

# Report of the Supervisory Board

## DEAR STOCKHOLDERS,

LANXESS closed 2018 with a very strong result despite the environment becoming increasingly challenging.

Three of our four segments significantly improved their results. The Specialty Additives segment, which contains a large part of the recently acquired Chemtura businesses, performed particularly strongly. The realization of synergies contributed to the improvement in earnings here. In total, the Group posted a significant increase in EBITDA to €1.016 billion.

In 2018, LANXESS reached a major milestone in its transformation with the severance of its volatile rubber business. The remaining share in the joint venture ARLANXEO was sold for approximately €1.4 billion in cash. Pension assets were increased by €200 million from these funds and debt was reduced as a result. Our stockholders will benefit by a further €200 million from the buyback of treasury shares.

2019 will continue to be influenced by political and economic uncertainties. Nevertheless, we are assuming that business will remain stable. LANXESS now has a stronger balance sheet as a sound platform for further growth. Having achieved a more balanced product portfolio, the Group will further consolidate its business through operational improvement measures and the ongoing investment program.

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 and the sale of the rubber activities clustered in the joint venture ARLANXEO to the joint venture partner Saudi Aramco Oil Company (Saudi Aramco) 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/Presidential 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 eight times in the reporting year 2017. 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 and sustainability issues. The Supervisory Board addressed the following important issues:

The focus of the Supervisory Board meeting held on March 13, 2018, was the review of the annual financial statements and consolidated financial statements for fiscal year 2017 and the proposal for use of the distributable profit. We discussed and approved the non-financial Group report 2017, which shows the sustainability aspects pursued by the company. The Supervisory Board also discussed and passed motions for resolution by the Annual Stockholders' Meeting and reviewed corporate governance matters. The Board of Management then presented the internal control, risk management and auditing systems, and we satisfied ourselves of their efficacy. Lastly, the Supervisory Board decided upon the variable compensation for the Board of Management members for fiscal year 2017 on the basis of the identified target attainment.

At the meeting on May 3, 2018, the Supervisory Board resolved to reappoint Mr. Matthias Zachert as a member of the Board of Management and to make him Chairman for the period from April 1, 2019, to March 31, 2024. The Supervisory Board also resolved to assume the costs of certain security measures for the benefit of the Board of Management. We also adjusted the rules of procedure for the Supervisory Board with regard to sustainability issues. In addition to a full report on environmental protection and occupational and plant safety, which was subsequently discussed by the full Supervisory Board, the Board of Management also presented a divestment project to us.

The meeting immediately before the Annual Stockholders' Meeting on May 15, 2018, served to prepare the Meeting. After the Annual Stockholders' Meeting, a constituting meeting to elect a new Chairman following the departure of the previous Chairman Dr. Rolf Stomberg took place. Dr. Matthias L. Wolfgruber was elected as the new Chairman. The committees were also filled. We also appointed Dr. Rolf Stomberg as the Honorary Chairman of the Supervisory Board.

At the meeting on July 31, 2018, we again dealt with the company's current M&A projects with the Board of Management. Among other things, we discussed the possible sale of all the shares in ARLANXEO, the joint venture for rubber business, to Saudi Aramco. We also addressed the positioning of LANXESS on the capital market and again looked at the assumption of the costs of certain security measures for the benefit of the Board of Management.

In an extraordinary meeting of the Supervisory Board on August 8, 2018, the Board of Management gave us a presentation on the advanced status of negotiations regarding the sale of all shares in ARLANXEO. The reasons for the transaction and all material parameters of the agreements were discussed in depth. As a result, we resolved to approve the sale of the shares in ARLANXEO proposed by the Board of Management to the joint venture partner Saudi Aramco.

At the meeting held on November 8, 2018, the Board of Management first gave us a report on the current occupational safety situation and provided us with information about the general considerations governing the use of the anticipated proceeds of the ARLANXEO transaction. We also discussed the details of the Group's succession planning that we had been given. The results of an employee survey carried out worldwide were also presented to us.

At its meeting on December 6, 2018, the Supervisory Board reviewed in full and approved the corporate planning for 2019 proposed by the Board of Management. We also discussed the company's strategic alignment – including sustainability aspects – and capital expenditure policy. 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. The Supervisory Board defined the conditions for the Board of Management's variable compensation components for fiscal year 2019 and dealt with the preparation of decisions about the membership of the Board of Management.

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 a good 97% 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 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 2017, the quarterly statements issued during fiscal year 2018, and the condensed consolidated financial statements and interim management report included in the 2018 half-year financial report. It also reviewed the company's risk management and internal control systems. Another focus of the committee's work was the evaluation of the financial and accounting effects of the sale of the shares in ARLANXEO. The Audit Committee also dealt with the concept for approving non-audit services and the non-financial Group report 2017. Other topics discussed were the significant findings by the internal audit department, corporate planning, compliance and the determination of the principal areas of focus for the audit of the 2018 financial statements. The Committee also found out about the impact of changes to various IFRS standards on LANXESS's accounting, strategies to hedge currency risks and the recent audit of OTC derivatives contracts pursuant to Section 20 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 did not meet in fiscal year 2018. 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 complies with the GCGC's recommendations and suggestions except in one justified case. 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 Corporate Governance Report and the Board of Management's declaration pursuant to Section 289f of the German Commercial Code.

## 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 2018 were audited by PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, the auditor appointed by the Annual Stockholders' Meeting on May 15, 2018, 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 12, 2019. 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 13, 2019. 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 AND BOARD OF MANAGEMENT

At the end of the Annual Stockholders' Meeting on May 15, 2018, the longstanding Chairman Dr. Rolf Stomberg left the Supervisory Board. We have thanked him for his professional management of our Supervisory Board and the mutual trust achieved in working relationships as well as his contribution to the company's success. He had a decisive influence on the work of the Supervisory Board since LANXESS was founded. By resolution of the Annual Stockholders' Meeting of May 15, 2018, Ms. Pamela Knapp was elected as a member of the Supervisory Board until the Annual Stockholders' Meeting in 2023.

At the end of his period in office, which was set at one year, on May 31, 2018, Mr. Stephen C. Forsyth left the Board of Management of the company.

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 2018.

Cologne, March 13, 2019

The Supervisory Board



Dr. Matthias L. Wolfgruber  
Chairman