were also no material leases that were already agreed but not set to commence until later fiscal years.

37 | Financial Instruments

The “Opportunity and risk report” in the combined management report outlines the LANXESS Group’s risk management system, including its objectives, methods and processes, and the material financial risks such as currency, interest rate, counterparty, liquidity and raw material price risks.

The risk that the fair value or the future cash flows of a financial instrument could change due to fluctuations in market prices is described below for the three market risks:

Currency risks

A hypothetical appreciation of 5% in the exchange rate of the euro against the hedged currencies as of the reporting date would have altered the fair value of derivatives by €11 million (previous year: €11 million). This would mainly have affected other comprehensive income by decreasing the reported loss correspondingly. This effect mainly relates to the U.S. dollar. A corresponding depreciation of the euro would have had basically the opposite effect.

Interest rate risks

Financial liabilities with variable interest rates are covered by investments with short-term fixed interest rates from available liquidity, so the LANXESS Group’s net interest position will improve slightly if interest rates rise. A general change of one percentage point in interest rates as of December 31, 2019, would have altered Group net income by €6 million (previous year: €5 million).

Raw material price risks

A hypothetical increase or reduction in the hedged commodity prices of 10% as of the reporting date would have increased or decreased other operating income by €0 million (previous year: €0 million) as a result of changes in the fair value of hedging instruments.

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

December 31, 2018

€ million	2019	2020	2021	2022	2023	>2023
Bonds	**(55)**	**(55)**	**(555)**	**(654)**	**(37)**	**(2,834)[1]**
of which interest	(55)	(55)	(55)	(54)	(37)	(1,234)[1]
Liabilities to banks	**(29)**	**–**	**–**	**–**	**–**	**–**
of which interest	–	–	–	–	–	–
Trade payables	**(795)**	**–**	**–**	**–**	**–**	**–**
of which interest	–	–	–	–	–	–
Liabilities under finance leases	**(6)**	**(4)**	**(4)**	**(3)**	**(2)**	**(2)**
of which interest	(1)	(1)	(1)	(1)	–	–
Other primary financial liabilities	**(25)**	**–**	**–**	**–**	**–**	**(5)**
of which interest	(25)	–	–	–	–	–
Derivative liabilities						
Hedging instruments that qualify for hedge accounting						
Disbursements	(264)	(41)	(3)	–	–	–
Receipts	244	37	3	–	–	–
Other hedging instruments						
Disbursements	(549)	–	–	–	–	–
Receipts	542	–	–	–	–	–
Derivative assets						
Hedging instruments that qualify for hedge accounting						
Disbursements	(41)	(7)	–	–	–	–
Receipts	41	7	–	–	–	–
Other hedging instruments						
Disbursements	(241)	–	–	–	–	–
Receipts	244	–	–	–	–	–

1) Prior-year figures restated

December 31, 2019

€ million	2020	2021	2022	2023	2024	>2024
Bonds	**(55)**	**(555)**	**(654)**	**(37)**	**(37)**	**(2,797)**
of which interest	(55)	(55)	(54)	(37)	(37)	(1,197)
Liabilities to banks	**0**	**–**	**–**	**–**	**–**	**–**
of which interest	0	–	–	–	–	–
Trade payables	**(656)**	**–**	**–**	**–**	**–**	**–**
of which interest	–	–	–	–	–	–
Lease liabilities	**(45)**	**(35)**	**(28)**	**(11)**	**(7)**	**(47)**
of which interest	(4)	(2)	(2)	(1)	(1)	(22)
Other primary financial liabilities	**(25)**	**–**	**–**	**(1)**	**–**	**(3)**
of which interest	(25)	–	–	–	–	–
Derivative liabilities						
Hedging instruments that qualify for hedge accounting						
Disbursements	(208)	(62)	–	–	–	–
Receipts	195	58	–	–	–	–
Other hedging instruments						
Disbursements	(399)	–	–	–	–	–
Receipts	394	–	–	–	–	–
Derivative assets						
Hedging instruments that qualify for hedge accounting						
Disbursements	(43)	(24)	(2)	–	–	–
Receipts	46	24	2	–	–	–
Other hedging instruments						
Disbursements	(241)	–	–	–	–	–
Receipts	244	–	–	–	–	–

The contractually agreed payments for other primary financial liabilities due within one year from the reporting date included accrued interest of €25 million (previous year: €25 million) that mainly related to bonds.

Carrying amounts, measurement and fair values of financial instruments

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

Carrying Amounts, Measurement and Fair Values of Financial Instruments as of December 31, 2018

€ million	IFRS 9 measurement category	Carrying amount Dec. 31, 2018	Measurement according to IFRS 9			Measurement according to IAS 17	Fair value Dec. 31, 2018
			Amortized cost	Fair value (other comprehensive income)	Fair value (profit or loss)		
Financial assets							
Trade receivables	AC	903	903	–	–	–	903
Other financial receivables							
Financial assets – at cost	AC	493	493	–	–	–	493
Financial assets – at fair value through profit or loss	FV P&L	49	–	–	49	–	49
Other financial receivables – at cost	AC	14	14	–	–	–	14
Other financial receivables – at fair value through profit or loss	FV P&L	6	–	–	6	–	6
Other financial receivables – at fair value through other comprehensive income (debt instruments)	FV OCI	0	–	0	–	–	0
Contract assets	AC	61	61	–	–	–	61
Cash and cash equivalents	AC	797	797	–	–	–	797
Equity instruments measured at fair value through other comprehensive income	FV OCI	0	–	0	–	–	0
Derivative assets							
Hedging instruments that qualify for hedge accounting	–	1	–	1	–	–	1
Other hedging instruments	FV P&L	3	–	–	3	–	3
Embedded derivatives	FV P&L	–	–	–	–	–	–
Financial liabilities							
Bonds	AC	(2,669)	(2,669)	–	–	–	(2,750)
Liabilities to banks	AC	(29)	(29)	–	–	–	(30)
Trade payables	AC	(795)	(795)	–	–	–	(795)
Liabilities under finance leases	–	(17)	–	–	–	(17)	(19)
Other primary financial liabilities	AC	(30)	(30)	–	–	–	(30)
Derivative liabilities							
Hedging instruments that qualify for hedge accounting	–	(20)	–	(20)	–	–	(20)
Other hedging instruments	FV P&L	(8)	–	–	(8)	–	(8)
Embedded derivatives	FV P&L	0	–	–	0	–	0

AC Financial Assets/Liabilities at Amortized Cost
FV OCI Financial Assets at Fair Value Other Comprehensive Income
FV P&L Financial Assets/Liabilities at Fair Value Profit and Loss

Carrying Amounts, Measurement and Fair Values of Financial Instruments as of December 31, 2019

€ million	IFRS 9 measurement category	Carrying amount Dec. 31, 2019	Measurement according to IFRS 9			Measurement according to IFRS 16	Fair value Dec. 31, 2019
			Amortized cost	Fair value (other comprehensive income)	Fair value (profit or loss)		
Financial assets							
Trade receivables	AC	769	769	–	–	–	769
Other financial receivables							
Financial assets – at cost	AC	780	780	–	–	–	780
Financial assets – at fair value through profit or loss	FV P&L	0	–	–	0	–	0
Other financial receivables – at cost	AC	13	13	–	–	–	13
Other financial receivables – at fair value through profit or loss	FV P&L	6	–	–	6	–	6
Other financial receivables – at fair value through other comprehensive income (debt instruments)	FV OCI	0	–	0	–	–	0
Contract assets	AC	94	94	–	–	–	94
Cash and cash equivalents	AC	296	296	–	–	–	296
Equity instruments measured at fair value through other comprehensive income	FV OCI	0	–	0	–	–	0
Derivative assets							
Hedging instruments that qualify for hedge accounting	–	2	–	2	–	–	2
Other hedging instruments	FV P&L	4	–	–	4	–	4
Embedded derivatives	FV P&L	–	–	–	–	–	–
Financial liabilities							
Bonds	AC	(2,673)	(2,673)	–	–	–	(2,864)
Liabilities to banks	AC	0	0	–	–	–	0
Trade payables	AC	(656)	(656)	–	–	–	(656)
Lease liabilities	–	(141)	–	–	–	(141)	(141)
Other primary financial liabilities	AC	(29)	(29)	–	–	–	(29)
Derivative liabilities							
Hedging instruments that qualify for hedge accounting	–	(11)	–	(11)	–	–	(11)
Other hedging instruments	FV P&L	(8)	–	–	(8)	–	(8)
Embedded derivatives	FV P&L	0	–	–	0	–	0

AC Financial Assets/Liabilities at Amortized Cost
FV OCI Financial Assets at Fair Value Other Comprehensive Income
FV P&L Financial Assets/Liabilities at Fair Value Profit and Loss

Fair value measurement of the bonds is allocated to Level 1 of the hierarchy outlined in the following "Fair value measurement" section. However, two bonds with a fair value of €236 million (previous year: €229 million) are allocated to Level 2 of the hierarchy. The fair value of liabilities allocated to Level 2 is calculated using discounted cash flows, taking observed market interest rates into account.

Carrying Amounts by Measurement Category

€ million	Dec. 31, 2018	Dec. 31, 2019
Financial assets measured at amortized cost	2,268	1,952
Financial assets measured at fair value through other comprehensive income (debt instruments)	0	0
Equity instruments measured at fair value through other comprehensive income	0	0
Financial assets required to be measured at fair value through profit or loss	58	10
Financial assets	**2,326**	**1,962**
Financial liabilities measured at amortized cost	(3,523)	(3,358)
Financial liabilities required to be measured at fair value through profit or loss	(9)	(8)
Financial liabilities	**(3,532)**	**(3,366)**

Fair value measurement

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

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

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

Level 3 Unobservable inputs for the asset or liability

The following tables show the volumes of assets and liabilities that were measured at fair value on a recurring basis as of the end of the reporting period and the levels of the fair value hierarchy into which the measurement inputs were categorized. Reclassification between the levels is reviewed as of each reporting date. There were no reclassifications in fiscal years 2018 or 2019.

Assets and Liabilities Measured at Fair Value

	Dec. 31, 2018		
€ million	Level 1	Level 2	Level 3
Non-current assets			
Investments in other affiliated companies	0	–	0
Non-current derivative assets	–	0	–
Other non-current financial assets	–	1	6
Current assets			
Financial assets	49	–	–
Current derivative assets	–	4	–
Other current financial assets	–	–	–
Non-current liabilities			
Non-current derivative liabilities	–	3	0
Current liabilities			
Current derivative liabilities	–	25	–

Assets and Liabilities Measured at Fair Value

	Dec. 31, 2019		
€ million	Level 1	Level 2	Level 3
Non-current assets			
Investments in other affiliated companies	–	–	0
Non-current derivative assets	–	1	–
Other non-current financial assets	–	1	5
Current assets			
Financial assets	0	–	–
Current derivative assets	–	5	–
Other current financial assets	–	–	–
Non-current liabilities			
Non-current derivative liabilities	–	2	–
Current liabilities			
Current derivative liabilities	–	17	–

Other equity investments of €0 million, which are assigned to Level 3 of the measurement hierarchy, include unlisted equity instruments for which the amount of the equity interests held is used as the most reliable estimate of fair value. There are currently no plans to dispose of these investments.

To avoid value fluctuations in profit or loss, the investment in BioAmber Inc., Minneapolis, U.S., recognized in other equity investments under Level 1 in the previous year, was measured at fair value through other comprehensive income at €0 million. The company is in liquidation and its stock exchange listing ended in December 2019. As of December 31, 2019, the investment with a fair value of €0 million is allocated to Level 3.

Other non-current financial assets assigned to Level 3 include investments in High-Tech Gründerfonds, which are measured based on the amount of the equity interests held. Due to returns from equity interests held of less than €1 million in fiscal year 2019, the fair values of €6 million in the previous year declined to €5 million.

Financial assets comprise securities that can be sold at any time.

The non-current derivative liability allocated to Level 3 in the previous year relates to a derivative not designated as a hedging instrument from a right of use contract, which due to its economic characteristics is not closely related to the host contract. It is measured by way of an option pricing model, the principal parameters of which are the development of the underlying commodity price, the exchange rate and their correlation. As of December 31, 2019, the derivative was assigned to discontinued operations and reported accordingly. The embedded derivative had a negative fair value of €4 million on initial measurement, of which less than €1 million (previous year: less than €1 million) was amortized in the reporting period. Starting with a carrying amount of the liability of less than €1 million as of January 1, 2019, total reversals of write-downs of less than €1 million were recognized in earnings from discontinued operations, with the result that a liability of less than €1 million is recognized in discontinued operations as of the reporting date of December 31, 2019. Relative changes of 5% in relevant exchange rates, commodity prices and forecast volumes result in total fluctuations of less than €1 million.

Credit risk management

On initial recognition of financial assets measured at amortized cost or fair value through other comprehensive income, the Group calculates a loss allowance on the basis of probabilities of default. During the fiscal year, factors are observed that could indicate a significant increase in the risk of default. In order to assess whether there has been a significant increase in the risk of default, the risk of default at the end of the reporting period is compared to the risk of default on initial recognition. The indicators used include internal and external credit ratings, internal and external probabilities of default, material changes in business, financial and economic circumstances and material changes in operating earnings.

For *cash and cash equivalents and other financial receivables*, expected defaults for the next twelve months are used to calculate loss allowances provided there is no increased risk of default on contractual payments.

If contractual payments are more than 30 days past due, the loss allowance is based on the expected defaults for the entire term. An event of default occurs when contractual payments are more than 180 days past due. These are then written down to the expected repayment amount. Legal action is initiated over impaired assets in order to achieve full or partial repayment. Receivables are written down in full if insolvency proceedings are opened.

No increased risk of default was ascertained for the financial assets listed. Thus, their risk of default was calculated based on the next twelve months:

Carrying Amounts and Loss Allowances

	Dec. 31, 2018			Dec. 31, 2019		
€ million	Gross carrying amount	Loss allowances	Net carrying amount	Gross carrying amount	Loss allowances	Net carrying amount
Cash and cash equivalents	797	0	797	296	0	296
Other financial receivables	509	(2)	507	794	(1)	793

As in the previous year, no cash and cash equivalents or other financial receivables were impaired due to actual defaults in fiscal year 2019.

The simplified model based on the lifetime expected credit losses is applied to *trade receivables*. These are calculated in a multi-stage process that analyses the economic circumstances, maturity structure and risk classes and then recognizes impairments if necessary. Trade receivables are written down by 50% if more than 120 days past due and by 100% if more than 180 days past due, if default is probable. Receivables are written down in full if insolvency proceedings are opened. Furthermore, loss allowances are calculated based on a past due matrix that takes into account historical loss rates for certain maturity structure classes and future probabilities of default on the basis of credit default swaps. The maturity structure of unimpaired trade receivables and their respective probabilities of default for each maturity class are as follows:

Aging Structure and Loss Allowances (Simplified Model) Dec. 31, 2018

€ million	Not past due	1–30 days past due	31–60 days past due	61–90 days past due	>90 days past due	Total
Net carrying amount of trade receivables	802	86	7	1	7	**903**
Default rates calculated	**0.0%**	**0.1%**	**0.4%**	**1.3%**	**2.6%**	

Aging Structure and Loss Allowances (Simplified Model) Dec. 31, 2019

€ million	Not past due	1–30 days past due	31–60 days past due	61–90 days past due	>90 days past due	Total
Net carrying amount of trade receivables	671	83	10	2	3	**769**
Default rates calculated	**0.0%**	**0.1%**	**0.7%**	**1.9%**	**3.0%**	

The total carrying amounts and loss allowances for trade receivables and contract assets are as follows:

Carrying Amounts and Loss Allowances

	Dec. 31, 2018			Dec. 31, 2019		
€ million	Gross carrying amount	Loss allowances	Net carrying amount	Gross carrying amount	Loss allowances	Net carrying amount
Trade receivables	918	(15)	903	781	(12)	769
Contract assets	61	0	61	94	0	94

Loss allowances for *contract assets* are calculated based on the counterparty's individual probability of default applying the simplified model for the entire term.

The outstanding contractual payments that were written down in fiscal year 2019 and for which legal action was initiated amount to €5 million (previous year: €5 million). The following tables show the development of loss allowances for all financial assets from their opening value to the end of the reporting period for fiscal years 2018 and 2019:

Reconciliation Loss Allowance 2018

€ million	Expected loss allowance for cash and cash equivalents and other financial receivables[1] 12 months	Expected loss allowance for trade receivables and contract assets Lifetime – simplified model	Expected loss allowance for credit-impaired assets at acquisition	Total
January 1	1	17	1	**19**
Adjustments in accordance with IFRS 5	–	(3)	–	**(3)**
Newly acquired financial assets	1	5	–	**6**
Release	0	(3)	0	**(3)**
Financial assets derecognized in the period – sale, repayment, modification	0	(1)	0	**(1)**
Change of model or risk parameters	–	0	–	**0**
Currency or other differences	–	(1)	0	**(1)**
December 31	**2**	**14**	**1**	**17**

1) Cash and cash equivalents and other financial assets are not presented separately for reasons of materiality.
Prior-year figures restated

Reconciliation Loss Allowance 2019

€ million	Expected loss allowance for cash and cash equivalents and other financial receivables[1] 12 months	Expected loss allowance for trade receivables and contract assets Lifetime – simplified model	Expected loss allowance for credit-impaired assets at acquisition	Total
January 1	2	14	1	**17**
Adjustments in accordance with IFRS 5	–	(4)	–	**(4)**
Newly acquired financial assets	–	5	–	**5**
Release	0	(2)	0	**(2)**
Financial assets derecognized in the period – sale, repayment, modification	(1)	(2)	0	**(3)**
Change of model or risk parameters	–	0	–	**0**
Currency or other differences	0	0	0	**0**
December 31	**1**	**11**	**1**	**13**

1) Cash and cash equivalents and other financial assets are not presented separately for reasons of materiality.

In the reporting year, €3 million (previous year: €0 million) of the adjustments in accordance with IFRS 5 related to the reporting of the Leather business unit as a discontinued operation and the sale of the subsidiary LANXESS Electronic Materials L.L.C., Pyeongtaek, Republic of Korea, the receivables of which amounting to €1 million were written down in full. In the previous year, this line included the recognition of the loss allowance of €3 million resulting from the reporting of ARLANXEO as a discontinued operation. Information on this is presented in the "Companies Consolidated" section.

The expected credit losses for cash and cash equivalents and other financial receivables essentially result from money market and financial investments. The investments are not classified as receivables at risk of default as the counterparties have an investment grade rating according to international agencies and are therefore a low credit risk. The acquired, impaired financial assets include trade receivables from the acquisition of Chemtura in fiscal year 2017.

The change in the expected credit losses for trade receivables and contract assets results from ordinary operations. Due to a large and diversified customer structure, there is no material credit risk for trade receivables.

Offsetting of financial assets and financial liabilities

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

Offsetting of Financial Assets and Financial Liabilities as of December 31, 2018

€ million	Carrying amount of financial instruments	Related amounts not offset in the statement of financial position		Net amount
		Financial instruments	Financial collateral	
Financial assets				
Trade receivables	903	(3)	0	900
Derivative assets	4	(4)	–	0
Financial liabilities				
Trade payables	(795)	3	0	(792)
Derivative liabilities	(28)	4	–	(24)

Offsetting of Financial Assets and Financial Liabilities as of December 31, 2019

€ million	Carrying amount of financial instruments	Related amounts not offset in the statement of financial position		Net amount
		Financial instruments	Financial collateral	
Financial assets				
Trade receivables	769	(2)	0	767
Derivative assets	6	(4)	–	2
Financial liabilities				
Trade payables	(656)	2	0	(654)
Derivative liabilities	(19)	4	–	(15)

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

Net results by measurement category

The following tables provide an overview of the net results based on the measurement categories according to IFRS 9:

Net Results by Measurement Category

€ million	2018	2019
Financial assets measured at amortized cost	18	2
Financial assets and liabilities required to be measured at fair value through profit or loss	(36)	6
Equity instruments measured at fair value through other comprehensive income	(1)	0
Financial liabilities measured at amortized cost	(62)	(62)
	(81)	**(54)**

Net gains and losses principally comprise interest income and expense and realized and unrealized exchange gains and losses. Total interest revenue for financial assets that are measured at amortized cost amounts to €5 million (previous year: €5 million); the total interest expense for financial liabilities that are not measured at fair value through profit or loss is €67 million (previous year: €69 million).

In addition, fees of €5 million were incurred in fiscal year 2019 (previous year: €5 million) in connection with financial instruments.

Collateralization of financial liabilities

There were no financial liabilities collateralized by mortgages or other property claims in fiscal year 2019 or the previous year.

Mezzanine financing

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

38 | Notes to the Statement of Cash Flows

Explanation of the method used to calculate and present cash flows

For a general explanation and information on changes due to the initial application of IFRS 16, please see the comments on the statement of cash flows in the section headed "Accounting Policies and Valuation Principles."

Net cash provided by operating activities

The net cash flows from operating activities are determined by deducting the financial result, depreciation, amortization, write-downs, reversals of impairment charges and non-cash items from income before income taxes. A further adjustment is made for the change in other assets and liabilities. Income before income taxes, which is the starting point for the statement of cash flows, amounted to €346 million (previous year: €381 million). It contains depreciation, amortization, write-downs and reversals of write-downs of €503 million (previous year: €415 million). Income taxes paid in fiscal year 2019 amounted to €193 million (previous year: €154 million). The change in net working capital resulted in cash inflows of €68 million (previous year: cash outflows of €179 million). Taking into account the change in other assets and liabilities of minus €123 million (previous year: minus €84 million), cash inflows provided by operating activities from continuing operations amounted to €634 million in the reporting year (previous year: €441 million). Cash provided by operating activities from discontinued operations amounted to €9 million (previous year: €145 million).

Net cash used in investing activities

Purchases of intangible assets, property, plant and equipment led to cash outflows of €508 million in fiscal year 2019 (previous year: €482 million). Cash inflows from the sale of the business with tin-based organometallics in the Advanced Intermediates segment to PMC Vlissingen, B.V., Netherlands, amounted to €20 million. Cash inflows from interest and dividends received amounted to €26 million (previous year: €15 million). They primarily consisted of inflows from the profit transfer of €21 million from the investment in Currenta GmbH & Co. OHG, Leverkusen, Germany. There were no cash outflows (previous year: €200 million) for external funding of pension obligations (CTA) in fiscal year 2019. The net cash outflow for investing activities was €697 million (previous year: cash inflow €80 million) from continuing operations. Discontinued operations resulted in cash outflows from investing activities of €15 million (previous year: €184 million).

Net cash used in financing activities

The net repayment of borrowings of €86 million (previous year: €9 million) was attributable to financial liabilities as follows:

Reconciliation of Borrowings 2018

€ million	Dec. 31, 2017	Adjustments according to IFRS 5	Cash changes	Non-cash changes						Dec. 31, 2018
				Acquisitions	Divestments	Lease liabilities new additions	Exchange differences	Interest effect from compounding	Accrued interest and other changes	
Bonds	2,674	–	(8)	–	–	–	–	3	–	2,669
Liabilities to banks	89	(69)	9	–	–	–	–	–	–	29
Liabilities under finance leases	61	(46)	(10)	–	–	10	–	2	–	17
Other primary financial liabilities	51	–	–	–	–	–	–	–	(21)	30
	2,875	**(115)**	**(9)**	**–**	**–**	**10**	**–**	**5**	**(21)**	**2,745**

Reconciliation of Borrowings 2019

€ million	Dec. 31, 2018	Adjustments according to IFRS 16	Adjustments according to IFRS 5	Cash changes	Non-cash changes						Dec. 31, 2019
					Acquisitions	Divestments	Lease liabilities new additions	Exchange differences	Interest effect from compounding	Accrued interest and other changes	
Bonds	2,669	–	–	–	–	–	–	–	4	–	2,673
Liabilities to banks	29	–	–	(29)	–	–	–	0	–	–	0
Lease liabilities	17	133	(4)	(56)	–	–	47	(1)	5	–	141
Other primary financial liabilities	30	–	–	(1)	–	–	–	0	–	–	29
	2,745	**133**	**(4)**	**(86)**	**–**	**–**	**47**	**(1)**	**9**	**–**	**2,843**

Interest payments and other financial disbursements accounted for cash outflows of €66 million (previous year: €77 million). In fiscal year 2019, cash outflows for dividend payments amounted to €79 million (previous year: €74 million), €79 million of which to the stockholders of LANXESS AG (previous year: €73 million). There was therefore a net cash outflow of €431 million (previous year: €160 million) for financing activities from continuing operations. Discontinued operations resulted in a net cash outflow of €2 million (previous year: €57 million).

Cash and cash equivalents

Cash and cash equivalents, which comprise cash, checks and bank balances, amounted to €296 million (previous year: €797 million). In accordance with IAS 7, this item also includes securities with maturities of up to three months from the date of acquisition.

39 | Segment Reporting

Key Data by Segment

	Advanced Intermediates		Specialty Additives		Performance Chemicals		Engineering Materials		Reconciliation		LANXESS	
€ million	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**
External sales	2,207	2,249	1,980	1,965	976	1,052	1,576	1,450	85	86	6,824	6,802
Inter-segment sales	55	55	10	5	1	0	0	0	(66)	(60)	0	0
Segment/Group sales	2,262	2,304	1,990	1,970	977	1,052	1,576	1,450	19	26	6,824	6,802
Segment result/ EBITDA pre exceptionals	359	389	343	353	156	192	267	238	(139)	(153)	986	1,019
Exceptional items affecting EBITDA	0	(13)	(3)	(16)	(2)	(2)	(1)	0	(74)	(78)	(80)	(109)
Segment assets	1,543	1,519	2,706	2,739	978	1,004	1,269	1,287	189	225	6,685	6,774
Segment acquisitions	–	–	54	–	–	–	–	–	–	–	54	–
Segment capital expenditures	168	204	144	128	63	64	77	111	49	71	501	578
Depreciation and amortization	125	147	136	157	58	66	59	65	23	25	401	460
Write-downs	2	38	1	2	10	1	2	1	0	2	15	44
Reversals of impairment charges	–	–	1	1	–	–	0	–	–	–	1	1
Segment liabilities	752	747	624	546	359	350	383	346	692	773	2,810	2,762
Employees (December 31)	3,687	3,708	2,953	2,942	2,557	2,409	2,105	2,203	2,950	3,042	14,252	14,304
Employees (average for the year)	3,701	3,707	2,993	2,950	2,583	2,443	2,055	2,176	2,911	3,009	14,243	14,285

Prior-year figures restated

Key Data by Region

	EMEA (excluding Germany)		Germany		North America		Latin America		Asia-Pacific		LANXESS	
€ million	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**
External sales by market	2,167	2,128	1,386	1,251	1,494	1,554	346	331	1,431	1,538	6,824	6,802
Non-current region assets	574	635	1,256	1,431	2,053	2,099	66	69	329	310	4,278	4,544
Acquisitions	–	–	–	–	54	–	–	–	–	–	54	–
Capital expenditures	68	83	275	331	117	120	13	10	28	34	501	578
Employees (December 31)	1,792	1,806	7,352	7,558	2,044	2,031	704	716	2,360	2,193	14,252	14,304

Prior-year figures restated

Segment reporting

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

The Leather business unit has been classified as discontinued operations since December 2019 and is therefore no longer part of the reportable Performance Chemicals segment. Information on discontinued operations is included in the "Companies Consolidated" section.

On December 31, 2019, the LANXESS Group comprised the following reporting segments:

Segments	**Activities**
Advanced Intermediates	The Advanced Intermediates segment comprises operational business units that manufacture basic and fine chemicals using primarily continuous production processes. The business units also manufacture precursors and intermediates for each other. The product portfolio includes high-grade intermediates for use by the agrochemicals and coatings industries, for example; fine chemicals as precursors and intermediates for the pharmaceuticals, agrochemicals and specialty chemicals industries; customer-specific specialties; organometallics; and rubber chemicals.
Specialty Additives	The Specialty Additives segment comprises operational business units that manufacture additives in chemical production processes. The product portfolio includes additives for the rubber, plastic and paint industries, construction and electrical industry, such as lubricants, flame retardants, plasticizers and bromine derivatives for a variety of applications.
Performance Chemicals	The Performance Chemicals segment comprises operational business units that manufacture process and functional chemicals as well as specialty products using chemical production processes. The product portfolio includes material protection products; inorganic pigments for the coloring of concrete, emulsion paints and other coatings; reverse osmosis membrane elements and ion exchange resins for water treatment; and disinfectant and hygiene solutions.
Engineering Materials	The Engineering Materials segment combines operational business units which manufacture high-tech plastics and high-performance composites using mainly continuous production processes. The production includes technical plastics, glass fibers and fiber composites as well as elastomers on a urethane basis for applications in the automotive and electrical/electronics industries, the construction industry, medicine, and the sports and leisure sectors.

The reconciliation eliminates inter-segment sales and reflects assets, liabilities and results not allocable to the core segments including, in particular, those pertaining to the Corporate Center. Due to the recognition of the Leather business unit as a discontinued operation, the components remaining in the LANXESS Group were reclassified from the Performance Chemicals segment to the reconciliation, and the previous year's figures were adjusted accordingly.

The reconciliation also includes the investment in Currenta GmbH & Co. OHG, Leverkusen, Germany, which is classified as held for sale and recognized accordingly from December 31, 2019. See the "Companies Consolidated" section for further information and Note [3] for further information on the previous year.

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

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

The reporting regions are those into which LANXESS's activities are organized: EMEA (Europe [excluding Germany], Middle East, Africa), Germany, North America, Latin America and Asia-Pacific. Regional sales are calculated according to the recipient's place of business. In fiscal year 2019, no individual customer of the LANXESS Group accounted for 10% or more of Group sales.

The earnings indicator used for internal management purposes in the LANXESS Group is the operating result before depreciation and amortization (EBITDA) pre exceptionals (see the section headed "Value management and control system" in the combined management report for fiscal year 2019). This is disclosed as the "segment result." The starting point for calculating EBITDA pre exceptionals is the operating result (EBIT), which comprises gross profit, selling expenses, general administration expenses, research and development expenses and other operating income and expenses. EBIT and EBITDA are alternative key financial ratios not defined according to the International Financial Reporting Standards (IFRS). These are viewed as supplementary and not a substitute to the data prepared according to IFRS. EBITDA pre exceptionals is calculated from EBIT before depreciation/reversals of property, plant and equipment, amortization and impairments of intangible assets, disregarding exceptional items. The latter are effects that, by nature or extent, have a significant impact on the earnings position, but for which inclusion in the evaluation of business performance over several reporting periods does not seem to be appropriate. Exceptional items may include write-downs, reversals of impairment charges or the proceeds from the disposal of assets, certain IT expenses, restructuring expenses and income from the reversal of provisions established in this context and reductions in earnings resulting from portfolio adjustments or purchase price allocations.

The segment sales include sales recognized over time of €359 million (previous year: €307 million), of which €306 million (previous year: €252 million) relate to the Advanced Intermediates segment, €0 million (previous year: €2 million) to the Specialty Additives segment, €4 million (previous year: €10 million) to the Performance Chemicals segment, €17 million (previous year: €16 million) to the Engineering Materials segment, and €32 million (previous year: €27 million) to the reconciliation. All other sales are recognized at a point in time. Please see Note [21] for further information.

In view of the Group's central financial management, interest income and expense and income tax income and expense are not reported at segment level.

As in the previous year, the negative exceptional items that impacted EBITDA of €117 million in fiscal year 2019 primarily related to expenses in connection with the strategic realignment of the LANXESS Group and digitalization projects. They are offset by positive exceptional items of €8 million, which mainly relate to compensation payments in connection with restructuring measures to optimize the production network as well as income from the reversal of provisions recognized as exceptional items in previous years.

The segment acquisitions in the previous year included the acquired net assets including goodwill as of the acquisition date.

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

All depreciation, amortization and write-downs were recognized directly in profit or loss.

Reconciliation of Segment Sales

€ million	2018	2019
Total segment sales	**6,805**	**6,776**
Other	85	86
Consolidation	(66)	(60)
Group sales	**6,824**	**6,802**

Prior-year figures restated

Reconciliation of Segment Results

€ million	2018	2019
Total segment results	**1,125**	**1,172**
Depreciation and amortization	(416)	(504)
Reversals of impairment charges	1	1
Exceptional items affecting EBITDA	(80)	(109)
Other financial income and expense	(41)	(7)
Net interest expense	(69)	(54)
Income from investments accounted for using the equity method	0	0
Other	(139)	(153)
Income before income taxes	**381**	**346**

Prior-year figures restated

The reconciliation of segment results to income before income taxes contains total exceptional items comprising net charges of €150 million (previous year: charges of €90 million) (see Notes [26] and [27]). These include exceptional items of minus €109 million (previous year: minus €80 million) that affect EBITDA, write-downs of minus €41 million (previous year: minus €10 million), and reversals of impairment charges of €0 million (previous year: €0 million).

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

Reconciliation of Segment Assets

€ million	Dec. 31, 2018	Dec. 31, 2019
Total segment assets	**6,496**	**6,549**
Adjustments to discontinued operations	222	203
Cash and cash equivalents	797	296
Deferred tax assets	287	324
Income tax receivables	69	199
Derivative assets	4	6
Other financial assets	623	893
Other	189	225
Group assets	**8,687**	**8,695**

Prior-year figures restated

The segment assets mainly comprise intangible assets, property, plant and equipment including right-of-use assets from leases, inventories and trade receivables. They do not include items such as cash and cash equivalents and deferred taxes.

Reconciliation of Segment Liabilities

€ million	Dec. 31, 2018	Dec. 31, 2019
Total segment liabilities	**2,118**	**1,989**
Adjustments to discontinued operations	81	98
Other financial liabilities	2,745	2,843
Derivative liabilities	28	19
Income tax liabilities	161	217
Deferred tax liabilities	89	109
Other	692	773
Group liabilities	**5,914**	**6,048**

Prior-year figures restated

The segment liabilities mainly comprise provisions, trade payables and other liabilities. The reconciliation ("Other" line) of segment liabilities primarily contains pension and other provisions that are attributable to the Corporate Center. They do not include income tax liabilities in particular, as well as derivative and other financial liabilities.

40 | Audit Fees

In fiscal year 2019, total audit fees of €2,917 thousand (previous year: €2,438 thousand) for the auditor of the consolidated financial statements of the LANXESS Group were recognized as expenses. The total amount includes €2,497 thousand (previous year: €1,789 thousand) relating to the auditing of financial statements. The fiscal year was influenced by audit services in connection with the preparation for the introduction of accounting-related IT systems. 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. €273 thousand (previous year: €478 thousand) related to other audit-related services, primarily services in connection with sustainability reporting and services for audit certificates. In addition, the previous year also included confirmation services in connection with the sale of ARLANXEO. €127 thousand (previous year: €171 thousand) related to other services and €20 thousand (previous year: €0 thousand) to tax services. Other services mainly comprised project-related consulting services. The fees for financial statements audit services comprise all fees, including incidental expenses, paid or to be paid for the audits of the consolidated financial statements of the LANXESS Group and the financial statements of LANXESS AG and its German subsidiaries.

41 | Declaration of Compliance Pursuant to Section 161 of the Stock Corporation Act

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

42 | Utilization of Disclosure Exemptions

In fiscal year 2019, the following German subsidiaries made use of disclosure exemptions pursuant to Section 264, Paragraph 3 of the German Commercial Code (HGB):

- Bond-Laminates GmbH, Brilon
- CheMondis GmbH, Cologne
- IAB Ionenaustauscher GmbH, Greppin
- IMD Natural Solutions GmbH, Dortmund
- LANXESS Accounting GmbH, Cologne
- LANXESS Deutschland GmbH, Cologne
- LANXESS Distribution GmbH, Leverkusen
- LANXESS Organometallics GmbH, Bergkamen
- Saltigo GmbH, Leverkusen
- Siebte LXS GmbH, Leverkusen
- Achte LXS GmbH, Cologne

In addition, the following German subsidiary made use of disclosure exemptions pursuant to Section 264b in conjunction with Section 264, Paragraph 3 of the German Commercial Code (HGB) in fiscal year 2019:

- LANXESS Beteiligungsgesellschaft mbH & Co. OHG, Leverkusen

Outside 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 Companies Act 2006. As required by law, LANXESS AG, as the parent company, guaranteed all outstanding liabilities as of December 31, 2019, with respect to Section 479C of the Companies Act 2006.

43 | Events after the Reporting Period

On January 10, 2020, LANXESS sold its chrome chemicals business at the site in Newcastle, South Africa, to the company K2019342391 (South Africa) Proprietary Limited, South Africa, a subsidiary of Brother Enterprises, China. A contract manufacturing agreement was also concluded with Brother Enterprises, under which LANXESS expects to manufacture chrome tanning salts from sodium dichromate exclusively for Brother Enterprises at the site in Merebank, South Africa, until 2024.

On January 31, 2020, LANXESS also sold its business with gallium-based organometallics at the site in Pyeongtaek, Republic of Korea, to First Rare Materials Co. Ltd., Heyun Town, China, a subsidiary of Vital Materials, China.

On February 3, 2020, LANXESS completed the acquisition of the Brazilian biocide manufacturer Itibanyl Produtos Especiais Ltda. (IPEL), Jarinu, Brazil. This acquisition enhances LANXESS's position as one of the world's leading manufacturers of biocidal active ingredients and formulations. In addition to around 100 employees and the production facility, LANXESS has also taken over the Brazilian company's laboratory facilities. In fiscal year 2019, IPEL generated sales of a lower eight-figure sum in euros. The agreed purchase price is of a similar size.

We expect the coronavirus epidemic to have a negative impact on our business. The further course of the epidemic represents an uncertainty factor that could not be conclusively assessed before the preparation of these financial statements.

No other events of particular significance took place after December 31, 2019, that could be expected to have a material effect on the earnings, asset and financial position of the LANXESS Group or LANXESS AG.

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable financial reporting principles, the consolidated financial statements give a true and fair view of the earnings, asset and financial position of the Group, 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, 2020
LANXESS Aktiengesellschaft

The Board of Management

Matthias Zachert

Dr. Anno Borkowsky

Dr. Stephanie Coßmann

Dr. Hubert Fink

Michael Pontzen

Independent Auditor's Report

"To LANXESS Aktiengesellschaft, Cologne

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Audit Opinions

We have audited the consolidated financial statements of LANXESS Aktiengesellschaft, Cologne, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statement of comprehensive income, consolidated statement of profit or loss, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January 1 to December 31, 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of LANXESS Aktiengesellschaft, which is combined with the Company's management report, for the financial year from January 1 to December 31, 2019. In accordance with the German legal requirements, we have not audited the content of the group statement on corporate governance pursuant to § [Article] 289f HGB [Handelsgesetzbuch: German Commercial Code] and § 315d HGB.

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

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to§ 315e Abs. [paragraph] 1 HGB and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2019, and of its financial performance for the financial year from January 1 to December 31, 2019, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of the statement on corporate governance referred to above.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") 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 Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities 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 consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1 to December 31, 2019. These matters were addressed in the context of our audit of the consolidated 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 matters of most significance in our audit were as follows:

1. Goodwill Impairment
2. Pension provisions

Our presentation of these key audit matters has been structured in each case as follows:

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

Hereinafter we present the key audit matters:

1 Goodwill Impairment

1 Goodwill of €865 million (10% of consolidated total assets or 33% of Group equity) is reported under the "Goodwill" balance sheet item in the Company's consolidated financial statements. The Company allocates goodwill to the respective cash-generating units. Goodwill is tested for impairment once a year, unless events or a change in circumstances indicates any sooner that goodwill may be impaired. The carrying amount of the relevant cash-generating units, including goodwill, is compared with the corresponding recoverable amount in the context of the impairment test. The recoverable amount is always calculated on the basis of fair value less costs to sell. The present value of the future cash flows from the respective cash-generating units normally serves as the basis of measurement. Present values are calculated using discounted cash flow models. The discounted cash flow models are based on cash flow projections, which in turn are based on the five-year plan approved by management and applicable at the time the impairment test is carried out. The future net cash flows are discounted using a weighted cost of capital. The impairment test determined that no impairment losses had to be recognized.

This matter was of particular significance to our audit, because the result of this measurement depends to a large extent on the Company's management's assessment of future cash inflows, the discount rate used, the growth rates assumed, and other assumptions made and is therefore subject to considerable uncertainty.

2 As part of our audit, we reviewed the methodology employed for the purposes of performing the impairment test, among other things. We assessed the appropriateness of the future cash inflows used in the measurement, among other things by comparing this data with the current budgets in the five-year plan approved by management, and reconciling it against general and sector-specific market expectations. We also assessed whether the basis for including the costs of Group functions was accurate. With the knowledge that even relatively small changes in the discount rate applied can have material effects on the value of the entity calculated in this way, we also included in our review the parameters used to determine the discount rate applied, including the weighted average cost of capital, and evaluated the measurement model. Furthermore, we reviewed the sensitivity analysis carried out by the Company and additionally performed our own sensitivity analysis for the cash-generating units and, taking into account the information available, determined that the carrying amounts of the cash-generating units, including the allocated goodwill, were adequately covered by the discounted future cash flows. Overall, the measurement inputs and assumptions used by management are in line with our expectations and are also within the ranges considered by us to be reasonable.

③ The Company's disclosures on goodwill are contained in the sections entitled "Intangible as-sets," "Method and impact of the global impairment tests," and "Judgments and estimates" in the notes to the consolidated financial statements.

❷ Pension provisions

① Pension provisions amounting to €1.178 million are reported in the consolidated financial statements of the Company under the balance sheet item "Provisions for pensions and similar obligations." The pension provisions comprise mainly obligations from defined benefit pension plans plan assets.

Obligations under defined benefit plans are measured using the projected unit credit method. This requires assumptions to be made in particular about long-term rates of growth in salaries and pensions, average life expectancy, and staff turnover. Furthermore, the discount rate applied as of the balance sheet date must be determined by reference to market yields on high-quality corporate bonds with matching currencies and terms which are consistent with the expected maturities of the obligations. This usually requires the data to be extrapolated, since no sufficiently long-term corporate bonds exist. The plan assets are measured at fair value.

From our point of view, these matters were of particular importance in the context of our audit because the recognition and measurement of this item – which is significant in terms of its amount – are based to a large extent on estimates and assumptions made by the company's management.

② Our audit included evaluating the actuarial expert reports obtained and the professional qualifications of the external experts. We also examined the specific features of the actuarial calculations and reviewed the numerical data, the actuarial parameters and the valuation methods on which the valuations were based for compliance with standards and appropriateness, in addition to other procedures. In addition, we analyzed the changes in the obligation and the cost components in accordance with actuarial expert reports in the light of changes occurring in the valuation parameters and the numerical data, and verified their plausibility. For the purposes of our audit of the fair value of plan assets, we obtained bank confirmations.

Based on our audit procedures, we satisfied ourselves that the estimates and assumption made by management were justified and adequately documented.

③ The disclosures on the provisions for pensions can be found in the section entitled "Pension provisions and similar obligations" in the notes to the consolidated financial statements.

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.

The other information comprises further the remaining parts of the annual report – excluding cross-references to external information – with the exception of the audited consolidated financial statements, the audited group management report and our auditor's report, and the separate non-financial report pursuant to § 289b Abs. 3 HGB and § 315b Abs. 3 HGB.

Our audit opinions on the consolidated financial statements and on the group 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 consolidated financial statements, with the group 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 Consolidated Financial Statements and the Group Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group'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 unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated 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 group 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 group management report.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated 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 consolidated financial statements and on the group 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 consolidated financial statements and this group 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 consolidated financial statements and of the group 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 control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group 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.
- 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 Group'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 consolidated financial statements and in the group 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 Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the group 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 consolidated 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 group auditor by the annual general meeting on May 23, 2019. We were engaged by the supervisory board on August 2, 2019. We have been the group auditor of the LANXESS Aktiengesellschaft, Cologne, without interruption since the financial year 2005.

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, 28 February 2020

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Jörg Sechser	ppa. Martin Krug
German Public Auditor	German Public Auditor

FURTHER INFORMATION

About This Report

REPORTING METHODOLOGY

This report combines financial and sustainability reporting by the LANXESS Group. It is aligned to national and international standards for financial and sustainability reporting, especially the International Financial Reporting Standards (IFRS), German accounting standards (DRS) and the principles of the U.N. Global Compact. This report was also created in compliance with the GRI standards ("core" option).

This report contains information according to the transparency requirements of the U.K. Modern Slavery Act. The complete "Slavery and human trafficking statement" can be viewed on the British LANXESS website in the Corporate Responsibility section under Commitment to human rights.

The complete "Slavery and human trafficking statement" can be viewed on the British LANXESS website in the Corporate Responsibility section under Commitment to human rights.

Reporting is performed annually. The last report for fiscal year 2018 was published in March 2019.

NFB

NON-FINANCIAL REPORTING

In the Corporate Responsibility section from page 10 of this Annual Report, we fulfill our obligation to issue a non-financial Group report. The non-financial disclosures required in accordance with Sections 315b and 315c in conjunction with Sections 289c to 289e HGB and shown separately in the layout were prepared by the Board of Management and reviewed by the Supervisory Board of LANXESS AG. The non-financial report and the associated data collection processes have undergone a review with limited assurance in line with the auditing standard ISAE 3000 (revised) by PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft on behalf of the Supervisory Board. The audit report can be found on page 229 of this report. The reporting year is 2019. The report covers the Group companies that are also included in the consolidated financial statements. Unless indicated otherwise, the disclosures apply to the entire Group. References to disclosures not included in the combined management report of the LANXESS Group and LANXESS AG or in the consolidated financial statements represent further information and do not form part of the non-financial Group report.

Within the non-financial report, we generally use the international standards of the Global Reporting Initiative (GRI) as the framework for the materiality analysis and reporting on management approaches and on general and topic-specific disclosures. Information on our business model can be found in the combined management report of the LANXESS Group and LANXESS AG on page 72 of this Annual Report. Information on environmental protection provisions can be found in Note [15] to the consolidated financial statements for fiscal year 2019.

Index to the Non-financial Statement

Topics		NFR issues	Page
Corporate Governance		Human rights	22 et seq.
		Anti-corruption	23 et seq.
Resilient Sourcing	Establishment of a systematic sustainability risk analysis to evaluate all suppliers	Environmental issues	39
		Human rights	22 et seq.
	Identification and reduction of sustainability risks in the supply chain	Environmental issues	39
		Human rights	22 et seq.
Safe and Sustainable Sites	Uniform standards and processes worldwide	Environmental issues	20 et seq.
	Global process safety	Environmental issues	40 et seq.
	Corporate citizenship	Social issues	45 et seq.
Climate Action and Energy Efficiency	Emissions	Environmental issues	46 et seq.
	Energy efficiency	Environmental issues	49 et seq.
Energized Employees and Performing Teams	Employee retention	Employee issues	29
	Employee development	Employee issues	26 et seq.
	Occupational safety	Employee issues	35 et seq.
	Employee welfare/work-life balance	Employee issues	34

DATA COLLECTION

The reporting year is 2019. In compiling the data, we applied the principles of balance, comparability, accuracy, timeliness, clarity and reliability. The report covers the Group companies that are also included in the consolidated financial statements. We expect the sale of all operations of the Leather business unit to be completed by the end of 2020. In our financial reporting, we therefore recognize Leather as a discontinued operation in accordance with IFRS 5 as of December 31, 2019 (see page 73). However, as LANXESS had corporate responsibility for all activities of the business unit for the whole of fiscal year 2019, data from Leather continue to be included in our sustainability indicators.

For disclosure of HR key figures, LANXESS uses a global reporting system that contains the key employee data for the entire Group.

We use electronic data capture systems for the systematic global recording of key performance indicators (KPIs) in the areas of safety and environmental protection. The two performance indicators we use to measure occupational safety – the lost time injury frequency rate (LTIFR, known as MAQ in Germany) and the recordable incident rate (RIR) – apply to all sites. Environmental protection data are gathered only at those production sites in which the company has a holding of more than 50%. With regard to the collection of emissions data, we have taken into account the recommendations of the Greenhouse Gas Protocol (GHG Protocol) and the International Energy Agency (IEA). To ensure the quality of data, PricewaterhouseCoopers has audited selected key figures with limited assurance. These are identified accordingly in the report.

KEY REPORT CONTENT

The content of the report for fiscal year 2019 is based on a materiality analysis performed in the fourth quarter of 2017. All key issues identified are described in detail in this report.

The following table identifies the boundaries (GRI 103-1) between the key issues and the GRI standards that they cover.

Boundaries

Key issues	Within the organization	Outside the organization			Management approach (GRI 103-2, 103-3)/ associated GRI standard (2016)[1]
	Advanced Intermediates/Speciality Additives/ Performance Chemicals/Engineering Materials	Suppliers	Customers	Society	
Good Corporate Governance	X	X	X	X	Management approach: p. 19–24, 60–64 GRI 205: Anti-corruption GRI 206: Anticompetitive Behavior GRI 307: Environmental Compliance GRI 406: Non-discrimination GRI 408: Child Labor GRI 409: Forced Labor GRI 410: Security Practices GRI 411: Indigenous Rights GRI 412: Human Rights Assessment GRI 415: Public Policy GRI 416: Customer Health and Safety GRI 417: Marketing and Labeling GRI 418: Customer Privacy GRI 419: Socioeconomic Compliance
Energized Employees and Performing Teams	X			X	Management approach: p. 17–18, 20–21, 24–38 GRI 202: Market Presence GRI 401: Employment GRI 402: Labor/Management Relations GRI 403: Occupational Health and Safety GRI 404: Training and Education GRI 405: Diversity and Equal Opportunity GRI 407: Freedom of Association and Collective Bargaining
Resilient Sourcing	X	X			Management approach: p. 16, 21–22, 39, 79–80 GRI 204: Procurement Practices GRI 308: Supplier Environmental Assessment GRI 414: Supplier Social Assessment
Safe and Sustainable Sites	X			X	Management approach: p. 16, 20–21, 40–46 GRI 203: Indirect Economic Impacts GRI 303: Water and Effluents 2018 GRI 306: Effluents and Waste GRI 413: Local Communities
Climate Action and Energy Efficiency	X	X	X	X	Management approach: p. 17, 20–21, 46–50 GRI 302: Energy GRI 305: Emissions
Sustainable Product Portfolio	X		X	X	Management approach: p. 18, 51–52 GRI 301: Materials GRI 416: Customer Health and Safety GRI 417: Marketing and Labeling
Business-Driven Innovation	X		X		Management approach: p. 19, 53, 81
Valuing Customer Relationships	X		X		Management approach: p. 13, 19, 54

1) 2016, if not stated otherwise.

Non-financial Group Report: Independent Assurance Report

INDEPENDENT PRACTITIONER'S REPORT ON A LIMITED ASSURANCE ENGAGEMENT ON NON-FINANCIAL REPORTING[1)]

"To LANXESS AG, Cologne

We have performed a limited assurance engagement on the separate non-financial group report pursuant to § (Article) 315b Abs. (paragraph) 3 HGB ("Handelsgesetzbuch": "German Commercial Code") of LANXESS AG, Cologne, (hereinafter the "Company") for the period from 1 January to 31 December 2019 (hereinafter the "Non-financial Report").

Responsibilities of the Executive Directors

The executive directors of the Company are responsible for the preparation of the Non-financial Report in accordance with §§ 315c in conjunction with 289c to 289e HGB.

This responsibility of Company's executive directors includes the selection and application of appropriate methods of non-financial reporting as well as making assumptions and estimates related to individual non-financial disclosures which are reasonable in the circumstances. Furthermore, the executive directors are responsible for such internal control as they have considered neces-sary to enable the preparation of a Non-financial Report that is free from material misstatement whether due to fraud or error.

Independence and Quality Control of the Audit Firm

We have complied with the German professional provisions regarding independence as well as other ethical requirements.

Our audit firm applies the national legal requirements and professional standards – in particular the Professional Code for German Public Auditors and German Chartered Auditors ("Berufssatzung für Wirtschaftsprüfer und vereidigte Buchprüfer": "BS WP/vBP") as well as the Standard on Quality Control 1 published by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany; IDW): Requirements to quality control for audit firms (IDW Qualitätssicherungsstandard 1: Anforderungen an die Qualitätssicherung in der Wirtschaftsprüferpraxis – IDW QS 1) – and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Practitioner's Responsibility

Our responsibility is to express a limited assurance conclusion on the Non-financial Report based on the assurance engagement we have performed.

Within the scope of our engagement, we did not perform an audit on external sources of information or expert opinions, referred to in the Non-financial Report.

We conducted our assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the IAASB. This Standard requires that we plan and perform the assurance engagement to allow us to conclude with limited assurance that nothing has come to our attention that causes us to believe that the Company's Non-financial Re-port for the period from 1 January 2019 to 31 December 2019 has not been prepared, in all material aspects, in accordance with §§ 315c in conjunction with 289c to 289e HGB.

1) PricewaterhouseCoopers GmbH has performed a limited assurance engagement on the German version of the separate non-financial group report and issued an independent assurance report in German language, which is authoritative. The following text is a translation of the independent assurance report.

In a limited assurance engagement the assurance procedures are less in extent than for a reasonable assurance engagement, and therefore a substantially lower level of assurance is obtained. The assurance procedures selected depend on the practitioner's judgment.

Within the scope of our assurance engagement, we performed amongst others the following assurance procedures and further activities:

- Obtaining an understanding of the structure of the sustainability organization and of the stakeholder engagement
- Inquiries of relevant personnel involved in the preparation of the Non-financial Report regarding the preparation process, the internal control system relating to this process and selected disclosures in the Non-financial Report
- Identification of the likely risks of material misstatement of the Non-financial Report
- Analytical evaluation of selected disclosures in the Non-financial Report
- Comparison of selected disclosures with corresponding data in the consolidated financial statements and in the group management report
- Evaluation of the presentation of the non-financial information

Assurance Conclusion

Based on the assurance procedures performed and assurance evidence obtained, nothing has come to our attention that causes us to believe that the Company's Non-financial Report for the period from 1 January to 31 December 2019 has not been prepared, in all material aspects, in accordance with §§ 315c in conjunction with 289c to 289e HGB.

Intended Use of the Assurance Report

We issue this report on the basis of the engagement agreed with the Company. The assurance engagement has been performed for purposes of the Company and the report is solely intended to inform the Company about the results of the limited assurance engagement. The report is not intended for any third parties to base any (financial) decision thereon. Our responsibility lies only with the Company. We do not assume any responsibility towards third parties.

Cologne, 28 February 2020

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Hendrik Fink ppa. Juliane v. Clausbruch"
German public auditor

Environmental and Safety Performance Data: Independent Assurance Report

INDEPENDENT PRACTITIONER'S REPORT ON A LIMITED ASSURANCE ENGAGEMENT ON SUSTAINABILITY INFORMATION[1)]

"To LANXESS AG, Cologne

We have performed a limited assurance engagement on data in the "Environmental and Safety Performance Data" table included in the "Safe and sustainable sites" section of the "Corporate Responsibility" chapter in the Annual Report 2019 of LANXESS AG, Cologne (hereinafter: "the Company"), for the period from 1 January to 31 December 2019.

Responsibilities of the Executive Directors

The executive directors of the Company are responsible for the preparation of the the "Environmental and Safety Performance Data" table in accordance with the principles stated in the Sustainability Reporting Standards of the Global Reporting Initiative (hereinafter: "GRI-Criteria").

This responsibility of Company's executive directors includes the selection and application of appropriate methods to prepare the "Environmental and Safety Performance Data" table as well as making assumptions and estimates related to individual sustainability disclosures, which are reasonable in the circumstances. Furthermore, the executive directors are responsible for such internal control as they have considered necessary to enable the preparation of the "Environmental and Safety Performance Data" table that is free from material misstatement whether due to fraud or error.

Independence and Quality Control of the Audit Firm

We have complied with the German professional provisions regarding independence as well as other ethical requirements.

Our audit firm applies the national legal requirements and professional standards – in particular the Professional Code for German Public Auditors and German Chartered Auditors ("Berufssatzung für Wirtschaftsprüfer und vereidigte Buchprüfer": "BS WP/vBP") as well as the Standard on Quality Control 1 published by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany; IDW): Requirements to quality control for audit firms (IDW Qualitätssicherungsstandard 1: Anforderungen an die Qualitätssicherung in der Wirtschaftsprüferpraxis – IDW QS 1) – and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Practitioner's Responsibility

Our responsibility is to express a limited assurance conclusion on the sustainability information in the "Environmental and Safety Performance Data" table based on the assurance engagement we have performed.

We conducted our assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the IAASB. This Standard requires that we plan and perform the assurance engagement to allow us to conclude with limited assurance that nothing has come to our attention that causes us to believe that the disclosures in the "Environmental and Safety Performance Data" table for the period from 1 January to 31 December 2019 have not been prepared, in all material aspects, in accordance with the relevant GRI-Criteria.

In a limited assurance engagement, the assurance procedures are less in extent than for a reasonable assurance engagement and therefore a substantially lower level of assurance is obtained. The assurance procedures selected depend on the practitioner's judgment.

1) PricewaterhouseCoopers GmbH has performed a limited assurance engagement on the German version of the "Environmental and Safety Performance Data" table included in the "Safe and sustainable sites" section of the "Corporate Responsibility" chapter in the Annual Report 2019 of LANXESS AG and issued an independent assurance report in German language, which is authoritative. The following text is a translation of the independent assurance report.

Within the scope of our assurance engagement, we performed amongst others the following assurance procedures and further activities:

- Inquiries of personnel involved in the preparation for reporting the environmental and safety performance data regarding the preparation process, the underlying internal control system and the environmental and safety data
- Identification of potential risks of material misstatements based on the GRI criteria
- Analytical procedures on the environmental and safety data
- Assessment of the presentation of the environmental and safety data in the "Environmental and Safety Performance Data" table

Assurance Conclusion

Based on the assurance procedures performed and assurance evidence obtained, nothing has come to our attention that causes us to believe that the disclosures in the "Environmental and Safety Performance Data" table of the Company for the period from 1 January to 31 December 2019 have not been prepared, in all material aspects, in accordance with the relevant GRI-Criteria.

Intended Use of the Assurance Report

We issue this report on the basis of the engagement agreed with the Company. The assurance engagement has been performed for purposes of the Company and the report is solely intended to inform the Company as to the results of the assurance engagement. The report is not intended to provide third parties with support in making (financial) decisions. Our responsibility lies solely toward the Company. We do not assume any responsibility towards third parties.

Cologne, 28 February 2020

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Hendrik Fink
Wirtschaftsprüfer
(German Public Auditor)

ppa. Juliane v. Clausbruch"

GRI Content Index

GRI disclosure		Location	Comments and online annexes	UNGC
GRI 101: Foundation 2016				
GRI 102: General Disclosures 2016				
ORGANIZATIONAL PROFILE				
102-01	Name of the organization		LANXESS AG	
102-02	Activities, brands, products, and services	p. 75–76	lanxess.com/en/Products-and-Solutions	
102-03	Location of headquarters		Cologne, Germany	
102-04	Location of operations	p. 75–76, 88–89	lanxess.com/en/Company/Locations	
102-05	Ownership and legal form	p. 57, 73		
102-06	Markets served	p. 80, 82–83, 88–89		
102-07	Scale of the organization	p. 3, 44, 104		
102-08	Information on employees and other workers	p. 32		6
102-09	Supply chain	p. 39, 79–80		
102-10	Significant changes to the organization and its supply chain	p. 73–74, 160–165		
102-11	Precautionary Principle or approach	p. 53, 81, 120–122		
102-12	External initiatives	p. 11–14, 21–22, 30, 43, 48, 49, 239	https://bildung.lanxess.de/	
102-13	Membership of associations	p. 39, 51–52, 239		
STRATEGY				
102-14	Statement from senior decision-maker	p. 4		
102-15	Key impacts, risks, and opportunities	p. 6–9, 11–13, 47, 118–133	lanxess.com/en/Responsibility	

GRI disclosure		Location	Comments and online annexes	UNGC
ETHICS AND INTEGRITY				
102-16	Values, principles, standards, and norms of behavior	p. 19–24		10
GOVERNANCE				
102-18	Governance structure	p. 60–63		10
STAKEHOLDER ENGAGEMENT				
102-40	List of stakeholder groups	p. 13–14	lanxess.com/en/Responsibility/Approach/Stakeholder-Dialogue	
102-41	Collective bargaining agreements	p. 38		3
102-42	Identifying and selecting stakeholders	p. 13–14	lanxess.com/en/Responsibility/Approach/Stakeholder-Dialogue	
102-43	Approach to stakeholder engagement	p. 13–14, 28–29, 36–37, 51–54	lanxess.com/en/Responsibility/Approach/Stakeholder-Dialogue	
102-44	Key topics and concerns raised	p. 13–14, 51–54	lanxess.com/en/Responsibility/Approach/Stakeholder-Dialogue	
REPORTING PRACTICE				
102-45	Entities included in the consolidated financial statements	p. 164–165		
102-46	Defining report content and topic Boundaries	p. 14–15	lanxess.com/en/Responsibility/Approach/Material-Topics	
102-47	List of material topics	p. 14, 228		
102-48	Restatements of information	p. 227		
102-49	Changes in reporting	p. 159–164, 227		
102-50	Reporting period	p. 227		
102-51	Date of most recent report	p. 226		
102-52	Reporting cycle	p. 226		
102-53	Contact point for questions regarding the report	p. 241		

GRI disclosure		Location	Comments and online annexes	UNGC
102-54	Claims of reporting in accordance with the GRI Standards	p. 226		
102-55	GRI content index	p. 233–238		
102-56	External assurance	p. 229–232		
GRI 200: ECONOMIC STANDARD				
GRI 103: Management Approach 2016				
103-1	Explanation of the material topic and its Boundary	p. 23–24, 72–133, 134–217, 228		
103-2	The management approach and its components	p. 6–9, 228,		
103-3	Evaluation of the management approach	p. 6–9, 56–58, 228,		
GRI 201: Economic Performance 2016				
201-1	Direct economic value generated and distributed	p. 45, 103, 136, 197, 212		
201-3	Defined benefit plan obligations and other retirement plans	p. 178–186		
GRI 202: Market Presence 2016				
202-1	Ratios of standard entry level wage by gender compared to local minimum wage		An employee's individual income is based on his or her responsibilities and performance. As well as collective agreements that are the basis for the compensation of non-managerial staff in Germany and many other countries, legal requirements such as minimum wage levels are also important in ensuring fair compensation. In Germany, for example, we obtain temporary employees only from agencies that are covered by the collective agreement for temporary employment. In addition, the chemical industry pays industry-specific supplements.	
202-2	Proportion of senior management hired from the local community	p. 28		

GRI disclosure		Location	Comments and online annexes	UNGC
GRI 203: Indirect Economic Impacts 2016				
203-1	Infrastructure investments and services supported	p. 45–46	lanxess.com/en/Responsibility/Societal-Added-Value	
GRI 204: Procurement Practices 2016				
204-1	Proportion of spending on local suppliers	p. 79–80		
GRI 205: Anti-corruption 2016				
205-1	Operations assessed for risks related to corruption	p. 23–24		10
205-2	Communication and training about anti-corruption policies and procedures	p. 23–24		10
205-3	Confirmed incidents of corruption and actions taken	p. 24		10
GRI 206: Anti-competitive Behavior 2016				
206-1	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices		The company was not involved in any legal actions regarding anti-competitive behavior or violations of antitrust law in 2019.	
GRI 300: ENVIRONMENTAL STANDARDS				
GRI 103: Management Approach 2016				
103-1	Explanation of the material topic and its Boundary	p. 39–50, 228	lanxess.com/en/Responsibility/References/Certifications	
103-2	The management approach and its components	p. 14–18, 20–22, 39–50, 228		
103-3	Evaluation of the management approach	p. 9, 14–18, 20–22, 39–50, 228		
GRI 301: Materials 2016				
301-1	Materials used by weight or volume	p. 39, 79–80		7, 8
GRI 302: Energy 2016				
302-1	Energy consumption within the organization	p. 44		7, 8
302-2	Energy consumption outside the organization	p. 44		7, 8
302-3	Energy intensity	p. 49–50		8

GRI disclosure		Location	Comments and online annexes	UNGC
302-4	Reduction of energy consumption	p. 49–50		7, 8, 9
302-5	Reductions in energy requirements of products and services	p. 49–50, 53	https://new-mobility.lanxess.com/	
GRI 303: Water and Effluents 2018				
303-1	Interactions with water as a shared resource	p. 41–42	lanxess.com/en/Responsibility/Material-Topics/Safe-and-sustainable-sites lanxess.com/en/Responsibility/Material-Topics/Business-Driven-Innovation	7, 8, 9
303-2	Management of water discharge-related impacts	p. 41–42		7, 8
303-3	Water withdrawal	p. 41–42, 44		7, 8
303-4	Water discharge	p. 41–42, 44		7, 8
303-5	Water consumption	p. 41–42, 44		7, 8
GRI 305: Emissions 2016				
305-1	Direct (Scope 1) GHG emissions	p. 44, 48		7, 8
305-2	Energy indirect (Scope 2) GHG emissions	p. 44, 48		7, 8
305-3	Other indirect (Scope 3) GHG emissions	p. 49		7, 8
305-4	GHG emissions intensity	p. 48		8
305-5	Reduction of GHG emissions	p. 48	lanxess.com/en/Responsibility/Material-Topics/Business-Driven-Innovation	8, 9
305-6	Emissions of ozone-depleting substances (ODS)	p. 44		7
305-7	Nitrogen oxides (NO_x), sulfur oxides (SO_x), and other significant air emissions	p. 44, 49		7, 8
GRI 306: Effluents and Waste 2016				
306-2	Waste by type and disposal method	p. 42–44		7, 8
306-2	Significant spills		Of a total of 15 relevant incidents, seven related to facilities acquired in the last years. At the site in Charleston, U.S., substances were released during unloading on two occasions: The release of chlorine while unloading a tanker resulted in the evacuation of the site, and the release of phosphorous from a container caused a fire. At the site in Trafford Park, Great Britain, the release of thermal oil in a boiler house likewise caused a fire.	7, 8

GRI disclosure		Location	Comments and online annexes	UNGC
GRI 307: Environmental Compliance 2016				
307-1	Non-compliance with environmental laws and regulations		Should material cases occur, these would have to be reported in the audited financial statements.	7, 8
GRI 308: Supplier Environmental Assessment 2016				
308-1	New suppliers that were screened using environmental criteria	p. 39		8
308-2	Negative environmental impacts in the supply chain and actions taken	p. 39		8
GRI 400: SOCIAL STANDARDS				
GRI 103: Management Approach 2016				
103-1	Explanation of the material topic and its Boundary	p. 20–23, 24–39, 45–46, 51–52, 228		
103-2	The management approach and its components	p. 14–18, 20–23, 24–39, 45–46, 51–52, 228	lanxess.com/en/Responsibility/References/Certifications	
103-3	Evaluation of the management approach	p. 9, 14–18, 20–23, 24–39, 45–46, 51–52, 228	lanxess.com/en/Responsibility/Material-Topics/Energized-employees-and-performing-teams	
GRI 401: Employment 2016				
401-1	New employee hires and employee turnover	p. 26, 29–30		6
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	p. 32–35		6
401-3	Parental leave	p. 34–35		

GRI disclosure		Location	Comments and online annexes	UNGC
GRI 402: Labor/Management Relations 2016				
402-1	Minimum notice periods regarding operational changes		In accordance with the German Works Constitution Act, LANXESS is obliged to inform the Works Council fully and in good time of any planned operational changes that could result in material disadvantage to all or substantial parts of the workforce. The Economics Committee is also informed on a regular basis about the company's economic affairs. We fully comply with our legal obligations with respect to the responsible bodies. Similar requirements applicable in other countries are always complied with.	3
GRI 403: Occupational Health and Safety 2016				
403-1	Workers representation in formal joint management-worker health and safety committees		Protecting the health and safety of our employees is a regular aspect of the dialog between employee and employer representatives in all countries where collective agreements apply. In Germany, and going above and beyond legal requirements, agreements exist with employee representatives as well as for occupational health management and company integration management. The operational teams are managed by steering committees made up equally of employer and employee representatives.	
403-2	Types of injury and rates of injury, occupational diseases,lost days, and absenteeism, and number of work-related fatalities	p. 37, 44		
403-4	Health and safety topics covered in formal agreements with trade unions		Protecting the health and safety of our employees is a regular aspect of the dialog between employee and employer representatives in all countries where collective agreements apply. In Germany, and going above and beyond legal requirements, agreements exist with employee representatives as well as for occupational health management and company integration management. The operational teams are managed by steering committees made up equally of employer and employee representatives.	
GRI 404: Training and Education 2016				
404-1	Average hours of training per year per employee	p. 26–28		6
404-2	Programs for upgrading employee skills and transition assistance programs	p. 26–28, 38		
404-3	Percentage of employees receiving regular performance and career development reviews		At present, all managers worldwide receive an annual, system-based performance assessment and development planning. As part of our corporate culture, all managers and employees are called upon to give each other regular feedback, e.g. in regular review meetings. The system-based solution is available to all managers as well as selected non-management employees. Individual targets were also agreed with a majority of employees.	6

GRI disclosure		Location	Comments and online annexes	UNGC
GRI 405: Diversity and Equal Opportunity 2016				
405-1	Diversity of governance bodies and employees	p. 30–32, 62–63, 65–66		6
405-2	Ratio of basic salary and remuneration of women to men		For non-managerial employees, collective agreements mean there are no notable differences between the salaries of female and male employees. Managers' compensation is based on their responsibilities and performance and also on aspects such as industry and managerial experience.	6
GRI 406: Non-discrimination 2016				
406-1	Incidents of discrimination and corrective actions taken	p. 22–23		6
GRI 407: Freedom of Association and Collective Bargaining 2016				
407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	p. 38		3
GRI 408: Child Labor 2016				
408-1	Operations and suppliers at significant risk for incidents of child labor	p. 21–23		1, 2, 5
GRI 409: Forced or Compulsory Labor 2016				
409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labor	p. 21–23		1, 2, 4

GRI disclosure		Location	Comments and online annexes	UNGC
GRI 410: Security Practices 2016				
410-1	Security personnel trained in human rights policies or procedures		LANXESS does not employ its own security personnel at its sites but procures security services from specialized external providers. They, like all our suppliers, are subject to our Supplier Code of Conduct, which also covers human rights. In addition, professional security providers contracted by LANXESS are subject to the relevant security legislation in each country. In South Africa, for example, security personnel undergo regular training, which is documented and complies with the requirements of the Private Security Industry Regulatory Authority of South Africa (PSIRA).	1, 2
GRI 411: Rights of Indigenous Peoples 2016				
411-1	Incidents of violations involving rights of indigenous peoples		Our employees and external third parties can use the Integrity Line to report grievances concerning the violation of indigenous rights. In fiscal year 2019, we received no reports or other indications of cases involving the violation of indigenous rights.	1, 2

GRI disclosure		Location	Comments and online annexes	UNGC
GRI 412: Human Rights Assessment 2016				
412-1	Operations that have been subject to human rights reviews or impact assessments	p. 22–23		1, 2
412-2	Employee training on human rights policies or procedures	p. 22–23		1, 2
412-3	Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	p. 22–23		1, 2
GRI 413: Local Communities 2016				
413-1	Operations with local community engagement, impact assessment, and development program	p. 45–46, 52	lanxess.com/en/Responsibility/Societal-Added-Value	
413-2	Operations with significant actual and potential negative impacts on local communities	p. 13, 40–44, 50		
GRI 414: Supplier Social Assessment 2016				
414-1	New suppliers that were screened using social criteria	p. 39		1, 2
414-2	Negative social impacts in the supply chain and actions taken	p. 39		1, 2
GRI 415: Public Policy 2016				
415-1	Political contributions	p. 23	lanxess.com/en/Responsibility/Approach/Stakeholder-Dialogue	10
GRI 416: Customer Health and Safety 2016				
416-1	Assessment of the health and safety impacts of product and service categories	p. 39, 51–52	lanxess.com/en/Responsibility/Societal-Added-Value/Product-Portfolio-Assessment	
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services		Our employees and external third parties can use the Integrity Line to report grievances concerning non-compliance with regulations concerning health and safety. We received no indications of corresponding non-compliance for fiscal year 2019.	

GRI disclosure		Location	Comments and online annexes	UNGC
GRI 417: Marketing and Labeling				
417-1	Requirements for product and service information and labeling	p. 51–52		
417-2	Incidents of non-compliance concerning product and service information and labeling		Our employees and external third parties can use the Integrity Line to report grievances concerning non-compliance with regulations and voluntary codes concerning product and service information. We received no indications of corresponding non-compliance for fiscal year 2019.	
GRI 418: Customer Privacy				
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data		Our employees and external third parties can use the Integrity Line to report complaints regarding customer data privacy. In fiscal year 2019, we received no reports or other indications of complaints regarding breaches of customer privacy and losses of customer data.	
GRI 419: Socioeconomic Compliance				
419-1	Non-compliance with laws and regulations in the social and economic area		Should material cases occur, these would have to be reported in the audited financial statements.	

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Financial Calendar 2020

MAY

MAY 6

Quarterly Statement
Q1 2020
Conference Call

MAY 13

Annual Stockholders' Meeting
Cologne

AUG

AUGUST 13

Half-Year Financial Report
H1 2020
Conference Call

NOV

NOVEMBER 5

Quarterly Statement
Q3 2020
Conference Call

JAN FEB MAR APR JUN JUL SEP OCT DEC

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