Annual Report

# 2017

LANXESS
Energizing Chemistry

# KEY DATA 2017

## LANXESS Group

| € million | Q4 2016 | Q4 2017 | Change in % | 2016 | 2017 | Change in % |
|---|---|---|---|---|---|---|
| Sales | 1,915 | 2,337 | 22.0 | 7,699 | 9,664 | 25.5 |
| Gross profit | 370 | 482 | 30.3 | 1,754 | 2,145 | 22.3 |
| Gross profit margin | 19.3% | 20.6% | | 22.8% | 22.2% | |
| EBITDA pre exceptionals[1)] | 183 | 248 | 35.5 | 995 | 1,290 | 29.6 |
| EBITDA margin pre exceptionals[1)] | 9.6% | 10.6% | | 12.9% | 13.3% | |
| EBITDA[1)] | 162 | 214 | 32.1 | 945 | 1,072 | 13.4 |
| Operating result (EBIT) pre exceptionals[1)] | 56 | 84 | 50.0 | 514 | 695 | 35.2 |
| EBIT[1)] | 35 | 49 | 40.0 | 464 | 434 | (6.5) |
| EBIT margin[1)] | 1.8% | 2.1% | | 6.0% | 4.5% | |
| Net income (loss) | 2 | (49) | < (100) | 192 | 87 | (54.7) |
| Earnings per share (€) | 0.02 | (0.54) | < (100) | 2.10 | 0.95 | (54.7) |
| Earnings per share adjusted for exceptional items and amortization of intangible assets (€)[2)] | 0.24 | 0.44 | 83.3 | 2.69 | 4.14 | 53.9 |
| Dividend per share (€) | | | | 0.70 | 0.80[7)] | 14.3 |
| ROCE[3)] | | | | 6.9% | 9.3% | |
| Cash flow from operating activities | 157 | 333 | > 100 | 689 | 868 | 26.0 |
| Depreciation and amortization | 127 | 165 | 29.9 | 481 | 638[8)] | 32.6 |
| Cash outflows for capital expenditures | 211 | 260 | 23.2 | 439 | 547 | 24.6 |
| Total assets | | | | 9,877 | 10,396 | 5.3 |
| Equity (including non-controlling interests) | | | | 3,728 | 3,413 | (8.4) |
| Equity ratio[4)] | | | | 37.7% | 32.8% | |
| Provisions for pensions | | | | 1,249 | 1,490 | 19.3 |
| Net financial liabilities[5)] | | | | 2,394 | 2,252 | (5.9) |
| Net financial liabilities after deduction of time deposits and securities available for sale[6)] | | | | 269 | 2,252 | > 100 |
| Employees | | | | 16,721 | 19,029 | 13.8 |
| Personnel expenses (€ million) | | | | 1,467 | 1,663 | 13.4 |
| Work-related injuries resulting in at least 1 day's absence (per million hours worked) | | | | 2.0 | 1.7 | (15.0) |
| Hire rate of apprentices in Germany | | | | 81.0% | 80.0% | |
| Turnover resulting (from voluntary resignations) | | | | 2.45% | 2.34% | |
| Specific energy consumption (gigajoules per metric ton of product) | | | | 7.14 | 7.30 | 2.2 |
| Specific Scope 1 $CO_2e$ emissions ($CO_2$ equivalents, metric tons per metric ton of product) | | | | 0.26 | 0.28 | 7.7 |
| Specific Scope 2 $CO_2e$ emissions ($CO_2$ equivalents, metric tons per metric ton of product) | | | | 0.45[9)] | 0.46 | 2.2 |
| Emissions of volatile organic compounds (in thousand metric tons) | | | | 4.7 | 4.9 | 4.3 |

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" for details.

2) Earnings per share pre exceptional items and amortization of intangible assets: earnings per share 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. See "Business Performance of the LANXESS Group" for details.

3) ROCE: EBIT pre exceptionals in relation to capital employed (total assets less deferred tax assets and interest-free liabilities). See "Value Management and Control System" for details of capital employed.

4) Equity ratio: equity in relation to total assets.

5) 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" for details.

6) See "Value Management and Control System" for details of the financial assets deducted.

7) Dividend proposal to the Annual Stockholders' Meeting on May 15, 2018.

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

9) Figure restated.

# CONTENTS



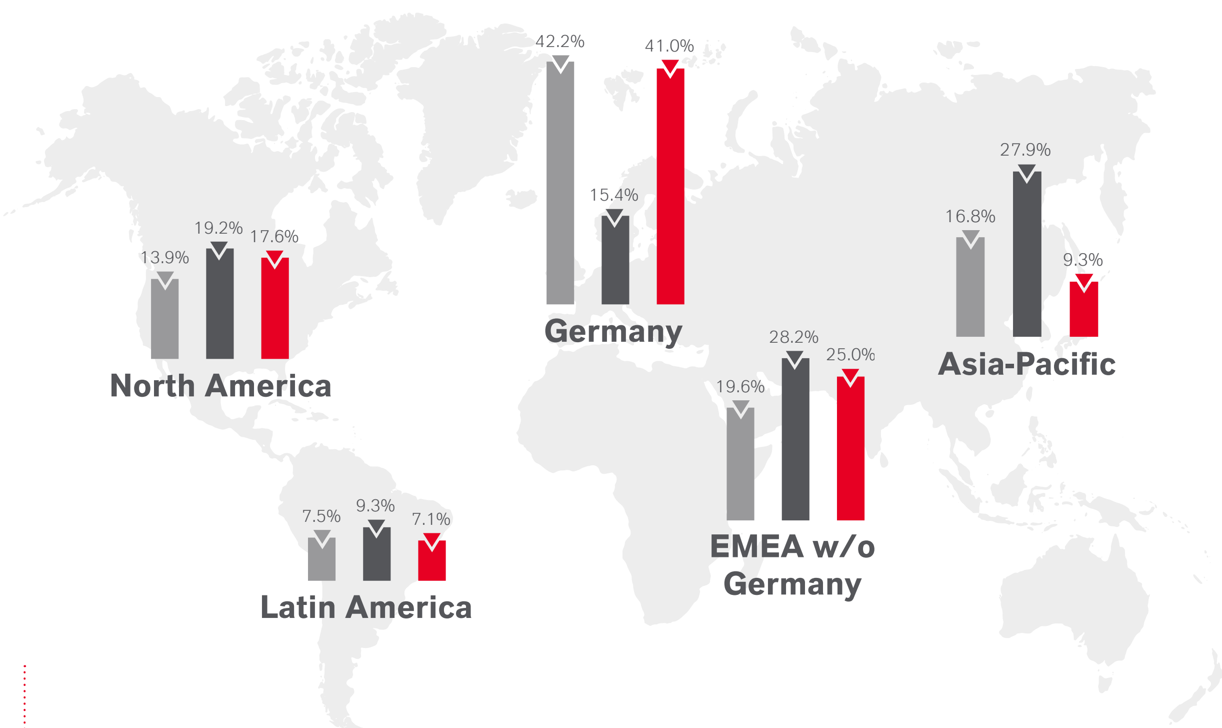
**Audited disclosures of the LANXESS Group that are included in the 2017 separate non-financial consolidated report.**

# LANXESS
# AT A GLANCE

**Group Structure**

| | | | | | |
|---|---|---|---|---|---|
| **Segments** | **Advanced Intermediates** | **Specialty Additives** | **Performance Chemicals** | **Engineering Materials** | **ARLANXEO** |
| **Business units** | Advanced Industrial Intermediates<br>Saltigo | Additives<br>Rhein Chemie | Inorganic Pigments<br>Leather<br>Material Protection Products<br>Liquid Purification Technologies | High Performance Materials<br>Urethane Systems | Tire & Specialty Rubbers<br>High Performance Elastomers |
| **Applications** | › Agrochemicals<br>› Automotive<br>› Construction<br>› Aroma and flavors<br>› Pharmaceuticals<br>› Tire chemicals<br>› Semiconductors and photovoltaics | › Plastics and rubber additives<br>› Phosphorus-based and brominated flame retardants<br>› Plastics additives such as flame retardants and plasticizers<br>› Lubricants | › Disinfection<br>› Protection and preservation of wood, construction materials, coatings and foodstuffs<br>› Color pigments<br>› Materials for leather production and water treatment | › Automotive<br>› Construction<br>› Medical technology<br>› Electrical/ electronics<br>› Mining<br>› Tires and wheel<br>› Oil and gas<br>› Industrial and mechanical products | |
| **Market positions** | Europe no. 1–2 | Top 3 position | No. 1–4 in niches | Leading position | Globally no. 1–3 |

# GLOBAL PRESENCE




Employees
Sales
Payments for investments

»LANXESS IS GENERATING PROFITABLE GROWTH. OUR JOURNEY IS FAR FROM OVER.«

# LETTER FROM THE CEO

Ladies and Gentlemen,

2017 was a year in which LANXESS made great strides. We realigned our company while achieving the best results in its history. LANXESS is now a repositioned global group – profitable, stable and fast-growing.

The acquisition of the U.S. company Chemtura at the end of April 2017 – the biggest in our history – was a key strategic milestone. It has made us one of the most important players on the global additive market, and the acquired Urethanes and Organometallics divisions have given us a foothold in new business areas. As a result, the “New LANXESS” is taking shape more quickly than expected.

LANXESS is generating profitable growth. However, our journey is far from over. In the years ahead, we aim to enhance quality within the Group and boost income even further. We have set ambitious new medium-term financial targets. From fiscal year 2021, our average operating margin – measured by EBITDA pre exceptionals – is expected to be between 14% and 18% over a business cycle. In addition, we intend to carry out further rigorous differentiation of our product range, increase our regional diversification even more and continue to reduce our dependency on individual sectors.

We regard organic growth as crucial to achieving our goals. Consequently, we will invest around €400 million across all segments by 2020, thus further strengthening our international sites as well as our large domestic sites in Germany. However, we also aim to maintain our inorganic growth; in 2017, we significantly enhanced our additives segment, and in 2018 we acquired the phosphorous chemicals business of the Belgian chemicals group Solvay. This acquisition is another example of our rigorous implementation of our growth strategy, focused on medium-sized markets and the regions of North America and Asia.

Since spring, we have also been supporting our growth with the newly created dLX Group function for digitalization. Across functions, countries and all business units, it works on various initiatives to actively shape the digital future of our Group.

To us, being future-proof also means operating in a sustainable, responsible way. We have firmly embedded the principle of sustainable development in our corporate strategy. In our view, this philosophy also includes fulfilling our responsibility to humankind and the environment all over the world. We re-emphasized this in 2017 with our commitment to the principles of the U.N. Global Compact.

Our great success in 2017 was the result of hard work and would not have been possible without a strong team. We achieved a huge amount last year and can be proud of that. The whole Board of Management would like to thank all employees worldwide for their dedication and sound collaboration with our customers.

We are making good progress, and our tireless work is bearing fruit. My fellow Board of Management members and I would like to thank all our shareholders for their continued confidence in us. Let us keep on working hard together to ensure that LANXESS remains successful.

Yours, Matthias Zachert

**Matthias Zachert**
Chairman of the Board of Management

THE BOARD OF MANAGEMENT THANKS ALL OF THE GROUP'S EMPLOYEES AND THE EMPLOYEE REPRESENTATIVES FOR THEIR WORK IN FISCAL YEAR 2017.

LANXESS

# 2021:

## leading positions, more stable and with a stronger cash flow

# The Success Story Continues

*In an increasingly volatile political and economic environment, we have managed to get LANXESS back onto a sound footing. However, the Group's development is far from complete. With a clear strategy, we aim to make full use of our potential and continue to post profitable growth for years to come.*

## A CHANGING WORLD, A CHANGING INDUSTRY

Change is anything but an unknown quantity in the chemical industry. For more than a century, our industry has constantly demonstrated its capacity and willingness for change and helped to shape or indeed enabled technical and social progress. Now, the pace of change has taken on a new dimension, but by no means can all changes be regarded as progress.

In the political sphere, protectionism is back on the agenda, and many places have suddenly reverted to putting national interests ahead of overcoming major global challenges together. All these political tensions are causing increased volatility and uncertainty. Fluctuating currencies and commodity prices, trade sanctions and protective tariffs are also affecting the highly globalized chemical industry. All stages of the value chain are under extra pressure due to change processes within the industry such as the ongoing wave of consolidation and stricter regulatory requirements. In many cases, these requirements are driven by sustainability. More than ever, chemical companies are required to take responsibility for their products and production processes – from the acquisition of raw materials to disposal. Their innovation is focused on solutions that will help overcome major challenges to society such as climate change, shortage of drinking water and the ability to feed a growing world population. In particular, digitalization will significantly change processes, working conditions and value chains in the chemical industry in the years ahead.

LANXESS will play an active role in shaping the change in its markets, even in these challenging conditions. The right attitude and a clear strategy are the keys to success here. We aim to live out a team-oriented and performance-oriented culture and speed up our ability to think and act even more. Our strategy is geared towards achieving an even better balance of our portfolio in terms of regional markets and customer industries and attaining leading positions with all our businesses.

# REALIGNMENT IMPLEMENTED

**Milestones of the Realignment**

**01**
**Competitiveness of the business and administrative structure**

- Consolidation of business units and Group functions with similar business models
- Improve customer and market focus and leverage synergies
- Develop leaner administrative structures by restructuring and adjusting business models

**Basis for New LANXESS**
(segments Advanced Intermediates, Specialty Additives, Performance Chemicals, Engineering Materials)

**Leaner management, €150 million in savings**

**02**
**Operational competitiveness**

- Manufacturing excellence:
  - Analyze and adjust asset base
  - Evaluate mothballings and site closures
  - Implementation of operational best practices
- Optimization of supply chain

**Implementation of best practices, €150 million in savings**

**03**
**Competitiveness of the business portfolio and alliances**

- Evaluation of portfolio options for a better-balanced corporate structure
- Consider alliances to improve competitive access to raw material e.g., for rubber business
- Improved market access through marketing partnerships

**Foundation of ARLANXEO, acquisition of Chemtura**

**CULTURE OF SUCCESS AND TEAMWORK**

We reached key milestones in the context of our strategy with our realignment program of New LANXESS. A new and more efficient organizational structure and extensive optimization of our business units and Group functions have not only brought us closer to our markets and customers but also sustainably reduced our cost position by around €150 million. As a result of our program to optimize our production, sales and supply chains, we will achieve further cost savings of €150 million a year by the end of 2019. In Saudi Aramco, we have found a strong partner for our synthetic rubbers business, and together we have successfully positioned the new strategic alliance ARLANXEO. The acquisition of Chemtura, which we completed sooner than expected, marks a major step towards a more balanced, more profitable portfolio.

All these organizational measures were accompanied by actively managed cultural change. Each and every employee at LANXESS is expected to display an entrepreneurial mindset, to act quickly in a solution-oriented manner and to be open to new approaches. We aim to live out quality and sustainability in all their dimensions as we regard this as an essential requirement of our business operations. Renewed inclusion in the Dow Jones Sustainability Index World, incorporation in the Dow Jones Sustainability Index Europe and confirmation of our place in the "Climate A List" of the Carbon Disclosure Project provided emphatic proof in the reporting year that our claim of "Good for business, good for society" is a lived-out commitment and not an empty slogan.

## MAINTAINING GROWTH, ENHANCING STABILITY AND PROFITABILITY

We have paved the way for stable growth for our company. However, our journey is far from over. Not all our businesses have attained the intended leading positions in their respective markets. And we have not yet caught up with the leading companies in our industry in terms of profitability. Therefore, we aim to make full use of our potential and accelerate our profitable growth in the years ahead. To achieve this, we will be building especially on our strengths in mid-sized markets. Here, we can offer our customers an attractive combination – the professionalism of a global chemical company coupled with the customer proximity and agility of a specialized niche provider. These advantages, along with mostly above-average growth rates in these markets, create very good prospects for LANXESS.

Our strategic measures extend beyond the year 2021 and cover several areas of activity.

### Disciplined cost management with a focus on integration and synergies

The operational integration of Chemtura was completed in 2017. We now aim to achieve cost synergies of €100 million by 2020.

We have expanded our "Manufacturing Excellence" initiative to the former Chemtura production sites to ensure that their processes and technologies are also optimized further. Our first major measure will be to close the former Chemtura Ankerweg site in Amsterdam (Netherlands) by November 2018 at the latest. We can produce the volume of base oils we need to cover production of our own high-performance lubricants and additional market demand at our Elmira site in Canada.

In addition, we are constantly analyzing and optimizing the cost structures of our own established businesses. For instance, in the reporting year, we bundled the international chrome value chain of our Leather business unit in South Africa at the Newcastle and Merebank sites. In line with this, production of sodium dichromate and chrome tanning salts at the Zárate site in Argentina was discontinued in the fourth quarter of 2017.

### Driving forward organic growth

In order to further improve the positioning of our existing businesses and leverage future growth potential, we will invest around €400 million in our organic growth across all segments by 2020. A host of measures with considerable combined potential lie behind this figure. They include plant optimization and expansion at the networked aromatics production site in Leverkusen as well as increases in capacity for high-performance plastics. The planned projects are intended to generate an average return on capital employed (ROCE) of 20%.

**Investments: Profitable Organic Growth by 2020**

| Segment | Advanced Intermediates | Specialty Additives | Performance Chemicals | Engineering Materials |
|---|---|---|---|---|
| Volume | ~€150 million | €50–100 million | €50–100 million | €50–100 million |
| Instruments | Focus on brownfield investments to strengthen "Verbund" platform and reinforce cost advantage | Investment in technology and process upgrades and product development | Investment in application technology and customer solutions | Expansion of low capital intense downstream assets to further improve product mix |

**Total capex of ~€400 million with expected average ROCE of 20%**

### Achieving an even more balanced portfolio

Even after the acquisition of Chemtura, reducing economic dependency on individual sectors or closely correlated markets is still an important element of our strategy. For instance, we intend to increase our presence in attractive customer industries with innovative product applications. Products that help to overcome major challenges to society, as described in the Sustainable Development Goals, for example, will play a key role here. In regional terms, too, we aim to achieve an even better balance in our portfolio by increasing the sales share of the growth markets of Asia and North America. We have defined clear criteria for development of our portfolio: In the future, we will only operate businesses or include them in our portfolio if we can achieve leading market positions and sustainably generate attractive margins with them.

### Digital transformation launched

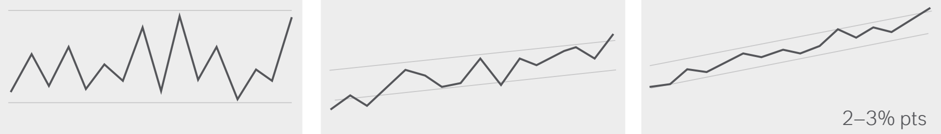
Since the spring of 2017, we have also been supporting our growth with the newly created dLX Group function for digitalization. Across functions, countries and all business units, it works on various initiatives to actively shape the digital future of our Group.

## LANXESS 2021: LEADING POSITIONS, MORE STABLE AND WITH A STRONGER CASH FLOW

In our target scenario, LANXESS will be a stable specialty chemical group with a strong cash flow and with a more balanced portfolio from 2021. We have strengthened our regional presence in North America and Asia and reduced our dependency on individual regional developments. With regard to customer markets, we have reduced our dependency on individual industries and instead improved our position in growth sectors and attractive markets where we already operate. All our businesses have attained a leading position in their markets or have prospects of doing so in the foreseeable future.

**Our Aims: Higher Profitability and Stability**

| | 2013<br>How we started again | 2016<br>What we have achieved | Until 2021<br>What we aim for |
|---|---|---|---|
| **EBITDA pre margin** (average margin over a business cycle) | 8–10% | 10–14% | 14–18% |
| **Margin volatility** | HIGH | MEDIUM | LOW |




**Underlying growth: Sustainable growth > GDP growth targeted**

The improved positioning is also likely to be reflected in the financial figures of LANXESS. To this end, we set new medium-term financial targets in 2017. From fiscal year 2021, our average operating margin – measured by EBITDA pre exceptionals – is expected to be between 14% and 18% over a business cycle. The earnings margin of each year is expected to fluctuate around the average by a maximum of two to three percentage points. In terms of volume, LANXESS is expected to steadily grow faster than global economic output. A sound investment-grade rating will remain a strict goal of our conservative financing policy. Accordingly, we also intend to use our increased earning power to substantially reduce our net financial debt.

In times of change, LANXESS is well placed to achieve its growth targets. By following our clear strategic guidelines, we aim to evolve into an even stronger company that is sustainable in every respect, and we can do this: with a diversified, stable platform, increased profitability and, not least, a corporate culture based on commitment and enthusiasm. We firmly believe that we can create even better value in this way in the future – for our shareholders, customers, employees and society.

**Strategic Guidelines**

# CORPORATE RESPONSIBILITY

**100%**

**of the product portfolio is analyzed on the basis of sustainability aspects**

Audited disclosures of the LANXESS Group that are included in the 2017 separate non-financial consolidated report.

# Good for Business, Good for Society

*In an increasingly volatile political and economic environment, values-based, responsible and reliable business conduct is more important than ever before. LANXESS has always had a keen sense of its corporate responsibility. Our clear strategic guidelines, our values and our governance structures constitute a sound foundation for making our profitable growth sustainable in every way in the years ahead.*

We see it as our corporate responsibility to create lasting value for all stakeholders and therefore to very consciously address the impact of our actions. Our company is future-proof if our strategy balances the demands of the economy, ecology and society. We encourage dialog with our stakeholders in order to identify, assess and actively manage all aspects of our actions, both positive and negative. Added value for society is a guiding principle as we work to create lasting value for our company.

Three tools help us to understand where and to what extent added value for society is created or diminished by our activities. They enable us to pay even more attention to the impact on society as a whole in our decision-making and to make the best possible use of human, natural and financial resources in the interest of sustainable development.

On a qualitative level, we analyze the social contribution of our products in an annual evaluation of the sustainability profile of our product range. In addition, in the reporting year, we performed a detailed analysis of how much our corporate activities and initiatives are helping to achieve the Sustainable Development Goals (SDGs) of the U.N.'s Agenda 2030. For instance, we are paving the way for more climate-friendly mobility with our technical high-performance plastics for the automobile industry. With our proven expertise in custom synthesis of active substances and precursors in the field of plant protection, we are helping to make modern agriculture more productive and sustainable, thus ensuring that an ever-growing global population is supplied with food. Furthermore, our water-treatment products help to guarantee water supply at all levels worldwide. Within the context of the LANXESS education initiative, we are particularly promoting scientific education of children, young people and young adults around our production facilities.

On a quantitative level, in 2017, we calculated all reliably quantifiable positive and negative direct impacts of our activities ("gate-to-gate") for the first time in an impact analysis in the form of gross value added after impact. Using this method, the strategic challenges facing the chemical industry can be addressed in a targeted, efficient way. This involves generating consistent growth in a resource-efficient manner, avoiding harmful emissions into the air, soil and water and ensuring the safe handling of chemical products along the value chain while delivering a long-term increase in social added value through the use of industrial products.

Detailed information on all three tools can be found on the LANXESS website in the Corporate Responsibility, Societal Added Value section.

## ACTIVE STAKEHOLDER DIALOG

The stakeholders of relevance to LANXESS are the groups, institutions and people with whom we are linked directly or indirectly through our business activities and who therefore have a justified interest in what we do. Our most important stakeholder groups are customers, employees, capital market participants, suppliers, the media, neighbors of our sites and representatives of politics, public authorities and non-governmental organizations (NGOs). We engage in intensive dialog with all of these groups with a view to encouraging mutual understanding and build trust through an open and constructive exchange of views and constantly identifying the issues that they consider to be significant in terms of our corporate responsibility.

You will find an overview of the key issues and dialog forums of the relevant stakeholder groups as well as specific activities in the reporting year on the LANXESS website in the Corporate Responsibility, Stakeholder Dialogue section.

## SYSTEMATICALLY PRIORITIZING SUSTAINABILITY

Identifying the main effects of our business operations and taking our stakeholders' concerns into account in our strategy forms the basis of our sustainability management. Against this background, we again performed a materiality analysis that complied with the requirements of the Global Reporting Initiative (GRI) in the reporting year. This is an important tool that enables us to systematically prioritize the various areas of activity and deploy resources as effectively as possible. The materiality analysis is based on four principles: sustainability context, materiality, completeness and stakeholder inclusiveness.

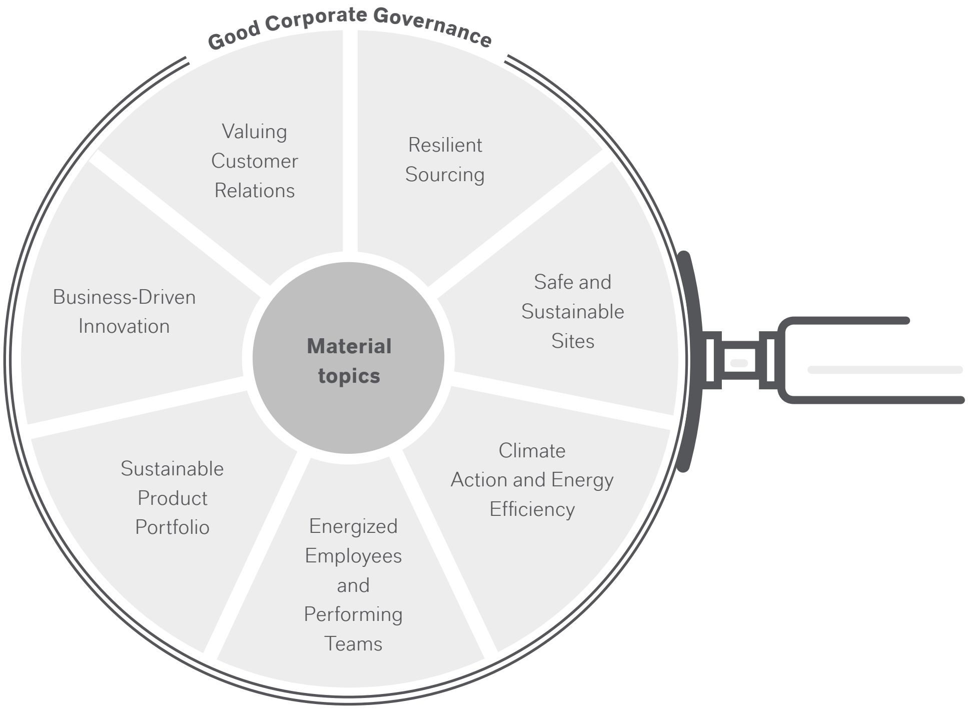
In 2016, a team of sustainability experts from various segments started laying the foundations for an extensive overhaul of our key issues and deriving core aspects from our strategic guidelines (see page 10). The results were finalized in our in-house evaluation in 2017.

As a result of our materiality analysis, we defined seven key sustainability issues that were confirmed by the Board of Management and the Corporate Responsibility Committee. The issue of "good corporate governance" constitutes the framework in which our overall business activities are carried out.

**Process of Materiality at LANXESS**

| | Selection Process | Evaluation Process | Approval and Reporting |
|---|---|---|---|
| **Objective** | Identify relevant sustainability topics | Prioritize material topics | Reporting of material topics |
| **Methodology** | › LANXESS strategic imperatives as basis<br>› Derivation of key sustainability topics considering…<br>› market & sustainability trends<br>› regulatory & political environment<br>› risk management<br>› stakeholder relevance<br>› topics on which LANXESS has high impact<br>**Pre-selection of topics by core team of sustainability experts** | › Clear criteria for the evaluation:<br>› (Potential) impact on value creation ability<br>› Short-term importance<br>› Perceived stakeholder interest/concern<br>**Evaluation by management and all members of Board of Management** | › Testing and validation<br>› Definition of reporting contents<br>**Final approval by Board of Management and CR Committee** |
| **Result** | Longlist of relevant topics | Final set of material topics | Reporting in Annual Report 2017 |

**Material Topics**




We have formulated specific targets for all key issues. Their common aim is to generate added value for our stakeholders through our operating activities while improving the quality of life for present and future generations. Consequently, one element of the variable compensation for the first and second management levels below the Board of Management is the extent to which certain targets are attained.

The results of our materiality analysis are particularly reflected in a correspondingly adapted structure of our external reporting on corporate responsibility.

**LANXESS Sustainability Targets**

| Area | Target | Indicator | Target Date | Status Quo 2017 | Page |
|---|---|---|---|---|---|
| § **Good Corporate Governance** Good corporate governance is the foundation ensuring that LANXESS creates sustainable value in alignment with stakeholder expectations. At LANXESS this is expressed in a value-based performance and safety culture, effective risk management processes and our commitment to recognized governing principles such as the UN global compact. | | | | | |
| Anti-corruption | No corruption cases | Number of participants in compliance training in the reporting year | Continuous | Over 2,000 employees took part in compliance training. There was a low single-digit number of cases of passive corruption. | 22 |
| Human rights | No human rights violations | Percentage of the procurement spend placed with TfS-audited suppliers | Continuous | TfS-audited suppliers account for 70% (previous year: 60%) of our relevant procurement spend. | 21 |

| Area | Target | Indicator | Target Date | Status Quo 2017 | 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. | | | | | |
| Suppliers' sustainability standards | Continuous increase in the percentage of TfS-audited suppliers | Percentage of the procurement spend placed with TfS-audited suppliers | Continuous | TfS-audited suppliers account for 70% (previous year: 60%) of our relevant procurement spend. The relevant procurement spend includes all suppliers from which we buy goods or services amounting to more than €20,000 each year. | 34 |
| **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 community. | | | | | |
| Global standards and processes | Integration of all locations (except Rustenburg) in the global matrix certificate | Degree of coverage in relation to sites | Continuous | Our matrix certificate covered 49 certifiable companies with 81 sites in 23 countries. This is equivalent to coverage of 84% (incl. Chemtura). | 18 |
| Global process safety | Continuous reduction in incidents relating to plant and process safety | Number of reportable incidents relating to plant and process safety | Continuous | Eight incidents relating to plant and process safety | 35 |
| | Continuous reduction in environmental incidents | Number of reportable environmental incidents | Continuous | One environmental incident | 35 |
| | Continuous reduction in transport incidents | Number of reportable transport incidents | Continuous | One transport incident | 36 |
| **Climate Action and Energy Efficiency** 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. | | | | | |
| Emissions[1] | Reduction in specific Scope 1 $CO_2e$ emissions by 25% for the LANXESS Group | Specific Scope 1 $CO_2e$ emissions | End of 2025 | The acquisition of Chemtura led to an increase in specific Scope 1 emissions. | 40 |
| | Reduction in specific Scope 2 $CO_2e$ emissions by 25% for the LANXESS Group | Specific Scope 2 $CO_2e$ emissions | End of 2025 | Specific Scope 2 emissions increased slightly compared to the previous year. | 40 |
| | Reduction in emissions of volatile organic compounds (NMVOC) by 25% | Emissions of volatile organic compounds (NMVOC) | End of 2025 | Specific VOC emissions were maintained at a stable, low level. An improvement can therefore be reported compared to the base year 2015. | 41 |
| Energy consumption[1] | Reduction in specific energy consumption by 25% for the LANXESS Group | Specific energy consumption | End of 2025 | The acquisition of Chemtura led to a year-on-year increase in both absolute and specific energy consumption. There has been progress since the base year 2015. | 42 |

1) Basis: Dec. 31, 2015

| Area | Target | Indicator | Target Date | Status Quo 2017 | Page |
|---|---|---|---|---|---|
| **Energized Employees and Performing Teams**<br>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. | | | | | |
| Employee retention | High retention in all regions | Turnover resulting from voluntary resignations | 2018 onward | Turnover resulting from voluntary resignations continued to fall to 2.34%. | 25 |
| Training | Hire rate of at least 80% on completion of apprenticeship | Hire rate of apprentices in Germany | 2018 onward | The number of apprentices increased by around 20% compared to 2016.<br>80% of apprentices were hired. | 24 |
| Occupational safety | Continuous reduction of reportable accidents by >50% (as against LTIFR 2.0 in 2016) | LTIFR | By end of 2025 | The LTIFR was 1.7 and thus considerably below the figure from 2016. | 32 |
| Diversity | Increase proportion of women in senior and middle management to 20% | Proportion of women in senior and middle management | By end of 2020 | 18.28% women | 27 |
| | At least one female Board of Management member | One woman on the Board of Management | June 30, 2022 | Not yet achieved | 27 |
| | Increase proportion of women on first level below Board of Management to 15% | Proportion of women on first level below Board of Management | June 30, 2022 | 11.6% women | 27 |
| | Increase proportion of women on second level below Board of Management to 25% | Proportion of women on second level below Board of Management | June 30, 2022 | 23.9% women | 27 |
| **Sustainable Product Portfolio**<br>Our products are manufactured and marketed so that they do not pose a risk to human or the environment. We systematically evaluate the sustainability of our entire portfolio. Sustainability criteria are applied in the development of products and applications. | | | | | |
| Analysis of the product portfolio in terms of sustainability | 100% of the portfolio analyzed in terms of sustainability | Sales share of analyzed products in the entire portfolio | Continuous | The entire product portfolio was systematically analyzed in terms of sustainability. | 44 |
| **Business-Driven Innovation**<br>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. | | | | | |
| Long-term, continuous product, application and process development | Develop innovative products on the basis of the needs and expectations of our customers | Number of product-based projects | Continuous | 238 projects (previous year: 176) aimed to develop new products and applications or improve existing ones. | 44 f., 72 |
| | Continuous enhancement of our production processes in order to maintain competitiveness and achieve our climate and energy efficiency targets | Number of process-based projects | Continuous | 122 projects (previous year: 94) concerned process technology issues with a view to reducing costs, improving efficiency or increasing capacity. | 44 f., 72 |
| **Valuing Customer Relations**<br>We value long-term customer relations, build on trust and knowing, understanding and solving the customers challenges. | | | | | |
| Long-term customer relationship | Increase customer satisfaction and retention | Customer retention index | 2019 | The anonymized online survey carried out by the business units every two years gave a value of 75.4 in the 2017/2018 period and is thus on a par with the last survey cycle. | 45 |

## GOOD CORPORATE GOVERNANCE

Only appropriate values, 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 U.N. Global Compact.

### Committees and functions

As part of our Group strategy, sustainability is regularly the subject of decision-making processes in the Board of Management. We have established various committees below Board of Management and Supervisory Board level to ensure compliance with and the ongoing optimization of our strategy as well as our rules and standards.

#### 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 detail in the Corporate Governance Report starting on page 51 of this Annual Report.

#### Corporate Risk Committee

The Corporate Risk Committee examines and monitors the Group's risk profile as well as regularly analyzes the key opportunities, risks and corresponding preventive measures relating to sustainability. Our opportunity and risk management system is described in detail in the combined management report starting on page 63 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

As one of the leading senior committee of LANXESS 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.

**Responsibilities at Board Level**

| Supervisory Board | | | |
|---|---|---|---|
| **Matthias Zachert**<br>**CEO** | **Michael Pontzen**<br>**CFO** | **Rainer van Roessel**<br>**Board** | **Hubert Fink**<br>**Board** |
| **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]<br>› Supporting the organization regarding compliance<br>› Developing preventive activities | › Reviewing and monitoring overall risk profile<br>› 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<br>› Setting and monitoring the HSEQ[2] goals |
| **Continuous development of the sustainability strategy as part of the Corporate Strategy** | | | |

1) Corporate Responsibility
2) Health, Safety, Environment and Quality
3) Compliance Management System

### Integrated management system

At LANXESS, a central management system provides the necessary global structures in all business processes to ensure responsible commercial practices. Worldwide, we apply the ISO 9001 and ISO 14001 international standards for quality and environmental management and ISO 50001 for energy management.

Confirmation of our compliance with ISO 9001 and ISO 14001 takes the form of a global matrix certificate. This certificate brings with it a number of advantages:

- A high degree of process standardization
- Uniform company directives and operating procedures
- Transparent, efficient and effective procedures and controls
- Substantially reduced external effort for maintaining and optimizing the management system, for integrating other management systems (e.g. ISO 50001, sustainability standards) and for integrating new locations or business entities

External, independent experts regularly audit the progress of integrating new sites into our management system and the performance of our management system worldwide. We successfully completed the audit once again in 2017. No new sites were included in the matrix certificate in the reporting year. We now intend to complete the inclusion of our production site in Joo Koon (Singapore), originally planned for 2017, by mid-2018. With the Clean and Disinfect specialties business acquired in the previous year, we took over three production sites – in Memphis and North Kingstown, U.S., and Sudbury, Great Britain – as of August 31, 2016. All these sites already had ISO 9001 and/or ISO 14001 certification. Integration of the Memphis and Sudbury sites into the LANXESS management system will take place in 2018, and will be completed with inclusion in our matrix certificate in 2019. We have now sold the Kingstown site. With just a few exceptions, the sites gained with the acquisition of Chemtura are already certified according to ISO 9001, and mostly also according to ISO 14001. These sites will initially maintain their certifications independently. Our Rustenburg site in South Africa, which is a chrome ore mine, cannot be assigned to LANXESS's other chemical industry businesses in the matrix certificate. We are therefore seeking separate ISO 9001 and ISO 14001 certification for this site in 2018.

As of December 31, 2017, our matrix certificate covered 49 certifiable companies (companies with employees and in which LANXESS has a holding of more than 50%, as well as ARLANXEO companies) with a total of 81 sites in 23 countries. Excluding Chemtura, this equates to coverage of 98% in relation to production sites and national headquarters. Taking into account the changed Group portfolio, coverage has fallen to 84%. We plan to successively integrate the new sites into the LANXESS management system over a three-year timescale. Once this integration process is complete, we will again be very close to fulfilling our aim of covering all certifiable sites in our matrix certificate.

In addition, since 2012, we have successively obtained ISO 50001 certification for energy management for LANXESS AG and all Group companies in Germany. As of December 31, 2017, our certification coverage for energy management in Germany stood at 100% in relation to headcount. The purchased former Chemtura site in Bergkamen holds its own certificate. In the Netherlands, companies must carry out energy audits and implement cross-company efficiency measures as part of an energy policy agreement. Our subsidiary LANXESS N.V. in Zwijndrecht, Belgium, was certified and included in the matrix certificate in the reporting year. In Great Britain, energy audits will be required for all sites in the future due to the following the acquisition of Chemtura. They must be conducted by the end of 2018.

Additionally, LANXESS operates other specific management systems and has further certifications, such as EMAS, RC14001 (RC = Responsible Care®), OHSAS 18001 and KTA 1401 (German Nuclear Safety Standards Commission). The status of our certificates can be viewed at any time in the Corporate Responsibility section of our website.

## Operational guidelines

**Commitment to international standards and frameworks**

The *U.N. Global Compact* is the world's biggest and most important initiative for responsible corporate governance. On the basis of ten universal principles, it pursues the vision of an inclusive and sustainable global economy that benefits all people, communities and markets. As a signatory, we acknowledge these principles to be an inalienable right. We again renewed our commitment to the U.N. Global Compact for the 2017 reporting year.

*Responsible Care®* is the name of the chemical industry's initiative to achieve progress in safety and environmental protection independently of legal requirements. By signing the Responsible Care® Global Charter, we have documented our commitment to the visions and ethical principles of this initiative launched by the International Council of Chemical Associations (ICCA). Our corporate directives ensure that the principles of the charter are integrated into our management principles and corporate strategy.

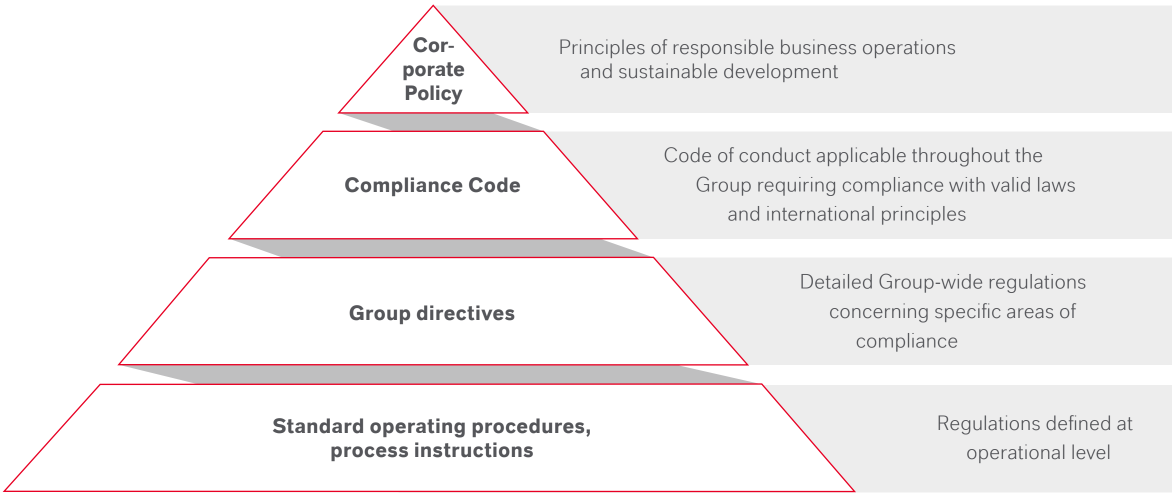
Among the internationally recognized principles of business activity to which we are committed are the *employment standards of the International Labour Organization*, an agency of the United Nations. These are aimed at ensuring compliance with globally recognized social standards and thereby improving the employment and living conditions of 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.<br>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.<br>4 Businesses should uphold the elimination of all forms of forced and compulsory labor.<br>5 Businesses should uphold the effective abolition of child labor.<br>6 Businesses should uphold the elimination of discrimination in respect of employment and occupation. | 7 Businesses should support a precautionary approach to environmental challenges.<br>8 Businesses should undertake initiatives to promote greater environmental responsibility.<br>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. |

## Company guidelines and regulations

**Clear Rules Provide Guidance**




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 "Code of conduct – Code for integrity and compliance at LANXESS," 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 required to contribute to preventing harm to LANXESS and increasing the company's value over the long term. The code covers issues such as human rights, anticompetitive behavior, 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 expect our suppliers to commit to our values and rules, especially the U.N. Global Compact, the ILO Labor Standards and the upholding and promotion of fundamental rights of employees, 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 selecting suppliers, we insist that they recognize the principles set out in the code or have established their own comparable rules 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 20 other international chemical companies (see page 34).

## Values and culture

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.

### 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.

The respective site management, supported by our global compliance organization and local compliance officers, is directly responsible for ensuring the observance of human rights at all times. At Group level, human rights are subject to regular evaluation as part of our risk management system. In 2016 and 2017, we performed a risk assessment that specifically addressed human rights in a total of six national companies (Brazil, China, Germany, India, South Africa and the U.S.). This confirmed that there is a high level of awareness for the subject and that functioning mechanisms are in place to prevent human rights violations. 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. In fiscal year 2017, internal audits were performed in 50% of our country organizations worldwide.

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 towards 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. For the time being, the Resource Line is also still available to the former Chemtura companies.

We have no reports or knowledge of any systematic discrimination against LANXESS employees. This includes discrimination on the basis of race, skin color, age, gender, sexual orientation, origin, religion, disability, 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 or interests in companies 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 fiscal 2017, 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 requisite processes in our sales activities to ensure that we fulfill our responsibility. These particularly include our processes for central product monitoring and trade compliance, especially regulations to prevent dual use. Furthermore, we systematically examine the impacts of our products on the society in the context of our portfolio analysis.

**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.

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 at www.lanxess.com, Corporate Responsibility, 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 total, over 2,000 employees took part in the compliance training sessions in the reporting year. 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.

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 80% of all transactions (LANXESS subsidiaries excluding Chemtura)

In fiscal year 2017, we received no reports or other indications of cases of active corruption by LANXESS employees. Verified cases of corruption of LANXESS employees (passive corruption) lead to appropriate disciplinary action up to dismissals and consideration of further legal action. In fiscal year 2017, we recorded a low single-digit number of cases of passive corruption, which had no further significant effects for LANXESS.

# EMPLOYEES

LANXESS aims to be a company whose success is driven by the personal commitment of each and every employee – fully in keeping with our corporate claim of "Energizing Chemistry." To make our values tangible and feasible in our everyday business, we have incorporated them in six operating principles – our "Formula X": seek solutions, keep it simple, take ownership, act as a team, think new and act fast.

Our global HR activities are geared towards enabling our employees to apply these operating principles successfully. This makes them a key strategic success factor, especially in phase of change. To support the wide-ranging change processes at LANXESS on a global basis across all business units and service functions, we set up an extensive HR transformation project in the second half of 2017. Redefinition of our HR strategy to support our long-term corporate goals, organizational realignment of the HR function and standardized and optimized processes through digital tools are the focal points here.

In operational terms, integration of Chemtura's employees into the global LANXESS organization and further expansion of our talent management into a transparent, global approach were the main elements of our HR work in the reporting year. A further focal point in Germany was continuation of our wide-ranging "Xcare" demographic program.

## A focus on recruiting talent

As part of our long-term, value-based corporate policy and against the backdrop of demographic change, we are continuing to invest in well-qualified young talents – both apprentices and university graduates – and in experienced specialists and managers. Our global talent management activities are consistently aligned to the different strategies of our business units and their specific demands in terms of employee qualifications.

A total of 824 new employees joined the company worldwide in fiscal year 2017. We hired 227 new employees in Germany. Our focus was on the recruitment of specialists from various disciplines.

Our dialog-oriented HR marketing activities are geared towards target groups – pupils, apprentices, students, university graduates and people with professional experience – and convey an authentic picture of LANXESS as an employer. A core event in 2017 was the summer school at the DWI Institute of RWTH Aachen University.

Our international graduate trainee program is a key tool for attracting young talent in Germany. Particularly highly qualified master's degree graduates are prepared for challenging specialist and managerial roles and gain experience abroad during the graduate trainee program itself. The programs are focused on marketing as well as controlling & finance. 13 new graduate trainees (eight women and five men) started their careers at LANXESS in 2017. Interns who show outstanding performance have the opportunity to progress further as part of the "eXclusive" talent program.

**New Employees by Age Group, Gender and Region**

| | EMEA (excluding Germany) | | Germany | | North America | | Latin America | | Asia-Pacific | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Age group** | **Female** | **Male** | **Female** | **Male** | **Female** | **Male** | **Female** | **Male** | **Female** | **Male** |
| <30 | 13.5 | 37 | 17 | 53 | 19 | 51 | 9 | 17 | 23 | 75 |
| 30–49 | 21.5 | 55 | 30 | 102 | 19 | 65 | 10 | 27 | 15 | 84 |
| >50 | 3 | 14 | 1 | 24 | 12 | 17 | 0 | 4 | 1 | 5 |
| **Total** | **38** | **106** | **48** | **179** | **50** | **133** | **19** | **48** | **39** | **164** |
| **in %** | | | | | | | | | | |
| <30 | 20.69 | 16.91 | 9.29 | 8.76 | 44.71 | 29.14 | 15.79 | 10.41 | 20.18 | 18.62 |
| 30–49 | 5.33 | 3.39 | 4.49 | 3.50 | 9.74 | 8.15 | 4.78 | 3.81 | 3.18 | 4.68 |
| >50 | 1.90 | 1.22 | 0.20 | 0.79 | 4.31 | 1.97 | 0.00 | 1.24 | 2.45 | 1.51 |
| **Total** | **6.07** | **3.54** | **3.53** | **2.73** | **9.69** | **7.25** | **6.38** | **4.02** | **6.23** | **6.48** |

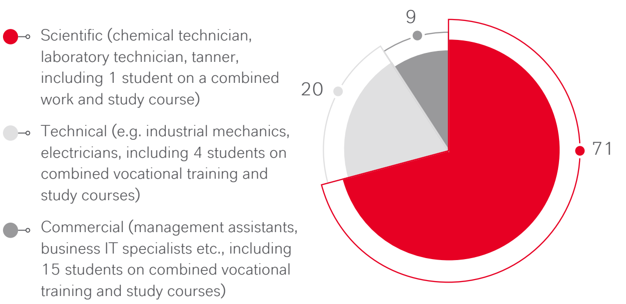
### *Developing skilled workers within our own ranks*

We have always given priority to training young people as a means of safeguarding the company's future and as an element of our social responsibility. Vocational training is the foundation of our strategy to develop our own skilled workers for our German sites. To manage our training centrally, we have established a department in Leverkusen that is based in the Career Management division and indirectly reports to the Head of HR Services in Germany. It supports the scientific, technical and commercial apprentices as well as our students on combined work and study courses.

206 apprentices started their training in eight technical, scientific and commercial careers at LANXESS Deutschland GmbH on September 1, 2017. This represents a significant increase of around 20% on the previous year. The proportion of female career starters was approx. 14% in the reporting year (previous year: 15%). In total, around 4,300 young people applied for the apprenticeships we provided.

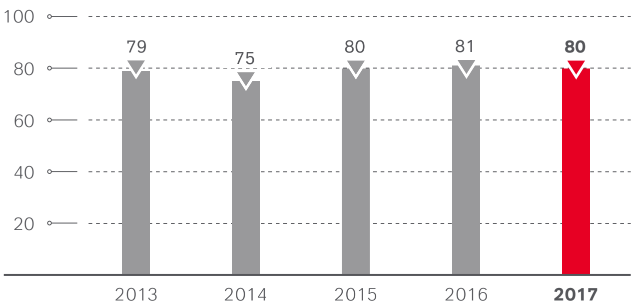
Taking the new intake into account, there are now (as of December 31, 2017) 583 apprentices at LANXESS. The proportion of female apprentices across all years is approx. 12%. We invested a total of around €20 million in vocational training of young talents in 2017.

**Trainees by career path**
in %




Training remains a key pillar of our HR policy for the years ahead. Against a backdrop of demographic change and our constant need for qualified new talents, we plan to hire approx. 200 apprentices in each of the coming years. In addition, our stated aim is to take on at least 80% of our apprentices after they have successfully completed their training. We reached this target again in the reporting year with a hire rate of 80% (previous year: 81%).

**Hire rate of apprentices and students on combined work and bachelor's degree courses at LANXESS**
in %



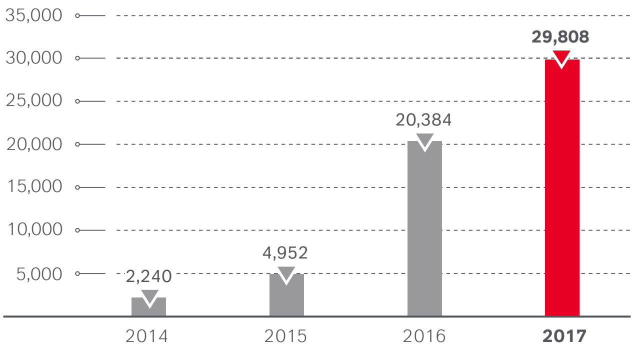

With our annual "XOnce" program, we enable school leavers who have not yet met specific academic or personal requirements for starting an apprenticeship straightaway to qualify for a technical or scientific apprenticeship – regardless of whether this is conducted externally or at LANXESS itself. Eleven young people took part in the XOnce program in 2017, including two refugees from Syria.

## Fostering development worldwide

Only by constantly investing in training our employees and teaching them clear, globally binding values and standards can we as a company successfully use the opportunities of changing markets now and in the future. Wide-ranging management and HR development tools enable and motivate our employees to act on the basis of values, address issues in new ways, put their ideas into practice quickly and devise solutions as part of a team.

With the global roll-out of management training completed in 2017, we achieved our aim of establishing our management principles worldwide and transferring them to management practice. A total of 629 managers and employees who are expected to take on a management role in the next two years have been trained worldwide in 29,808 hours. In addition, we conducted a survey among our managers worldwide about our corporate culture so that we can understand how much the values and operating principles are already actively lived out as the basis of our new culture and where action is still required. 1,880 managers took part in the survey at the beginning of 2017, a participation rate of 78%. The results are highly encouraging. For instance, 99% of the managers confirmed that the values and operating principles have already been communicated in their department. Our goal for 2018 is to further establish our values model and the operating principles derived from it in all departments.

**Management training for current and future managers**
(Total training hours)




A key tool for implementing these management principles is the Performance Dialog. With the Performance Dialog, we support our managers and their employees in gaining a better comparative view of each other's expectations regarding tasks, goals and responsibilities, giving each other continuous feedback and thus improving the way we collaborate for the long term. Following a successful pilot project in senior management, we rolled out the Performance Dialog at all management levels in the reporting year. By the end of 2017, around 2,000 managerial staff members worldwide had attended training courses on relevant aspects – including supportive IT tool, the "Talent Database." The information contained in this database forms the basis of our new talent management approach including global succession planning.

360° feedback is a key element and driver of a lived-out feedback culture. That is why, in 2017, we piloted the new version of the internal 360° feedback tool based on our culture. By the end of 2015, we had introduced a further tool for supporting our feedback culture worldwide: team feedback workshops for disciplinary, cross-interface and project teams.

Promoting life-long learning of our employees was again an important part of our HR development in 2017. In France, for example, 12,570.5 (previous year: 8,137) hours were invested training courses for skills development. A total of 148 employees (57 women and 91 men) signed up for the 16 training modules in 12 subject areas available in Germany. The average take-up rate for the training courses was 78%.

To make the learning opportunities for our employees even more extensive and flexible, digital learning formats will be a fixed component of our training portfolio in the future. For instance, in 2017, we provided our employees with 7,406 digital learning formats (2,447 in English, 2,291 in German and 2,668 in other languages) to improve their IT skills.

We emphasized the importance of safety and quality to LANXESS in 2017 with a newly devised basic training course for new facility managers. It was successfully piloted in Germany with 13 participants from eleven facilities, and will be incorporated in our training portfolio in 2018.

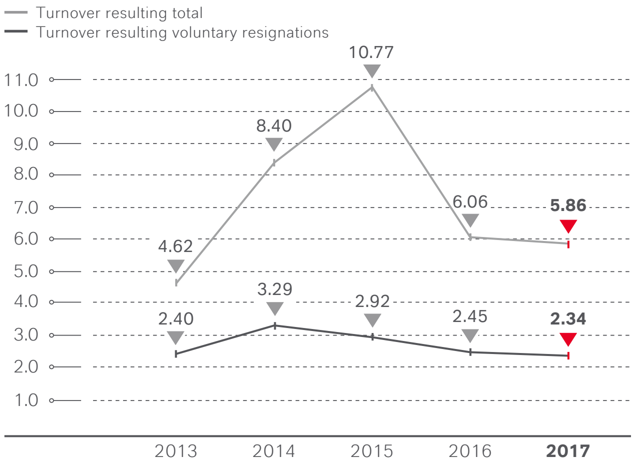
## Employee commitment – a key success factor

Committed employees are key to strong company performance, successful change and, ultimately, lasting corporate success. Accordingly, we aim to put even more emphasis on encouraging commitment of our employees in the future through leadership skills, performance management and our intended corporate culture. Organizational responsibility for leadership and performance management lies with the Global Talent Management department, which reports directly to the Head of Human Resources. Global Talent Management works closely with the Corporate Culture unit, which is also assigned to the HR department.

In 2017, we conducted a structured survey in China on the topic of commitment. 1,328 employees took part in it, equating to a response rate of 82%. In collaboration with the business units and functional units, the results of the survey were evaluated and individual action plans were drawn up for specific departments. In China, we also invite our employees to develop and lead their own in-house training sessions – with great success. This not only reduces costs but, with an average of 4.87 (previous year: 4.89) out of a maximum possible 5 points, this type of training is actually rated more highly than training led by external providers.

We regard the turnover resulting from voluntary resignations as a key indicator of our employees' commitment. This figure continued to fall in the reporting year and is now 2.34% (previous year: 2.45%). In Germany, the rate was 0.7% (previous year: 1.03%).

**Development of turnover over time**
in %



The percentage of employees who left our company of their own accord within three years of being hired stood at an average of 0.91% worldwide in the reporting year.

**Turnover Resulting from Voluntary Resignations**
in %

| | EMEA (excluding Germany) | | Germany | | North America | | Latin America | | Asia-Pacific | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Age group** | **Female** | **Male** | **Female** | **Male** | **Female** | **Male** | **Female** | **Male** | **Female** | **Male** |
| <30 | 6.90 | 3.66 | 3.28 | 1.82 | 18.82 | 4.57 | 1.75 | 0.00 | 8.77 | 15.89 |
| 30–49 | 2.73 | 1.17 | 1.50 | 0.69 | 5.13 | 4.76 | 1.91 | 1.55 | 6.68 | 4.40 |
| >50 | 2.54 | 0.96 | 0.20 | 0.23 | 5.39 | 3.48 | 0.00 | 0.00 | 4.91 | 2.71 |
| **Total** | **3.12** | **1.27** | **1.25** | **0.58** | **6.40** | **4.14** | **1.68** | **0.92** | **6.94** | **6.01** |

**Earlyturnover Resulting from Voluntary Resignations by Age Group, Gender and Region**
in %

| | EMEA (excluding Germany) | | Germany | | North America | | Latin America | | Asia-Pacific | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Age group** | **Female** | **Male** | **Female** | **Male** | **Female** | **Male** | **Female** | **Male** | **Female** | **Male** |
| <30 | 6.13 | 3.20 | 0.55 | 0.17 | 14.12 | 4.00 | 1.75 | 0.00 | 7.02 | 9.68 |
| 30–49 | 0.74 | 0.55 | 0.45 | 0.10 | 2.05 | 2.01 | 0.00 | 0.71 | 1.91 | 1.89 |
| >50 | 0.00 | 0.26 | 0.00 | 0.03 | 1.08 | 0.23 | 0.00 | 0.00 | 0.00 | 0.00 |
| **Total** | **1.12** | **0.64** | **0.29** | **0.08** | **2.52** | **1.36** | **0.34** | **0.42** | **2.71** | **2.89** |

**Total Turnover (including Reduction Programs) by Age Group, Gender and Region**

| | EMEA (excluding Germany) | | Germany | | North America | | Latin America | | Asia-Pacific | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Age group** | **Female** | **Male** | **Female** | **Male** | **Female** | **Male** | **Female** | **Male** | **Female** | **Male** |
| <30 | (8.5) | (15) | (6) | (15) | (9) | (16) | (9) | (5) | (12) | (72) |
| 30–49 | (23) | (59) | (14) | (31) | (19) | (73) | (17) | (110) | (42.51) | (103) |
| >50 | (10) | (59) | (21) | (132) | (29) | (87) | (2) | (55) | (6) | (26) |
| **Total** | **(41.5)** | **(133)** | **(41)** | **(178)** | **(57)** | **(176)** | **(28)** | **(170)** | **(60.51)** | **(201)** |
| **in %** | | | | | | | | | | |
| <30 | 13.03 | 6.86 | 3.28 | 2.48 | 21.18 | 9.14 | 15.79 | 3.06 | 10.53 | 17.88 |
| 30–49 | 5.70 | 3.63 | 2.10 | 1.06 | 9.74 | 9.15 | 8.12 | 15.54 | 9.01 | 5.74 |
| >50 | 6.35 | 5.14 | 4.13 | 4.35 | 10.42 | 10.10 | 6.35 | 17.00 | 14.72 | 7.84 |
| **Total** | **6.63** | **4.45** | **3.02** | **2.72** | **11.05** | **9.60** | **9.40** | **14.23** | **9.66** | **7.94** |

## Success through diversity

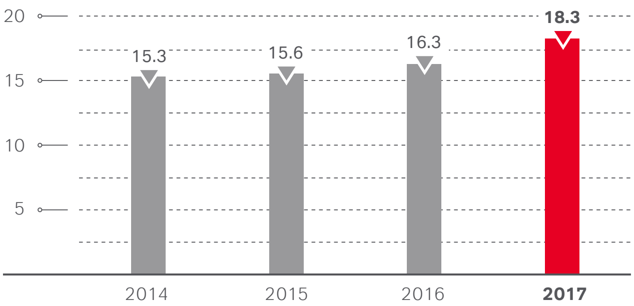
Our global alignment is a key strategic advantage. LANXESS currently employs people from 79 (previous year: 70) countries across the world. Our Diversity & Inclusion (D&I) project is aimed at enhancing diversity at LANXESS and using its positive effects to benefit our company and our employees. It helps us to become more innovative and efficient and to attract and retain promising talents. This project is focused on the dimensions of age, gender and nationality. Our D&I Dashboard provides detailed analysis of data pertaining to these three dimensions and enables us to see what progress is being made at country, regional and global level so we can define appropriate strategic measures. In the reporting year, we again extended the range of available data.

An important task in 2017 was again to anchor our D&I concept within our value culture and leadership principles and to add specific details. In addition, our new leadership programs also address the benefits of team diversity.

International assignments are a key component of our systematic HR development process. At year end 2017, a total of 72 employees (previous year: 76 employees) – around 1.68% (previous year: 2.3%) of our specialists and managers – were working as expatriates outside their home countries. The focus continued to be in the EMEA and Asia-Pacific regions. Assignments in the Americas region increased once again. In addition to achieving a focused global transfer of knowledge by sending experts and managers abroad, our goal is still to develop local management with the necessary expertise and international competencies at our international sites and to transfer challenging tasks to suitable employees. At sites outside Germany, 82.8% (previous year: 82.2%) of our management functions are currently filled by local employees.

Our D&I activities are also making an important contribution to reaching the goal we set ourselves in 2012, in connection with the voluntary undertaking by the DAX 30 companies, of raising the proportion of women in middle and upper management to 20% worldwide by 2020. The figure currently stands at 18.28%.

**Ratio of women in senior and middle management**
(LANXESS voluntary pledge: 20% by 2020)
in %




In accordance with the law on the equal representation of women and men in management positions in the private and public sectors, in Germany we are required to define targets for the proportion of women on the first two management levels below the Board of Management and to specify when these targets are to be met. Against the backdrop of LANXESS's restructuring program, the Board of Management of LANXESS AG resolved to retain the existing proportion of women as the initial target for the first and second management levels through June 30, 2017. At the time this resolution was adopted in 2015, the proportion of women on the first and second management levels below the Board of Management was 9.8% and 20.5% respectively. As a result of the measures instigated by LANXESS to promote women in management positions, we exceeded these targets by the cut-off date with figures of 11.6% and 23.9% respectively. On this basis, the Board of Management and the Supervisory Board has approved the new targets with an implementation deadline of June 30, 2022: For the first level below the Board of Management, the proportion of women is to be 15%, while the target for the second level is 25%. In addition, at least one woman is to be appointed to the LANXESS Board of Management in the same period.

A current example of how we are promoting the professional development of women in the LANXESS Group is the "Breaking the Stereotypes" initiative launched by our Indian national company in 2017. Through awareness and dialog-based measures, it aims to eliminate unjustified prejudices towards women and enable our female employees to counter them confidently. Two events at our Thane site were attended by a total of 84 employees in the reporting year.

### *Overcoming demographic challenges*

The regions of key economic importance for LANXESS – Europe (especially Germany) and China – are particularly affected by the problem of aging demographics. As a result, the competition for qualified young talents is intensifying. This is particularly true in the case of scientific and technical career paths, where declining applicant numbers mean we now have to invest considerably more effort to fill positions with suitable staff.

In order to address these challenges, we have developed a comprehensive demographic program called "Xcare." This program, which applies to our German companies, aims to find answers to the challenges posed by a steady rise in the average age of our workforce, coupled with a shortage of skilled young people. The measures brought together within the "Xcare" program encompass five areas of activity:

- People and health
- Work and training
- Time and organization
- Career and family life
- Savings and retirement provision

At the end of 2015, aware that the steps taken up to that point might not be sufficient to adequately counter demographic risk, we launched a range of new initiatives and thus intensified our work in all areas of activity. All benefits with respect to work and family, health and retirement provision apply to the core workforce. Individual benefits may vary regionally and be adjusted locally to our employees' needs. Our core workforce comprises all employees with a permanent full-time or part-time position. As of December 31, 2017, they made up 94.5% (previous year: 93.4%) of our total workforce worldwide.

**Employees by Age Group, Gender and Region**

| | EMEA (excluding Germany) | | Germany | | North America | | Latin America | | Asia-Pacific | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Age group** | **Female** | **Male** | **Female** | **Male** | **Female** | **Male** | **Female** | **Male** | **Female** | **Male** |
| <30 | 66 | 218 | 188 | 611 | 43 | 208 | 56 | 154 | 114 | 390 |
| 30–49 | 417 | 1,643 | 667 | 2,922 | 206 | 891 | 213 | 656 | 479 | 1,826 |
| >50 | 173 | 1,213 | 526 | 3,124 | 308 | 986 | 32 | 308 | 45 | 348 |
| **Total** | **656** | **3,074** | **1,380** | **6,656** | **557** | **2,085** | **301** | **1,118** | **638** | **2,564** |

**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 | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Employment type** | **Female** | **Male** | **Female** | **Male** | **Female** | **Male** | **Female** | **Male** | **Female** | **Male** |
| Permanent contract, full-time | 530 | 2,899 | 1,004.5 | 6,488 | 544 | 2,084 | 299 | 1,117 | 630 | 2,560 |
| Permanent contract, part-time | 126 | 175 | 375 | 168 | 13 | 1 | 2 | 1 | 8 | 4 |
| Temporary contract, full-time | 28 | 47 | 130 | 648.5 | 15 | 9 | 34 | 62 | 26 | 40 |
| Temporary contract, part-time | 3 | 1 | 11 | 20.5 | 1 | 2 | 15 | 16 | 3 | 1 |
| **Total** | **687** | **3,122** | **1,520.5** | **7,325** | **573** | **2,096** | **350** | **1,196** | **667** | **2,605** |

1) In fiscal year 2017, we employed a total of 120 temporary staff members (16 women and 104 men) at our German companies – LANXESS GmbH, Saltigo GmbH and IAB Ionenaustauscher GmbH.

### *People and health*

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.

For instance, in 2017, the occupational health management team focused on the topic of skin with various activities in the context of its healthy living events. As part of this, our employees were given the opportunity to undergo individual skin screening. More than 1,200 people took advantage of this offering. We hope to replicate this success in 2018 with a specific topic.

In the context of the "health toolkit," we are giving our business units the opportunity to analyze specific health problems in their unit and thus understand them more fully. This is resulting in unit-specific preventive measures as well as adjustments to procedures and production processes if these are believed to have a positive effect on employees' health. At the facilities where the "health toolkit" has already been used, we have achieved reduced health risk factors as well as a general improvement in the working environment and lower rates of absenteeism.

Where preventive measures in the context of health management are no longer applicable, we ensure with our workplace reintegration program that employees with long-term illnesses in particular can stay in their posts after their recovery. We have successfully deployed this scheme at all German sites for a number of years. In 2017, 40% (previous year: 40%) of the employees invited to participate again accepted the offer of an individual consultation with the respective site workplace reintegration team.

In health management at our international sites, we focused on stress management in the reporting year. Wide-ranging country-specific awareness and training measures took into account the fact that the way stress is perceived differs greatly in each culture. Our employees were given options such as lunch meetings with external speakers, seminars on attentiveness, meditation courses or in-house medical examinations specifically geared towards stress symptoms. We also offer employee health checkups at numerous sites outside Germany. For instance, all permanent employees in Argentina can have a health checkup every two years. In Croatia, they are available every 18 months. Full-time employees in Singapore can have a health checkup once a year, while those in Hong Kong can have one at two-yearly intervals. In Poland, all employees are entitled to a monthly budget for medical purposes.

**Ratio of Disabled Employees at German Companies**

| | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|
| Ratio in % | 5.4 | 5.4 | 5.5 | 5.6 | **5.9** |

The issue of occupational safety is addressed by our "Xact" global program (see page 30).

### *Work and training*

In the mid-term, illness and retirement – both regular and early (mainly for non-managerial employees) – will mean that many vacancies require filling, especially in career paths such as chemical production technician, fitter and engineer. Over the coming three to five years, it is our aim to establish a company-wide HR and succession planning program for the aforementioned key positions in particular and to review these on an annual basis. In this connection, the Board of Management approved 45 additional demography positions in the aforementioned career paths for 2017, and 91% of them have been filled. We will be creating further new posts in key positions in 2018 in order to counter demographic change.

Some of our measures to increase the proportion of women in our workforce are part of the "Xcare" program. They include employer branding activities targeting women and the implementation of objective selection procedures involving systematic multiple review. Other measures are aimed at promoting regular contact between managers and female employees on parental leave and discussing their plans for returning to work at an early stage. To ensure more thorough monitoring in the future of the proportion of women in our business units and Group functions, this was made a fixed aspect of regular reporting to the Board of Management at the beginning of fiscal year 2017. Areas with a below-average proportion of women will be supported by the development of suitable measures including objective hiring practices.

### *Time and organization*

We use flexible worktime models to make life easier in particular for employees with families but also for older employees, retain their expertise within the company and make our company more attractive to prospective employees. For example, in January 2017, we began piloting the Flexi 95 model for managerial employees, which facilitates intelligent part-time working at senior management levels. Managers reduce their working time to 95%, initially for two years, with a corresponding adjustment in their pay. As a result, they are entitled to 13 additional vacation days each year. These might be used, for instance, to look after their children when schools or daycare centers are closed. At the same time, the model aims to strengthen our managers' awareness of part-time options for their employees and to increase general appreciation of this worktime model. 35 employees took part in the project in the first year. In view of the positive response, we intend to extend this model to further employee groups in the future.

With the aim of enabling flexible working hours for all employee groups, we are also currently developing part-time models for production employees.

### *Career and family life*

Balancing work and family life is important to a steadily growing number of employees. A total of 6.3% (previous year: 6.8%) of our employees in Germany aged between 20 and 40 made use of the option to take parental leave. Of this figure, 58.7% (previous year: 50%) were fathers. 92% (previous year: 96%) of the employees who ended a parental leave period in 2017 returned to a job at LANXESS.

Our "Xkids" daycare center in Leverkusen offers around 50 places – all of which are full – for children aged between six months and six years in two preschool groups and one group for infants and toddlers. We also offer our employees places in daycare centers in Cologne, emergency childcare places and a nationwide agency service for childcare staff and provision.

Statutory maternity leave is a matter of course in Germany, and similar models are in place in other European Union countries. However, it is by no means standard practice around the world. For that reason, we investigate whether we can introduce or expand country-specific models for our employees at sites outside Europe.

Against the backdrop of demographic change, caregiving is an important issue in Germany. Caregiver leave is at the heart of the LANXESS caregiving program. This allows employees to reduce their working time to a greater extent than their salary during the care phase and to make up the shortfall when they return to work. To date, 74 employees (previous year: 60 employees) in Germany have taken advantage of caregiver leave and other job release options.

### *Savings and retirement provision*

In 2017, we continued the long-term account for non-managerial employees as regulated by the agreement with the employee representatives and the collective agreement. The participation rate remained very good at the high level of around 97% (previous year: 97%). A total of 57.3% (previous year: 63.8%) of our employees worldwide benefit from unfunded company pension plans.

## Xact: Global initiative for greater safety

Our global safety initiative "Xact" is aimed at gradually lifting the safety culture of LANXESS to a higher level. Starting with senior management, all employees are to work together to improve safety throughout the company. This is driven by our firm belief that every industrial accident is avoidable. We have set ourselves the target by 2025 of reducing the number of accidents by more than half compared to 2016.

Six "Xact" safety regulations, the central principles of safe working at LANXESS, address the main areas in which every employee – whether they are employed in production or administration and irrespective of their function or position in the hierarchy – can actively contribute to their own safety and that of their colleagues. They are derived from the Xact "guidelines and principles" – the global key pillars for the alignment of our safety culture. We revised these guidelines and principles in 2017 in the context of a global workshop. By way of preparation, the Xact team set up within the Production, Technology, Safety & Environment (PTSE) Group function conducted interviews with employees across all hierarchy levels in order to gage opinion on the future direction of the initiative.

In the future, Xact will be focused on constantly developing a positive safety culture and concentrating more fully on conduct-based safety. This is also reflected in the priority projects undertaken in 2017. For instance, we instigated a project at our site in Liyang, China, to stabilize work processes, strengthen managerial responsibility and achieve even greater awareness of safety issues among employees. This was done in close cooperation with the German sister facility in Uerdingen. We marked the "World Day for Health and Safety at Work" on April 28, 2017, under the slogan "We believe that every accident is avoidable." All over the world, we organized petitions and held accompanying events at our sites to convey this belief to our employees.

In matters of safety, we generally attach great importance to active and continuous communication. One important tool is the Pulse Check survey, which we conduct each year among all LANXESS employees. This gives them the opportunity to describe their personal experience of key safety aspects at LANXESS. Among other things, the anonymous survey seeks to establish whether individual employees feel involved in safety activities – as we would like – and whether they receive positive feedback for working safely. In 2017, for the first time, the Pulse Check survey asked how much improvement our employees had noticed recently in terms of safety in their day-to-day work. The gratifying result: Some 90% of employees stated that they had experienced positive changes in their environment, with almost 60% even noting very positive changes. We regard this as a clear indication that we are heading in the right direction with Xact.

We are also seeking to achieve an improved mutual understanding of occupational safety with our providers of technical services, for example, and are therefore integrating them into our safety culture. Here, we apply the principle of "select, train, support and evaluate." Among other things, our partners must provide verification of their own safety management system and that their employees who work for us have received certain safety training. Independent of this, we give employees of our partner companies individual safety briefings as a matter of course.

**Guidelines and Principles**

**Personal commitment**

- We take ownership of safety for ourselves and others.
- We demonstrate safety leadership by acting as role models.

**Prevention**

- We commit to achieving a sustainable incident- and injury-free mindset.
- We learn from and share our experiences to prevent incidents in the future.
- We provide effective training to our employees and contractors.

**Proactive initiative**

- We positively reinforce safe behavior.
- We maintain safety alertness in all of our daily activities.

**Performance**

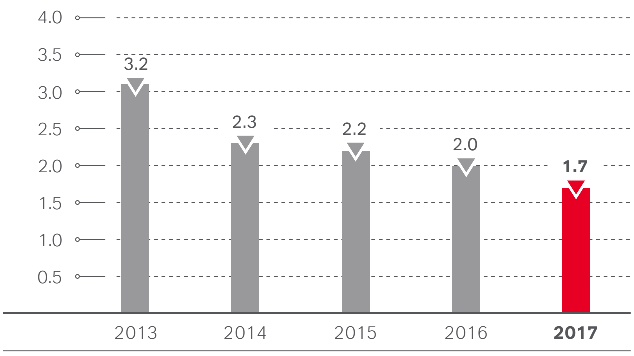
- We actively participate in HSE activities.
- We create value by identifying hazards and mitigating risks.

Xact
Health Safety Environment

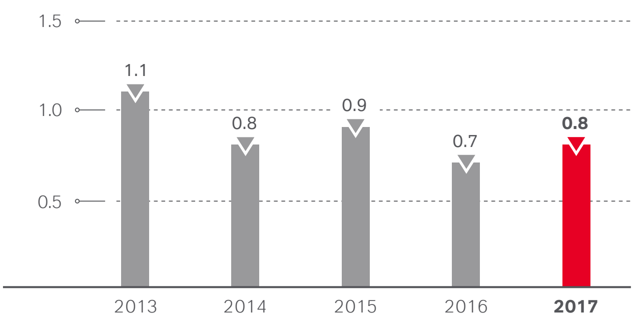
LANXESS uses the recordable incident rate (RIR, the number of injuries per 200,000 working hours that are reportable as per OSHA rules) and the lost time injury frequency rate (LTIFR, known as MAQ in Germany and describing the number of lost time injuries for every million hours worked) as indicators for evaluating occupational safety. The LTIFR was 1.7 in 2017, lower than the level of 2.0 recorded in 2016.

This positive development is due not least to a range of safety projects, especially in Germany, which made it possible to reduce the number of lost time injuries. As in the previous years, there were no fatal accidents in 2017. The RIR, which also includes injuries that do not result in lost time, was 0.8 in 2017, up year-on-year from 0.7. The substantial reduction in the LTIFR shows that the measures implemented in recent years to improve occupational safety at LANXESS are taking 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)**




## Rewarding performance transparently and fairly

LANXESS offers its employees worldwide transparent, market-rate compensation, which also includes a bonus system linked to the company's long-term success. Overall, 81.2% (previous year: 91.9%) of our employees worldwide receive variable compensation. The sharp fall in the figure compared with last year is due to the acquisitions in fiscal year 2017. As the remuneration structures had not yet been fully integrated in the LANXESS remuneration structures as of the reporting date, the proportion of employees who receive variable remuneration is temporarily lower.

The fixed salaries of managerial staff – and of non-managerial staff in most countries – are supplemented by a performance-based variable compensation component known as the Annual Performance Payment (APP), which is paid to employees in countries that participate in this program. This bonus payment is linked to the attainment of the Group's defined EBITDA target. Additional individual targets are set for top management, including in the areas of safety and sustainability. In 2017, our employees around the world shared in the company's success in 2016 with a payout totaling around €109 million.

During the course of the year, supervisors are also able to reward outstanding employee performance quickly and unbureaucratically with an Individual Performance Payment (IPP). In fiscal year 2017, payments of around €12 million worldwide (around €8 million in Germany) were made solely for outstanding individual performance. Around 68% (previous year: 77.9%) of our employees around the world are currently eligible for IPP, which also provides them with a prompt assessment of their performance and career prospects. The sharp fall in the figure compared with last year is again due to the acquisitions in fiscal year 2017.

In the context of the LANXESS stock program that we offered again in fiscal year 2017, all Group employees in Germany were given the opportunity to buy LANXESS shares at a 30% discount. The shares were purchased at an average price of €67.17 on the Frankfurt Stock Exchange. The participation rate was 61%. At the reporting date, our employees and Board of Management members held around 1% of LANXESS shares through stock plans.

In addition, we offer a long-term incentive program for managers in Germany and similar programs in the U.S., Canada, India and the Netherlands. The Long-Term Stock Performance Plan (LTSP) 2014–2017 consists of four tranches, one commencing each year, and compares the performance of LANXESS stock against the MSCI World Chemicals Index over a four-year period. Since participants make a personal investment and there is the chance that the stock will increase in value, this program is an attractive long-term incentive and a means of enhancing employee loyalty. The participation rate for all eligible employees in the current program was 97.9% in 2017 (previous year: 99.5%).

### Recognizing, rewarding and using good ideas

Our idea management system fosters the development and implementation of suggestions for improvements to ensure that we continually receive proposals for enhancing cost-effectiveness, occupational safety and environmental protection. Lots more good ideas were implemented in 2017.

**2,262**

New ideas in 2017

**Idea Management**

| | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|
| No. of new ideas | 3,085 | 2,807 | 2,027 | 2,442 | **2,262** |
| TMQ[1] | 417 | 373 | 274 | 318 | **295** |
| Savings (€ million) | 2.4 | 2.52 | 2.56 | 2.26 | **1.58** |
| Bonuses (€ million) | 1.0 | 1.0 | 0.95 | 0.8 | **0.65** |

1) TMQ: rate per thousand employees

### Addressing global developments in partnership

Close cooperation between employee representatives and management, including trade unions and employers' associations, in line with the principle of active codetermination, is practiced globally at LANXESS. This means that we also comply with International Labour Organization (ILO) standards and the U.N. Global Compact in respecting our employees' freedom of association and valid collective agreements. Worldwide, 64.9% (previous year: 66.9%) of our employees are covered by collective agreements; in Germany the figure is 91.8% (previous year: 91.7%).

We regularly seek to engage in dialog with employee representative bodies in Germany, in Europe and around the world, inform them of our corporate goals and involve these bodies in organizational changes at an early stage. In the reporting period, in view of the acquisitions of Chemours and Chemtura, management and the employee representatives worked together to devise solutions for successful integration and implemented them. As well as the annual European forum, which brings together the works councils in Europe, there was a meeting in 2017 of the Executive Committee, which comprises employee and employer representatives from Belgium, France, the Netherlands and Germany. The EU works council of Chemtura was integrated in the European Forum.

Outside Europe, too, we give high priority to fair dealings with employee representatives and trade unions. In South Africa, for instance, we comply with International Labour Organization (ILO) standards with respect to our employees' freedom of association. This includes regular dialog between local management and trade union representatives as well as binding collective agreements on compensation and working conditions.

## RESILIENT SOURCING

At LANXESS, raw and other materials, plant and services must satisfy globally uniform safety and environmental protection requirements. The Global Procurement & Logistics (GPL) Group function, the head of which reports directly to Board of Management member Dr. Hubert Fink, is responsible for procurement of these items. In close coordination with our business units, GPL organizes Group-wide procurement, sets corresponding guidelines and initiates measures to promote purchasing synergies and sustainable operations of our suppliers.

In the reporting year, our procurement transactions involved around 18,000 suppliers. Across the LANXESS Group, a global procurement directive defines how our employees should behave toward suppliers and their employees. In addition, we have specified standardized procedures relating to procurement more fully in a process description. Based on the principles of the U.N. Global Compact, the International Labour Organization (ILO), Responsible Care® and other corporate responsibility codes, we expect our suppliers to comply with all applicable national and other laws and regulations in order to safeguard the environment, ensure health and safety in the workplace and deploy appropriate labor and hiring practices. These provisions of our Supplier Code of Conduct are key criteria in our selection and evaluation of suppliers.

Raw materials in particular are subject to stringent monitoring to ensure safe processing in our production facilities. For example, the procurement of any raw material is dependent on the submission by the supplier of a current material safety data sheet. Our procurement department clarifies which of the REACH requirements must be satisfied in the case of raw materials from non-European suppliers. In close dialog with the respective producers and importers, we are actively seeking to ensure that materials procured by LANXESS that were not previously registered will be registered.

As a founder of the Together for Sustainability (TfS) initiative, we aim to promote sustainability, enhance supply chain transparency and thus further minimize procurement risks. This initiative, supported by 20 international chemical companies with a cumulative procurement volume of more than €220 billion, aims to implement and enhance a global audit program to assess and continuously improve sustainability activities along the chemical industry supply chain. It focuses on human rights, the prevention of child labor, working standards, occupational safety, environmental protection and business integrity.

As the assessment and audit results are shared within the initiative, we once again had access to a substantially larger number of sustainability assessments (more than 8,000) and audit reports (around 900) at the end of 2017. Suppliers whose sustainability-related activities have been assessed by TfS currently account for 70% (previous year: 60%) of our relevant procurement spend. The relevant procurement spend includes all suppliers from which we buy goods or services amounting to more than €20,000 each year. We aim to keep on increasing the percentage of the procurement spend placed with TfS-audited suppliers.

Like any other TfS member, LANXESS is expected to be actively involved in the initiative. Accordingly, we again made an active contribution to increasing the number of audited suppliers in the reporting year. GPL continued to carry out targeted examination of the supplier portfolio in all key procurement markets, setting goals for the strategic purchasers to secure the sustainable supplier chain. As a result, with more than 50 audits, we significantly exceeded the TfS-internal target of performing a total of 22 audits in 2017. It is also pleasing that our suppliers with a sustainability assessment are consequently well above the sector average. In addition, through joint efforts, we achieved an improvement on the previous result in re-audits of suppliers in almost 70% of cases.

For 2018, we are planning an in-depth, extensive training campaign for our purchasers. This is associated with the aim of giving the purchasing organization, enlarged as a result of the recent acquisitions, further training on the issue of sustainability across the board. However, key topics relating to assessment of sustainability risks and helping suppliers to improve their assessment results are also to be addressed.

## SAFE AND SUSTAINABLE SITES

Today, more than ever before, sustainable conduct by the chemical industry means taking responsibility for products and production processes. Globally, we are seeing a convergence of environmental and production standards at a high level. What were once competitive advantages in the area of sustainability will soon be fundamental requirements worldwide for companies producing and selling chemical products. However, we would be failing to live up to our commitment to quality if we sought merely to fulfill standards – even if those standards are more stringent than they were in the past. Instead, we are committed to making our production safe and sustainable in every respect and therefore consistently competitive.

Our PTSE Group function, the head of which reports directly to Board of Management member Dr. Hubert Fink, is responsible for this. PTSE develops and updates company-wide standards that ensure responsible handling of chemicals at LANXESS. They define requirements and govern responsibilities for health and environmental protection, the handling of chemicals, plant safety and workplace safety precautions. Through the ongoing training of our employees and regular auditing of our health, safety and environmental management, we ensure that the requirements are systematically and sustainably implemented in our processes.

### Uniform standards in production

LANXESS operates a total of 75 production sites and is represented in 25 countries (sites in which it holds an interest of more than 50% and ARLANXEO sites as of December 31, 2017). The diversity of the company's product portfolio necessitates the use of many different chemical and technical processes. Uniform standards for planning, engineering and operating facilities are applied to ensure a high level of process, plant and occupational safety.

Handling chemical substances and working with technical equipment fundamentally involve health and safety risks. Wherever in the world we operate, we systematically identify these risks and the hazard potential – both for existing and new facilities – and minimize them by implementing defined preventive and protective measures. To ensure compliance with LANXESS directives and local regulations for the safe operation of facilities, experts on-site conduct audits based on targeted spot checks that are carried out with a frequency appropriate to the relevant risk profile. At each facility across the globe, compliance with the safety standards must be certified regularly. A total of 37 production facilities (previous year: 43), 17 of them in Germany (previous year: 17), were audited in the context of HSE (Health, Safety, Environment) compliance checks in 2017. The result of the audits in the reporting year showed further improvements against previous years. In addition, we performed gap analyses at 19 plants acquired from Chemtura and Chemours in order to identify differences in relation to LANXESS HSEQ standards.

Thanks to our electronic Incident Reporting System (IRS), we are able to record accidents and incidents worldwide using standardized procedures. We document accidents involving people, transport accidents, near accidents, safety-relevant incidents, thefts, environmental incidents and instances of damage. Each incident is carefully analyzed to draw conclusions as to how we can avoid comparable incidents in the future.

All measures contribute towards our target of continuously reducing the number of incidents relating to inadequate plant and process safety.

In 2017, a few significant reportable incidents occurred. No people were injured in any incident. For further information please refer to GRI Content Index in the PDF version on page 194.

### *Global dangerous goods and transport safety management*

Through our global dangerous goods and transport safety management system, we ensure the minimization or total avoidance of hazardous situations. We have a dedicated department to centrally coordinate, monitor and review the implementation of relevant dangerous goods and transport safety regulations and internal company guidelines.

The central classification of our products ensures uniform interpretation of international, regional and local dangerous goods regulations while at the same time respecting regional and local specifics. Classification determines, among other things, the form of encapsulation (packaging and tanks), marking and labeling, permitted modes of transport and transport routes and the measures that emergency services must take in the event of a transport incident. The corresponding classification data are archived in LANXESS's safety data system for chemicals. In recent years, we have successively integrated growing numbers of countries and LANXESS Group companies into this system, and we rigorously continued this process in 2017 by integrating the Indian sites. We also aim to integrate the as yet unconnected sites in Argentina, Australia, Japan and Russia as well as the former Chemtura sites into the system in the medium term.

In the reporting year, deficiencies in load securing of bulk goods in freight containers were increasingly identified in internal and external checks. As an immediate countermeasure, we initiated numerous training sessions in all regions, which were also attended by representatives of external shipment service providers. In addition, we plan to introduce a load securing standard for LANXESS in 2018.

The overall number of major transportation incidents at LANXESS is decreasing. Measures such as vehicle inspections, GPS tracking, a night-time driving ban and driver training sessions have proved to be effective and are bringing us closer to our target of continuously reducing transportation incidents. Nevertheless, an accident involving a fuel tanker occurred on November 3 around 150 kilometers from our Indian site in Nagda. Five metric tons of toluene were released. The driver sustained minor injuries.

### *Storage management*

Following the acquisition of Chemtura, we have around 480 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*

As LANXESS sees it, conserving natural resources – for example, through the most efficient possible use of raw materials and energies – and identifying further potential for reducing emissions and waste are an ongoing mission and an inherent part of our ecological responsibility to which we must apply our expertise. While taking account of local requirements, we equip all new production sites with state-of-the-art technology that is also in line with environmental standards.

### *Responsible use of water resources*

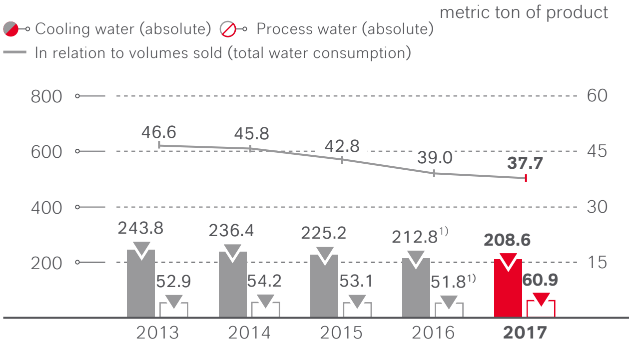
Access to clean water is not only crucial to the health and nutrition of a constantly growing world population, it is also an important economic factor. This is why the various facets of the issue of water are also illustrated in detail in the context of the Sustainable Development Goals. Focal points here are wastewater reduction, water efficiency and water management. Careful use of this scarce resource is therefore securing our future – particularly at sites in water-stressed areas. In these areas, there are problems with water availability, quality and/or access.

At our sites, all wastewater and surface water discharges are subject to legal and permitting requirements. We use both technical (wastewater treatment) and organizational (monitoring) measures to comply with these requirements. Before the authorities issue an operating permit, an assessment is carried out on the potential economic, social and environmental impact of water extraction on the surrounding area. At all LANXESS sites, this takes place under approved conditions.

In 2016, as part of our ongoing efforts to improve our water management, we conducted a comprehensive risk analysis based on the geographical location of our sites. In addition to water extraction, we considered other physical and regulatory indicators as well as reputational risks. Analysis of LANXESS's sites on the basis of the Water Risk Map from the World Wide Fund for Nature (WWF) shows that most of our sites are located outside water-stressed areas. We carried out individual risk evaluations at the few sites in water-stressed areas in 2017. To conduct the analysis, we used an internationally recognized risk evaluation tool – the Water Risk Filter from the WWF.

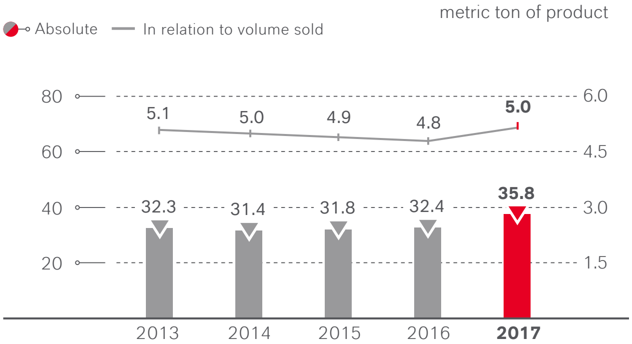
The assessment was performed in 17 categories – including dependence on water for transportation processes, the degree of pollution of water and the impact on biodiversity – and was compared with water consumption at the site. Apart from the Jinshan (China) site, all examined locations were classified as "limited risk." In view of the assessment "some risk," we are currently exploring development scenarios and the resultant options for Jinshan. To be prepared for future developments, we will now be repeating the survey every six months and adding further sites. The medium-term aim is for all sites to be assessed in this way.

**Water Consumption**
in million cubic meters




1) Figure restated

**Production Wastewater**
in million cubic meters



Compared with the previous year, water consumption increased in 2017. This is chiefly attributable to a higher volume of process water, which was added by the new Chemtura sites. In contrast, the amount of cooling water was further reduced as in the previous year. Overall, water consumption again increased at a lower rate than production in 2017, so specific water consumption was further reduced in a continuation of the positive trend of recent years.

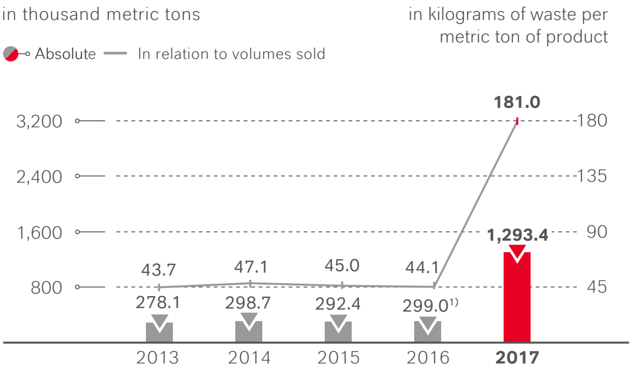
The positive trend of recent years was not continued for wastewater. The acquisition of Chemtura led to an expansion and change in the product portfolio and production processes. This resulted in an increase in the volume of wastewater both in absolute terms and in the specific value per metric ton of product sold.

### *Sustainable waste management*

The company aims to employ a consistent material flow management process – from the use of raw materials to the manufacture of the final product – so as to deploy resources as efficiently as possible and minimize the amount of waste we produce. Where it is impossible to prevent waste, we try to use or sell it as secondary raw materials or energy sources. In order to minimize the amount of waste requiring disposal, we make various efforts to continuously improve the yields achieved in our production processes.

**Total Waste**

in thousand metric tons

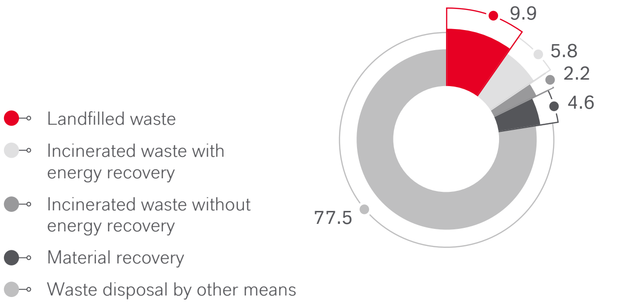



1) Figure restated

Compared with the previous year, the total amount of waste generated increased considerably. This is primarily attributable to the first-time inclusion of the new Chemtura production sites. This increase was due in particular to wastewater at our El Dorado site in the U.S., which had to be declared as waste. Not including Chemtura, both our absolute and specific waste generation continue to decrease. The new sites also have a significant influence on the percentage distribution of disposal methods.

**Waste for Disposal**

in %




The handling of plastic pellets is an excellent example of how we are continuously optimizing our material flow management. These plastic pellets may be inadvertently released into the marine environment at various stages of the value chain. They themselves do not react chemically but may have an undesired impact on account of their small size and volume. The central aim of the Society of the Plastics Industry's international program Operation Clean Sweep (OCS) is to prevent plastic particles from entering the marine environment. By joining this program in 2016, we made a commitment to train relevant employees, to implement and continue 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 previous years, our most strongly affected business unit – High Performance Materials – developed and introduced a self-assessment process to identify the sources and circumstances of possible pellet emissions at our plants and to define corresponding countermeasures. In 2017, this process was extended to plants of other business units in which release of polymer particles is possible, albeit to a lesser extent. Our goal is to systematically integrate the OCS program's requirements into LANXESS's management system and to implement them across the company.

## Systematic recording of key performance indicators

We use an electronic data capture system for the systematic global recording of key performance indicators (KPIs) in the areas of safety and environmental protection. This system enables us to define a broad range of HSE performance data for each business unit and site worldwide. These provide a valid basis for strategic decision-making and for internal and external reporting. The data also map the progress we are making toward achieving our globally applicable sustainability targets (see table on page 14). Data is gathered only at production sites in which the company has a holding of more than 50%. As LANXESS has an interest of exactly 50% in ARLANXEO and the latter continues to be reflected in the LANXESS consolidated financial statements and is fully consolidated, the environmental and safety data pertaining to the ARLANXEO sites will continue to be included in our key data for this period. Data on the acquired Chemtura sites is taken into account for the period from April 21, 2017, to the reporting date.

PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft audited our HSE indicators since 2012 and the necessary data recording processes with "limited assurance."

**Environmental and Safety Performance Data***

| | 2015 | 2016 | 2017 |
|---|---|---|---|
| **Safety** | | | |
| Occupational injuries to LANXESS employees resulting in at least one day's absence (per million hours worked) (MAQ[1]) | 2.2 | 2.0 | 1.7 |
| **Volume sold[2]** in thousand metric tons/year | **6,496** | **6,781[a]** | **7,145** |
| **Energy** in petajoules ($10^{15}$ joules)[3] (G4-EN3) | **48.3** | **48.4** | **52.2** |
| **Direct energy sources** | | | |
| Non-renewable | 12.2 | 12.6 | 14.9 |
| Renewable | 0 | 0 | 0 |
| **Indirect energy sources**[4] | | | |
| Non-renewable | 33.9 | 33.8 | 35.3 |
| **Other direct energy sources** | | | |
| From biomass | 2.2 | 2.0 | 2.0 |
| **Water** in million cubic meters | | | |
| **Total water consumption** (G4-EN8) | **278.3** | **264.6** | **269.5** |
| Surface water | 107.0 | 92.1 | 82.9 |
| Groundwater | 6.8 | 6.8 | 8.8 |
| Rainwater | 0.3 | 0.4 | 0.4 |
| Wastewater | 1.2 | 1.0 | 1.2 |
| Other water sources | 163.0 | 164.3 | 176.2 |
| **Cooling water in total water consumption[5]** | **225.2** | **212.8[a]** | **208.6** |
| **Process water in total water consumption** | **53.1** | **51.8[a]** | **60.9** |
| **Atmospheric emissions** in thousand metric tons | | | |
| **Total greenhouse gas emissions $CO_2e$** (G4-EN15, G4-EN16) | **4,641[a]** | **4,818[a]** | **5,273** |
| Direct (Scope 1)[6] | 1,643 | 1,741 | 1,975 |
| Indirect (Scope 2)[7] | 2,998[a] | 3,077[a] | 3,298 |
| **Ozone-depleting substances** (G4-EN20) | **0.00113** | **0.00182** | **0.00989** |
| **$NO_X$, $SO_X$ and other emissions** (G4-EN21) | | | |
| $NO_x$[8] | 2.8 | 2.6 | 2.7 |
| $SO_2$[9] | 1.0 | 1.1 | 1.0 |
| CO | 2.2 | 2.0 | 2.2 |
| $NH_3$ | 0.1 | 0.1 | 0.1 |
| NMVOC[10] | 5.4 | 4.7 | 4.9 |

## Environmental and Safety Performance Data*

| | 2015 | 2016 | 2017 |
|---|---|---|---|
| **Wastewater** in million cubic meters | | | |
| **Total wastewater discharge** (G4-EN22) | **257.0** | **245.2[a)]** | **244.4** |
| Cooling water (uncontaminated, without treatment)[5)] | 225.2 | 212.8[a)] | 208.6 |
| Production wastewater (with treatment) | 31.8 | 32.4 | 35.8 |
| **Emissions in wastewater** (after treatment) in thousand metric tons | | | |
| Total nitrogen | 0.51[a)] | 0.54 | 0.55 |
| Total organic carbon (TOC) | 1.5[a)] | 1.7[a)] | 1.8 |
| Heavy metals[11)] | 0.0059 | 0.0049 | 0.0054 |
| **Waste** in thousand metric tons | | | |
| **Total weight of waste** (G4-EN23) | **292.4** | **299.0[a)]** | **1,293.4** |
| Incineration with energy recovery | 84.0 | 81.2 | 75.4 |
| Incineration without energy recovery | 30.3 | 31.1 | 27.8 |
| Landfilling | 93.4 | 112.1 | 128.5 |
| Material recovery | 59.7 | 53.1 | 60.0 |
| Other forms of disposal | 25.0 | 21.5[a)] | 1,001.7 |
| **Type of waste** | | | |
| Hazardous | 188.4 | 196.7[a)] | 573.1 |
| Non-hazardous | 104 | 102.3 | 720.3 |

**Explanations concerning our environmental and safety performance data**

* The aggregate data refer to all LANXESS production sites in which the company holds an interest of more than 50%.

As LANXESS has an interest of exactly 50% in ARLANXEO, the latter continues to be reflected in the LANXESS consolidated financial statements and will be fully consolidated from 2016 to 2018, the environmental data pertaining to the ARLANXEO sites will also continue to be included in our key data for this period.

The new production sites due to the acquisition of Chemtura Corporation were included in the environmental data from April 21, 2017.

This LTIFR took account of all Chemtura Corporation events from April 21, 2017.

2015/2016/2017: 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) Equivalent to circulating cooling water
6) 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 $CO_2$e 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 $CO_2$e. 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: 2013: 223 kt $CO_2$, 2014: 217 kt $CO_2$, 2015: 236 kt $CO_2$, 2016: 212 kt $CO_2$, 2017: 215 kt $CO_2$
7) All Scope 2 greenhouse gases are calculated as $CO_2$e. The conversion factors used were provided by the energy producers for 2008 or 2009. Where these were not available, factors from the IEA (International Energy Agency) for 2013 were used for fiscal year 2015, factors from 2014 were used for fiscal year 2016 and factors from 2015 were used for fiscal year 2017.
The Scope 2 $CO_2$e emissions are calculated using the market-based method in accordance with the GHG Protocol. Using the location-based method, Scope 2 $CO_2$e emissions for 2017 amounted to 4,176 kt.
8) Nitrogen oxide (NOx) calculated as $NO_2$ (excluding $N_2O$ – nitrous oxide)
9) Sulfur dioxide ($SO_2$) + $SO_3$ calculated as $SO_2$
10) Total VOC (volatile organic compounds) excluding methane and acetone
11) Heavy metals (arsenic, cadmium, chromium, copper, mercury, nickel, lead, tin, zinc)
a) Values restated due to supplementary notifications or change in calculation method

## CLIMATE ACTION AND ENERGY EFFICIENCY

With the Paris Agreement, which entered into force in November 2016, the international community committed itself to the goal of limiting global warming to less than two degrees Celsius above pre-industrial levels. This goal is achievable only if global greenhouse gas emissions are radically reduced in the decades ahead. All the signatory nations have correspondingly set themselves ambitious reduction targets. Germany's Climate Action Plan 2050, also launched in November 2016, has an interim target of cutting greenhouse gas emissions by at least 55% through 2030 compared with the base year in 1990. Industry is expected to contribute with a reduction of between 49% and 51%.

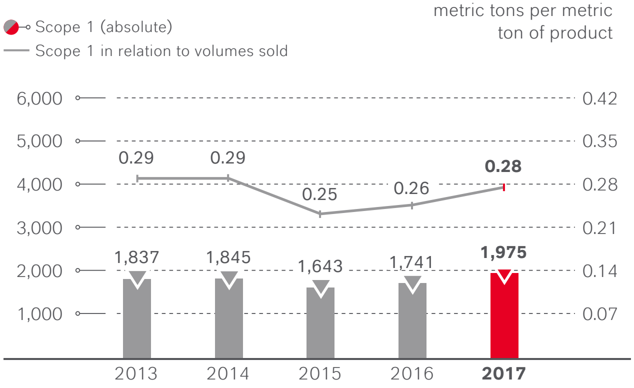
In common with many other European chemical companies, LANXESS had already made an express commitment before the Paris Conference to protect the climate and fulfill the obligations that it entails. Since our company was established, we have been working continually to reduce climate gas emissions – and with considerable success. In the past ten years, we have cut our Scope 1 emissions worldwide by more than half. Our sites in Germany have already satisfied the national reduction requirement set for 2030.

Nevertheless, we are continuing to work hard across the Group to cut our $CO_2$ emissions. In 2016, we set new long-term targets for $CO_2$ and VOC emissions and for energy consumption. By 2025, we aim to cut our specific $CO_2$ and VOC emissions by 25% (base year: 2015). We also aim to reduce specific energy consumption by 25% through 2025.

One of the most important measures at the moment is the creation of a shared steam plant in the port of Antwerp (Belgium), which we will be using with other chemical companies based there. The first pipes were laid at the beginning of February 2017. After scheduled completion in 2018, the pipeline, over five kilometers in length, will help us to reduce our energy costs and save around 10,000 metric tons a year in $CO_2$ emissions. Across all participating companies, $CO_2$ emissions will be cut by as much as 100,000 metric tons per year.

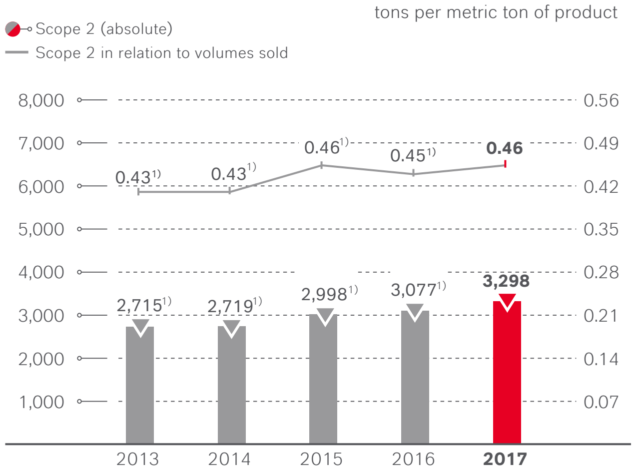
In Europe, 17 facilities and sites (including 5 of ARLANXEO) are subject to the European Emissions Trading System. Trading in $CO_2$ emission rights – or allowances – is a cost-effective way of reducing harmful $CO_2$ emissions. Since all our facilities that are eligible for emissions trading are at the cutting edge of technology and compete on the international market, we expect to receive an adequate number of free allowances up to the end of the third trading period in 2020 to cover our anticipated $CO_2$ emissions.

**Greenhouse Gas Emissions (Scope 1)**
in thousand metric tons of $CO_2$ equivalents
in $CO_2$ equivalents, metric tons per metric ton of product




Because of the increased production volumes in 2017, absolute Scope 1 emissions also increased. The new Chemtura sites' contribution to this increase was roughly double the contribution from the sites from 2016. Our specific Scope 1 emissions increased accordingly.

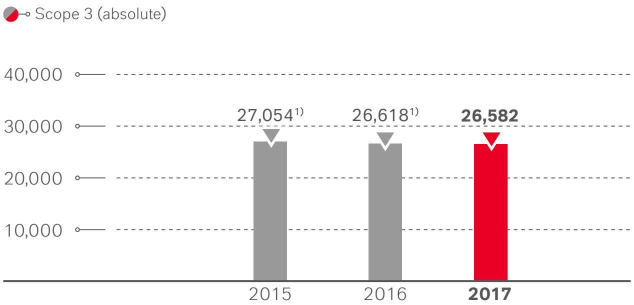
**Greenhouse Gas Emissions (Scope 2)**
in thousand metric tons of $CO_2$ equivalents
in $CO_2$ equivalents, metric tons per metric ton of product




1) Figure restated

In 2017, we calculated the balance of our Scope 2 emissions in the same way as the energy balance for the first time. In this calculation, the steam (waste heat) generated from process heat at the sites in Leverkusen and Uerdingen, Germany, and Baytown, U.S., is in large part deducted from the amount of steam used for production and offset on the basis of the Scope 2 emissions. Despite the balancing, specific Scope 2 emissions increased slightly compared to 2016. This increase is partly attributable to the increase production volume and the associated rise in the energy requirement.

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



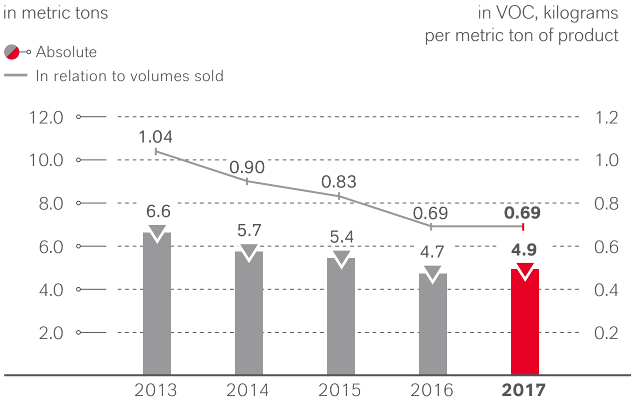

1) Figure restarted

We determined our Scope 3 emissions again for 2017. We further improved the level of detail in the method; the years 2015 and 2016 were adjusted accordingly. The Chemtura sites were successfully integrated into the calculation.

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. In the assessment for 2017, we again achieved the highest score. LANXESS therefore continues to be listed in the "Climate A List" of the CDP. With this list, the CDP recognizes efforts by companies to reduce emissions, decrease climate risks and make progress towards a low-emission economy. As part of the "Climate A List" LANXESS is among the top 5% of more than 6,300 companies examined by the initiative in 2017. These gratifying results gave us encouragement to continue systematically pursuing our climate protection strategy.

### *Other atmospheric emissions*

**VOC Emissions**
in metric tons




Specific VOC emissions were maintained at a stable, low level in the reporting year. In absolute terms, there was a small increase as a result of the change in the portfolio. With regard to the attainment of the 2025 target, however, an improvement was achieved in both specific and absolute terms compared to the base year 2015.

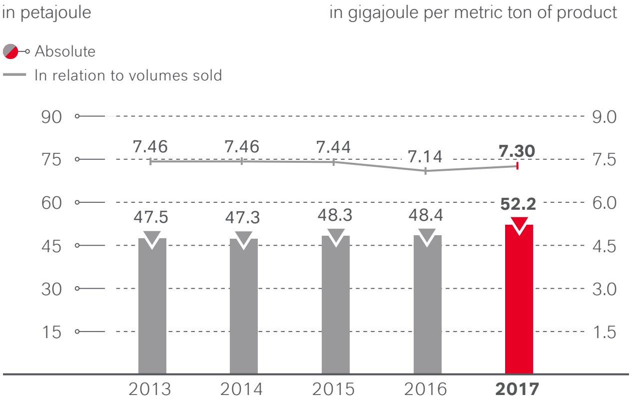
### *Systematic energy management*

A high level of energy efficiency improves not only our emissions footprint but also our cost position and thus ultimately the competitiveness of LANXESS. In Germany, we have established an energy management system in accordance with ISO 50001. Our certification was reconfirmed in 2017. Outside Germany, we continue to pursue our strategy of regional and local certification.

Since the end of 2017, our German sites in Leverkusen, the Uerdingen district of Krefeld and Dormagen have been part of the Energy Efficiency Networks initiative set up by the German federal government and leading industrial associations. Each Energy Efficiency Network comprises 8 to 15 companies. At the outset, an experienced energy consultant in each company devises possibilities for increasing energy efficiency. Based on this analysis, each company formulates an individual savings target and underpins it with measures. In addition, the overall network sets an efficiency target for the duration of its work. An important element of the initiative is regular sharing of experience and ideas between the companies involved. At national level, the networks are expected to contribute to a saving of 75 petajoules of primary energy and a reduction of 5 million metric tons of greenhouse gas emissions. Along with its partners, the "Netzwerk@CHEMPARK" network in which our sites are involved has set a target of contributing 100 gigawatt hours.

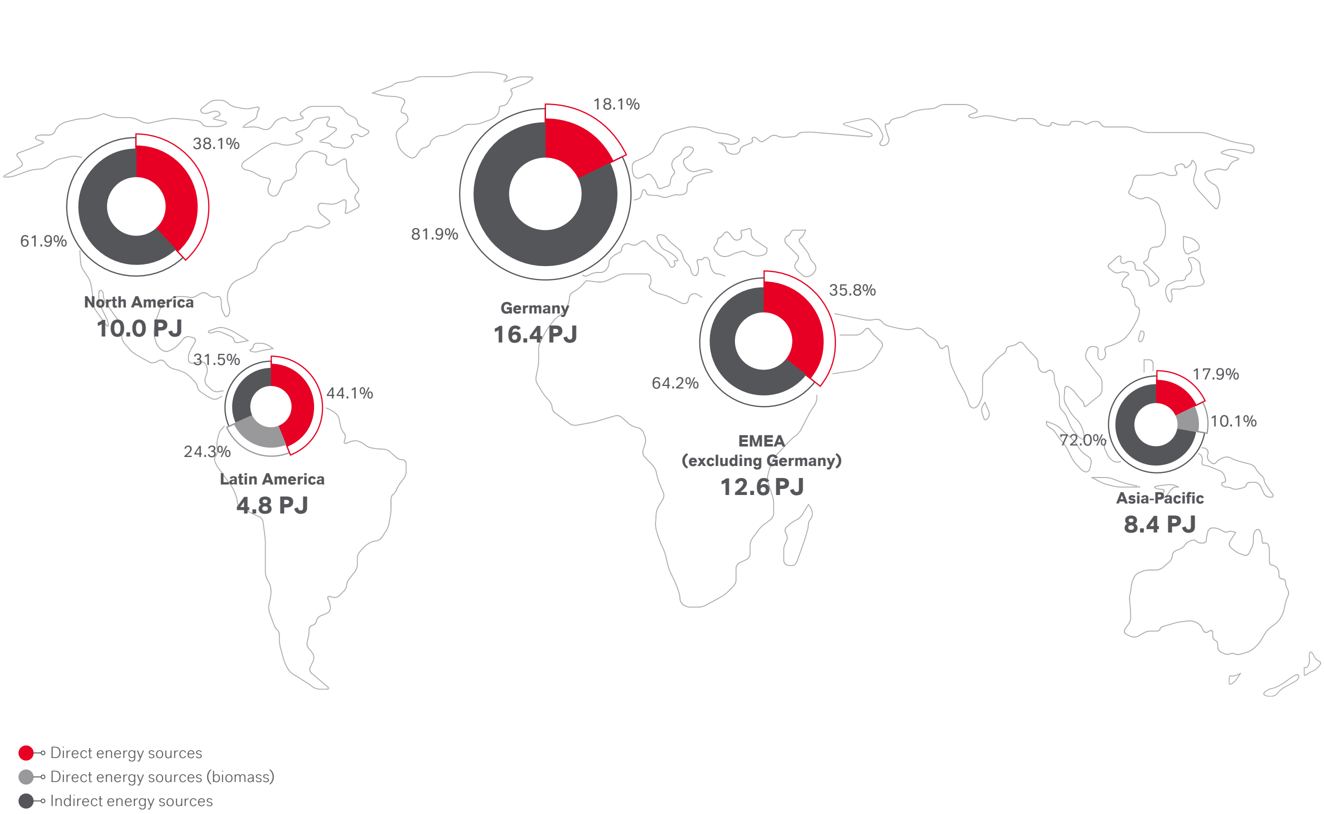
At our international sites, we are also carrying out a wide range of activities to reduce our energy consumption. For example, at our Little Rock (U.S.) site, we will be saving around 250,000 cubic meters of natural gas per year in the future by using a new automated fire-tube boiler. Further steps to reduce energy consumption are already being planned at the site, such as replacement of the aging cooling tower with a smaller, more efficient liquid cooler and the installation of motion-controlled lighting throughout the plant.

**Energy Consumption (Balance Sheet)**




Our absolute energy consumption increased considerably in 2017, which is primarily attributable to the new contribution from Chemtura. Despite the higher sales volumes in the reporting year, the positive development of specific energy consumption from recent years did not continue. There was progress with regard to the current target for 2025.

**Direct and Indirect Energy Consumption by Region**




### *Sustainable logistics*

We select our transport solutions worldwide on a case-by-case basis, applying the principles of safety, punctuality and cost-effectiveness. We also take into account the $CO_2$ emissions resulting from our transports. We are focusing especially on further expanding our use of ships as the most efficient means of transport. In addition, to handle our transportation requirements, we are increasingly using relatively low-emission combined transport solutions in which most of the distance is covered by rail, inland vessel or maritime vessel, thus keeping pre-carriage and onward carriage by road to an absolute minimum. Europe in particular has a good infrastructure for this kind of transport. However, the increased use of rail means that combined transport is even an option for long-distance connections to China.

In Germany, we continue to use the TÜV SÜD-approved Eco Plus solution offered by logistics provider DB Schenker Rail for transporting our products by rail. The electricity required for transport is obtained from renewable energy sources. This enables us to reduce the $CO_2$ emissions from our German rail transport operations by almost 75% compared with the standard solution.

## SUSTAINABLE PRODUCT PORTFOLIO

LANXESS is committed to the Responsible Care® Global Charter, a comprehensive product stewardship initiative launched by the International Council of Chemical Associations (ICCA) that was the key factor in the development of the Global Product Strategy (GPS). This aims to provide basic information and risk assessments for substances so that the harmful impact of chemicals on human health and the environment can be minimized and products can be manufactured and distributed in such a way as to prevent injury to people and damage to the environment. In line with the aforementioned commitment, our product stewardship covers the safe handling of chemical substances and products throughout their life cycle – from research and development, procurement and production, through storage and transportation to marketing, downstream processing and disposal.

The Product Safety Management at LANXESS Directive steers the Group-wide observance of product stewardship and secures the participation of everyone involved. This applies in particular to those substances in our product portfolio that are classified as hazardous. Our Central Product Surveillance Directive systematically governs worldwide tracking of our products and their use in respect of potential health and environmental impacts. The information acquired is used by our product developers and product safety experts in their evaluations. Our Development of New or Changed Products, Processes and Applications Directive stipulates that development ideas themselves be analyzed systematically in terms of their potential economic, environmental and social impact. In this way, we ensure that non-sustainable products, processes or applications do not find their way into our development work.

In the case of consumer applications in particular – such as additives for use in food or animal feed, for food and drinking water contact or for use in cosmetic, pharmaceutical or medical products – we are keen that our products comply with national and international standards, certificates and quality hallmarks. In this way, we actively support our customers, for example, in the certification of their materials for drinking water contact applications or in the downstream processing of our products into certified goods for end users. Through intensive sharing of information with our customers and suppliers, we achieve greater transparency and safety across the entire product lifecycle.

### *Management of chemical control regulations*

Compliance with global chemical control regulations is essential to for the marketability and safe handling of our chemicals and products along the value chain.

LANXESS has an electronic safety data system to ensure compliance with both mandatory and voluntary control requirements. Material safety data sheets in 43 languages inform our customers worldwide about substance data and the safety measures that are necessary when using the relevant chemicals. We regularly adapt our electronic safety data system to reflect changes to the GHS (Globally Harmonized System of Classification and Labeling of Chemicals) in various countries. The GHS is a system under the umbrella of the United Nations that aims to harmonize existing classification and labeling systems used in various sectors such as transportation and consumer, employee and environmental protection. We observe regional variations in the implementation of the GHS such as the European Union's CLP (Classification, Labelling and Packaging of Substances and Mixtures) regulation.

We expressly support the goal of the E.U. REACH regulation to ensure a high level of protection for human health and the environment. We have so far pre-registered or registered all the substances that are relevant for LANXESS with the European Chemicals Agency (ECHA) by the stipulated deadlines. By the third deadline on May 31, 2018, all approx. 1,000 substances we produce in or import into Europe in amounts exceeding one metric ton will have been registered in line with the REACH process. Registration involves the systematic evaluation of all essential information concerning our substances and their uses. In doing this, we consider the entire product life cycle and specify safe conditions of use. Within the context of a voluntary commitment made by the German Chemical Industry Association (VCI) in 1997 to record and assess substances, we go beyond the legal requirements to determine a meaningful basic data set for our intermediates as well, in line with the REACH regulation.

Similar chemical control regulations to those in the E.U. now apply in many other countries, and they are continuing to grow in number. Before manufacturing or exporting our products in a given country, we examine their marketability in accordance with the chemicals legislation in force there. We register our substances and products in line with local requirements and support the substance analysis programs of the responsible authorities by supplying all available information and collecting new data if necessary. Our experience of the REACH process helps us here. At present, we face stricter requirements, particularly in the Republic of Korea, Taiwan, Turkey and the U.S.

***Comprehensive analysis of our product portfolio based on sustainability criteria***

Effective sustainability requires that we have as precise a picture as possible of the impact of our business activities – both positive and negative. The dedicated evaluation system we have developed provides us with a strategic management tool for systematically evaluating and improving the sustainability performance of our product portfolio from an economic, environmental and social perspective. The continuously optimized system analyzes the impact and benefits of our products on the basis of criteria that we regard as relevant to our company and to society as a whole.

**Criteria for Our Product Portfolio Analysis**

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

As part of our strategy process, we apply these criteria each year in evaluating our entire product portfolio, with subsequent review of the results by an internal committee of experts. 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**

**Cost optimization**

**Evaluation of product portfolio**

**Review by expert committee**

| | |
|---|---|
| Products which satisfy or exceed our sustainability requirements | Products which do not fully satisfy our sustainability requirements |
| **Benchmarking and best-practice analyses** | **Stakeholder dialog, specific action plans or termination of production** |

Across the LANXESS Group, we are applying the findings of this analysis to further improve the sustainability performance of our product portfolio. Our now deeper understanding of our products' properties may also provide important impetus for innovation. It also shows where action is still needed. This information may be used to develop specific improvement processes or to create acceptance for certain issues in our dialog with stakeholders.

## BUSINESS-DRIVEN INNOVATION

By developing innovative new processes and products, LANXESS plays a key role in enhancing the company's competitiveness. At the same time, we help our customers to make their business more sustainable. In doing so, we frequently advance product-focused and application-oriented innovations with our customers and suppliers.

The Leather business unit provides an excellent example of successful optimization of our product portfolio in terms of sustainability with its Sustainable Leather Management program. In this program, Leather offers its customers in the leather industry a whole range of innovative technologies and products across the entire value chain in order to support the manufacture of sustainable, environmentally sound leather – without compromising on quality. The most recent innovations include water-based dyes for leather finishing. The Levaderm WB range is solvent-free, non-inflammable and not based on heavy metals such as lead, mercury or arsenic.

In addition, the Leather business unit has developed an innovative technology for reclaiming by-products in leather manufacture in cooperation with the research institute Invite GmbH. The modular pilot system was designed in such a way that retanning agents of the X-Biomer brand for the production of leather can be manufactured from shavings and waste cuttings that used to be mainly disposed of and from vegetable biomass. This enables a tannery to produce some of the retanning agents it needs on-site in a fully automatic and largely independent way. This constitutes a major step towards sustainable production concepts. The pilot system is to be tested at the Heller-Leder GmbH & Co. KG tannery in Lower Saxony, another project partner. The research project was launched in 2016 with an investment volume of around €5 million. Almost half of its funding comes from the German Federal Ministry of Education and Research (BMBF). The pioneering climate and environmental protection technology was recognized with the German Innovation Prize for Climate and Environment in February 2018. The Group won the award in the "Environmentally Friendly Products" category.

LANXESS has again demonstrated its extensive experience in water treatment with a host of product innovations. For instance, by developing optimized membrane elements in the Lewabrane RO ULP series and the Lewatit ion exchanger, we enable our customers to make efficient and sustainable use of the scarce resource of water. Use of the new membrane elements, which need a 40% lower operating pressure than standard elements, means that lower quantities of cleaning chemicals can be used and longer cleaning intervals can be established on a long-term basis. Both the energy and operating costs of our customers are reduced as a result. The new Lewatit TP 107 selective ion exchanger was developed specifically for municipal drinking water treatment but also delivers key advantages in the industrial sphere, e.g. in wastewater treatment in the leather and galvanizing industries. Compared with conventional products, it has an extremely high usable capacity for trace impurities of drinking water, groundwater and wastewater. In addition, the hazardous substance chromate is removed more efficiently. The two technologies complement each other and are used successfully in tandem by our customers.

LANXESS has also added product variants highly reinforced with glass fibers to the high-tech plastics of the Durethan brand. These were developed in 2017 by the High Performance Materials business unit, and are particularly suitable for applications in electric mobility. The innovative new material is highly flame-resistant and especially creepage-resistant. As it additionally combines outstanding mechanical properties with impressive processing capabilities, it is ideally suited to use in high-performance batteries and the drive train of electric vehicles, for example. In this way, we are also supporting resource-efficient lightweight construction in the field of electric mobility.

With an improvement to the product line for high-purity polyurethane prepolymers, known as low-free products, the Urethane Systems business unit has reaffirmed its global technology leadership. Use of the new products with very low residual monomer contents reduces exposure of workers to potentially carcinogenic substances. In addition, the product line boasts improved processing capabilities and product quality, making it suitable for the most demanding applications, e.g. in the tire and caster industry and the adhesives sector.

On top of our own research and development activities, we invested a seven-digit sum in the High-Tech Gründerfonds (HTGF) III fund in the reporting year. It was launched on May 31, 2017, with a fund volume of €245 million in first closing. Like its two predecessors, the newly launched fund is intended to support promising technology start-ups and to bring new products to the market. The fund has been set up to provide support in a wide range of areas: robotics, Internet of Things (IoT), energy, medicine and biotechnology as well as chemistry and software. By investing once again, we will gain a better insight into the high-tech start-up scene in Germany. This contribution will help us to gain access to new technologies and find cooperation partners.

Further information on research and development can be found in the combined management report starting on page 71 of this Annual Report.

## VALUING CUSTOMER RELATIONS

Customer satisfaction and loyalty are among our main measures of success. Our central inquiry management system provides customers with information about our products, their applications and their potential risks as well as product certificates. Critical feedback from customers gives us valuable pointers for further improving our products and processes. Based on a central CRM system and a uniform complaints management platform, each of our business units has its own complaints management process aligned to its markets and customers.

Regular customer surveys conducted by an external service provider deliver vital information about the loyalty of our customers, their expectations and how they perceive our products and services compared with those of our competitors. Over a two-year cycle, each business unit carries out an anonymous online survey. In the 2017/2018 survey, the customer retention index was 75.4 and thus on a par with the previous year. On the basis of the results of the customer satisfaction analysis, we will take targeted measures in the business units in order to further increase customers' satisfaction. This should be reflected in a significantly higher customer retention index in the next survey cycle.

# CORPORATE CITIZENSHIP

As a company, we draw numerous benefits from society – well-trained employees, satisfied customers, legal and political stability and a functioning infrastructure. We therefore believe it is only right that we take responsibility for the development of the social environment in which we operate. We aim to be a sound and reliable partner for people around our sites. Our social commitment is based on our corporate expertise and targets and is therefore focused on four areas of activity: education, climate protection, water and culture.

Our targets are identical in all areas:

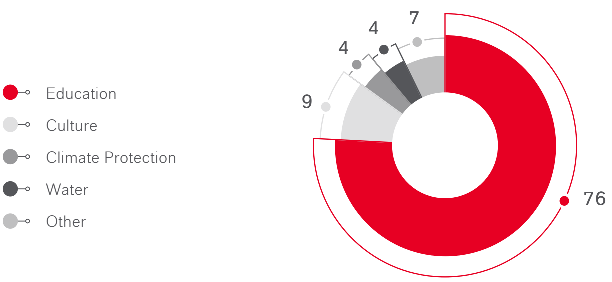
› Mobilizing resources and people for social engagement
› Enabling positive impacts on the company, the environment and society

As a company, we aim to make a positive contribution to improving living conditions, education, training and equal opportunities as well as health and safety. We also strive to attract talents, engage in extensive dialog with our stakeholders, positively influence employee motivation and continuously improve our reputation.

## Mobilizing resources and people for social engagement

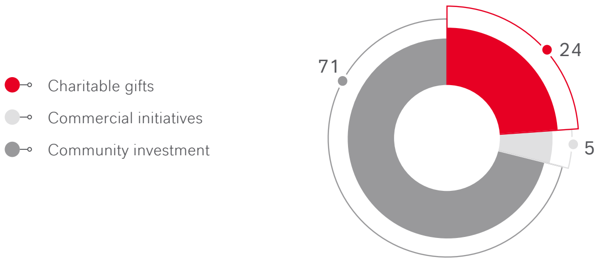
In the reporting year, EMEA was the regional focal point of our activities. Overall, we provided a sum of around €1.3 million for our projects in 2017 (previous year: around €1.5 million).

**Social Activities by Topic[1)]**
in %




1) Number of projects: 113

**Social Activities by Type of Investment[1)]**
in %



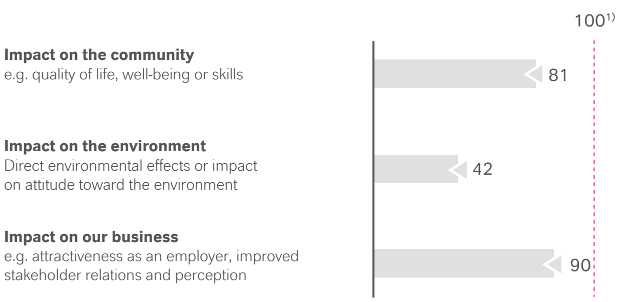

1) Number of projects: 113

We initially evaluate our projects as to whether they are purely charitable ("charitable gifts"), whether we are investing in the social environment where our sites are located ("community investment") or in corporate objectives such as image, sales and earnings with social motives ("commercial initiative").

## Enabling positive impacts on the company, the environment and society

In total, more than 233,000 people (previous year: around 200,000) benefited from our projects. As well as the absolute number of beneficiaries, we also measure the societal impact of our activities via a system of performance indicators. For all projects, we conduct an impact analysis, taking into account impacts in the vicinity of the site as well as positive environmental impacts and effects on our business. Specific feedback from beneficiaries of our projects is a key factor here. We regard these indicators as important benchmarks for the impact-oriented management of our measures.

**Dimensions of the Impact of evaluated Activities and Projects**
in %




1) Number of projects: 113

## Education

LANXESS sees commitment to education as a crucial part of a sustainable corporate policy. As a specialty chemicals group, we need well-trained employees in order to ensure growth and value creation. Along with investment in training for our own employees, we also support young scientists in schools and universities.

Within the context of the LANXESS education initiative, we have established projects at many sites to get young people interested in science at an early stage. We promote this through financial support to schools and collaborations in the area of scientific teaching. For instance, LANXESS supports a wide range of projects from climate monitoring to crystal growing in schools in the area of its German locations with funding of almost €70,000. We have also put on laboratory days at high schools for the first time. Based on the positive response, this commitment is to be continued in 2018.

LANXESS has initiated a particular commitment at its site in the Uerdingen district of Krefeld to mark 90 years of iron oxide production there. The “Better learning” initiative provides prize money totaling €50,000 for projects by educational and youth institutions that help to improve learning conditions or support for young people.

At our new site at El Dorado in the U.S. state of Arkansas (formerly Chemtura), hands-on approaches to teaching the MINT subjects stand to receive a total of US$250,000 in the next five years. As well as promoting scientific education, we enable children and young people from socially disadvantaged families to participate in leisure and educational activities with a further US$10,000.

Since its launch, the LANXESS education initiative has reached hundreds of thousands of children and young people worldwide.

## Climate protection

Climate protection is a long-term challenge and is hugely important to the future of our company. Our aim is to set the course for sustainable development and climate-conscious conduct, including in the communities in which we operate. In India, we have helped the local authorities to buy and maintain solar lights in the district around the LANXESS Nagda site. As well as making the access routes safer, the new lighting saves energy. To ensure long-term preservation of the ecological balance at the Nagda site, we also work to maintain and develop the municipal garden. At our Brazilian sites, we are committed to increasing awareness of climate-related and environmental issues through the “Green Cycle” competition, in which we help participants to implement projects focused on sustainable development. 44 projects have already been successfully launched since the beginning of 2010.

## Water

Clean water is in short supply in many regions of the world. Our products are used all over the world to save, clean and transport water. One focus of our social engagement is enhancing awareness worldwide of the causes and consequences of water scarcity – for both drinking and industrial uses. In the reporting year, LANXESS invited representatives from politics, science, environmental organizations and businesses to a round-table meeting in order to discuss water supply. Along with a holistic assessment of the challenges, solutions were also discussed in depth.

As part of our societal activities, we encourage people to use water more responsibly, and we run local projects to help deliver a clean drinking water supply and a lasting improvement in quality of life for the population. In India, for example, a water filtration plant was installed in a school near the Jhagadia site. Provision of the schoolchildren and the local population with water is ensured by this investment of around €30,000. For the third successive year, we held a research competition entitled “Clean water for a better life.” The aim is to promote and support highly talented young people and raise awareness of water problems among the public and schoolchildren. Students from universities all over China took part this year.

## Culture

We are convinced that successful scientific work and, ultimately, social progress can only flourish in a culture of thought, research and critical evaluation. As part of our cultural commitment, we therefore sponsor both literary and musical talents. In the literary field, we have been the main partner to lit.Cologne since 2010. With around 200 events, Europe’s biggest literary festival attracts more than 100,000 visitors. The second mainstay of our cultural commitment is support for musical training. We support the Ozawa International Chamber Music Academy, which enables talented young musicians from across Asia to receive a top-quality musical education. LANXESS has also been a partner of the Kölner Philharmonie in Cologne, one of Europe’s leading cultural institutions. We have supported the contemporary music festival “Acht Brücken” (Eight Bridges) for several years; the opening event, involving several performances, was held outside and inside the LANXESS Group’s headquarters for the first time.

Further information on our corporate citizenship activities can be found on LANXESS website in section Corporate Responsibility under Corporate Citizenship.

# LANXESS ON THE CAPITAL MARKET

€ **70.67**

**year high of share**
(June 2017)

# LANXESS on the Capital Market

*The LANXESS share reached a new high in June 2017, exceeding the €70 mark for the first time. After an extremely successful previous year with growth of 46%, the share's movement was largely in a sideways direction over 2017 as a whole. LANXESS's strong development is also being rewarded on the bond market: The rating agency S&P raised its outlook for our rating to stable.*

The German equity market continued the previous year's positive development in 2017. The DAX closed at 12,918 points on December 29 with strong annual growth of 12.5%. The MDAX, in which the LANXESS share is listed, performed even better, seeing out 2017 at 26,201 points. This equates to growth of 18.1% compared to the previous year. LANXESS's industry benchmark indices, the Dow Jones STOXX 600 Chemicals[SM] and the MSCI World Chemicals Index, likewise posted considerable gains. The Dow Jones STOXX 600 Chemicals[SM] climbed 10.7% to 949 points, while the more comprehensive and international MSCI World Chemicals Index performed even more positively. The closing price of the year as a whole was 359 points, up 27.7% compared to the previous year.

Our share reached a historic high of €70.67 on June 9, exceeding the €70 mark for the first time. Over the remainder of the year, the price remained between €60 and €70 in a sideways movement and climbed 6.3% to a closing price of €66.29 in 2017.

**LANXESS Stock at a Glance**

| | | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|
| Capital stock/no. of shares[1)] | €/no. of shares | 91,522,936 | 91,522,936 | 91,522,936 | **91,522,936** |
| Market capitalization[1)] | € billion | 3.52 | 3.91 | 5.71 | **6.07** |
| High/low for the period[1)] | € | 56.75/36.24 | 56.50/33.53 | 63.53/32.90 | **70.67/59.89** |
| Closing price | € | 38.46 | 42.68 | 62.35 | **66.29** |
| Earnings per share adjusted for exceptional items and amortization of intangible assets[2)] | € | 2.22 | 2.03 | 2.69 | **4.14** |
| Dividend per share | € | 0.50 | 0.60 | 0.70 | **0.80[3)]** |

1) End of year: December 31, 2014; December 31, 2015; December 31, 2016; December 31, 2017
2) Earnings per share pre exceptional items and amortization of intangible assets: earnings per share 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.
3) Dividend proposal to the Annual Stockholders' Meeting on May 15, 2018

**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: Baa3 (stable)<br>Scope: BBB (stable) |

## DIVIDEND POLICY

LANXESS follows a consistent dividend policy. We continue to aim to increase the dividend if possible but at least to maintain it at a stable level. At the Annual Stockholders' Meeting on May 15, 2018, the Board of Management and Supervisory Board will propose a dividend of €0.80.

## SHAREHOLDER STRUCTURE

The majority of LANXESS's stockholders are institutional investors whose strategy is oriented toward growth or value. As of December 31, 2017, these investors increased slightly as a proportion of the shareholders to around 92% (previous year: 90%). The remaining share of around 8% of LANXESS stock is owned by private investors.

In 2017, as in the past, many of our institutional investors were based in the U.S., Germany and Great Britain. The proportion of U.S. shareholders recently rose to about 39% (previous year: 32%). As of the reporting date, some 22% (previous year: 28%) of LANXESS stock was held in Germany, while institutional investors from Great Britain continued to account for around 16%.

The proportion of institutional investors from the rest of Europe fell slightly year-on-year to around 13% (previous year: 15%). In contrast, the proportion in the other regions increased to around 11% (previous year: 9%). An overview of the institutional investors that have issued mandatory notices reporting ownership of at least 3% of LANXESS's outstanding shares is published in the Investor Relations section of our website.

## BONDS

Sustainably increasing the enterprise value and safeguarding liquidity and creditworthiness are key financial management objectives. LANXESS issued no new bonds in fiscal year 2017. A corporate bond from the acquired Chemtura Corporation with a volume of US$450 million and a coupon of 5.75% was also repaid prematurely. Significant steps were therefore taken to reduce debt.

There are currently four LANXESS bonds and one hybrid bond on the market.

**Overview of LANXESS's Main Bonds**

| ISIN/WKN | Volume | Duration | Coupon |
|---|---|---|---|
| XS0629645531 | €500 million | May 23, 2011 – May 23, 2018 | 4.125% |
| XS0855167523 | €500 million | November 21, 2012 – November 21, 2022 | 2.625% |
| XS1501363425 | €500 million | October 7, 2016 – October 7, 2021 | 0.250% |
| XS1501367921 | €500 million | October 7, 2016 – October 7, 2026 | 1.000% |

**LANXESS Hybrid Bonds (Subordinated)[1]**

| ISIN/WKN | Volume | Duration |
|---|---|---|
| XS1405763019 | €500 million | December 6, 2016 – December 6, 2076 |

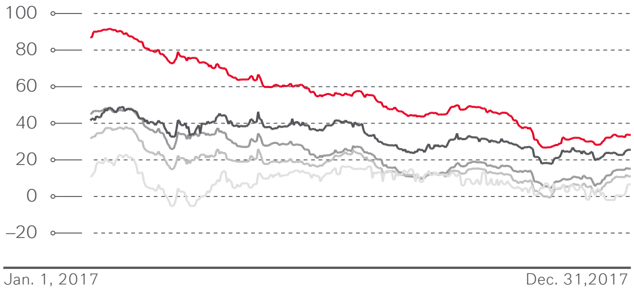
| Coupon | Redemption options |
|---|---|
| 4.500% until the first redemption option; subsequent adjustment of interest rate as described in prospectus | First option on June 6, 2023, and thereafter annually; additional redemption rights in defined special circumstances |

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

An important indicator for corporate bonds, apart from the absolute change in price, is the relative valuation of the risk specific to the issuer in comparison with a reference interest rate. This credit risk premium is expressed in what is known as 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

The development of our credit spreads underscores the fact that we retain very competitive access to capital market financing.

All existing LANXESS eurobonds are listed on the Luxembourg Stock Exchange. Their term sheets are available in the Investor Relations section of our website.

## RATINGS

LANXESS's creditworthiness is regularly evaluated by the rating agencies Standard & Poor's and Moody's Investors Service. It is our strategic corporate goal to retain an investment-grade rating. Due to the improved debt data and good operating performance, the rating agency S&P raised its outlook for the LANXESS rating from negative to stable. An overview of the development of LANXESS ratings and rating outlooks since 2013 can be found in the management report on page 88. In January 2018, the European rating agency Scope performed an assessment of LANXESS for the first time. Scope Ratings rates LANXESS as BBB and has issued a stable outlook.

Detailed information, publications for download and contact details are always available on our LANXESS website in the section Investor Relations.

# CORPORATE GOVERNANCE

# Corporate Governance Report

*The Board of Management and the 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.*

The Board of Management and Supervisory Board herein report on corporate governance at LANXESS pursuant to Section 3.10 of the German Corporate Governance Code. 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 Investor Relations/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 current declaration of compliance of December 8, 2017, and the previous declarations are published on the LANXESS website under Investor Relations/Corporate Governance. It additionally forms part of the declaration on corporate governance pursuant to Sections 289f and 315d of the German Commercial Code, which is also published there. Reasons were given for non-compliance with one of the 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. Concurrent membership on both boards is strictly prohibited. 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 currently has five members. Information about the members of the Board of Management is available on the LANXESS website under Investor Relations/Corporate Governance/Board of 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. It has defined an age limit for members of the Board of Management.

By way of implementing 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 has 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 should be appointed to the Board of Management by June 30, 2022.

## 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 Investor Relations/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 business performance, 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 on the Supervisory Board's report 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 2017 can be found on the LANXESS website under Investor Relations/Corporate Governance/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, establishes 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.

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 the necessary training required for their tasks 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, commitment, professionalism and independence, the entire Supervisory Board should be composed in such a way to ensure that the Board of Management receives qualified supervision by and advice from the Supervisory Board. The Supervisory Board of LANXESS AG has devised a skills profile which stipulates that in-depth specialist knowledge and experience in the fields of the chemical industry, particularly international industrial chemistry, management of major international companies, corporate governance/compliance, corporate strategies, large-scale investments/M&A, production, marketing and sale of chemical products, key sales markets of LANXESS, research and development, procurement of raw materials, energy and services, HR management/codetermination, capital markets/investor relations, corporate financing, accounting and auditing, risk management and IT/digitalization should be represented. In its current composition, the Supervisory Board fulfills these goals and completes the skills profile. The members of the Supervisory Board possess the professional and personal qualifications regarded as essential. They are all familiar with the sector in which LANXESS operates and possess the knowledge, skills and experience that are crucial to the company.

The Supervisory Board of LANXESS AG should ensure the provision of impartial advice and supervision to the Board of Management. All current stockholder representatives on the Supervisory Board are independent. The Supervisory Board also assumes the independence of the employee representatives on the Supervisory Board and 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. No former member of the Board of Management of LANXESS AG is a member of the Supervisory Board. The Supervisory Board also aims for all future members of the Supervisory Board to be independent and free of conflicts of interest.

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 shall not continue to serve after the end of the Stockholders' Meeting following their 80th birthday. 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 general, the Supervisory Board should be guided by the principles of diversity in its composition. On the basis of their various personal and professional backgrounds, the members of the Supervisory Board contribute a broad spectrum of experience and skills. The global reach of LANXESS AG has 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. In many cases, the experience and skills of the members of the Supervisory Board have been acquired while working abroad for a long period or in an international field. Three members of the Supervisory Board are not German citizens.

Diversity applies equally to gender. In accordance with the law on the equal representation of women and men in management positions in the private and public sectors, codetermined stock corporations like LANXESS AG are required to appoint at least 30% women and 30% men when refilling Supervisory Board positions that become vacant from January 1, 2016. Existing appointments – including those of substitute members – can run until they end regularly. Two of the twelve members currently serving on the LANXESS AG Supervisory Board are women, which represents a proportion of around 16%. Future new appointments will be made in accordance with the legal stipulations.

## 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 Investor Relations/Corporate Governance/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. 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 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 whom 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 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 Nominations Committee solely comprises 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 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 2017, 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 €5,000. 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, 2017, 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 2017 was audited by the auditor PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft ("PwC"), elected by 2017 Annual Stockholders' Meeting. The 2017 half-year financial report was also reviewed by PwC. PwC was appointed following an external tender procedure. 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 January 31, 2018)

| 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 | • Chairman of the Executive Board of LANXESS Deutschland GmbH<br>• Chairman of the Shareholders' Committee of ARLANXEO Holding B.V. |
| **Dr. Hubert Fink** | | |
| Member of the Board of Management | | • Member of the Executive Board of LANXESS Deutschland GmbH<br>• Chairman of the Supervisory Board of Saltigo GmbH |
| **Michael Pontzen** | | |
| Chief Financial Officer | | • Member of the Executive Board of LANXESS Deutschland GmbH<br>• Member of the Board of Directors of LANXESS Corp.<br>• Member of the Shareholders' Committee of ARLANXEO Holding B.V.<br>• Member of the Board of Directors of LANXESS Solutions Korea Inc.<br>• Member of the Board of Directors of LANXESS Solutions US Inc. |
| **Dr. Rainier van Roessel** | | |
| Member of the Board of Management and Labor Relations Director | • Member of the Supervisory Board of CURRENTA Geschäftsführungs-GmbH, Leverkusen | • Member of the Executive Board of LANXESS Deutschland GmbH<br>• Chairman of the Board of Directors of LANXESS S.A. de C.V.<br>• Executive member of the Board of Administration of LANXESS N.V.<br>• Chairman of the Board of Directors of LANXESS Hong Kong Ltd.<br>• Chairman of the Board of Directors of LANXESS Corp.<br>• Chairman of the Board of Directors of LANXESS Chemical (China) Co. Ltd.<br>• Chairman of the Board of Directors of LANXESS India Private Ltd.<br>• Chairman of the Board of Directors of LANXESS K.K.<br>• Chairman of the Board of Directors of LANXESS Pte. Ltd.<br>• Member of the Board of Directors of LANXESS Thai Co., Ltd.<br>• Member of the Board of Directors of LANXESS Solutions Japan K.K.<br>• Member of the Board of Directors of LANXESS Solutions Korea Inc.<br>• Member of the Board of Directors of LANXESS Solutions US Inc. |
| **Stephen C. Forsyth** | | |
| Member of the Board of Management | | • Member of the Board of Directors of LANXESS Solutions US Inc.<br>• Member of the Board of Directors of LANXESS Canada Co./Cie<br>• Member of Board of Directors of LANXESS Laurel de Mexico, S.A. de C.V.<br>• Member of the Board of Directors of Chemtura Corporation Mexico, S. de R.L. de C.V.<br>• Member of the Board of Directors of Crompton Servicios, S.A. de C.V.<br>• Member of the Board of Directors of Great Lakes Chemical Corporation<br>• Member of the Board of Directors of Assured Insurance Company<br>• Member of the Board of Directors of LANXESS Holding Company US Inc.<br>• Member of the Board of Directors of LANXESS Sybron Chemicals Inc.<br>• Member of the Board of Directors of Sybron Chemical Holdings Inc.<br>• Member of the Board of Directors of The LANXESS Foundation Inc. |

# LANXESS AG SUPERVISORY BOARD

## Serving members

**Dr. Rolf Stomberg (Chairman)**

- Chairman of the Supervisory Board of LANXESS AG
- Former Chief Executive of the Shipping, Refining and Marketing Division of The British Petroleum Co. p.l.c., London, Great Britain
- Former member of the Board of Directors of The British Petroleum Co. p.l.c., London, Great Britain

**Further offices:**

- LANXESS Deutschland GmbH, Cologne[1] (Chairman)
- Biesterfeld AG, Hamburg[1]
- HOYER GmbH, Hamburg

**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**

- 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

**Dr. Friedrich Janssen**

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

**Further offices:**

- LANXESS Deutschland GmbH, Cologne[1]
- National-Bank AG, Essen[1]
- Hoberg & Driesch GmbH, Düsseldorf (Chairman of the Advisory Committee)

**Thomas Meiers**

- Secretary to the Board of Directors of the German Mining, Chemical and Energy Industrial Union (IG BCE), Hanover
- Previously District Secretary of IG BCE, Cologne

**Further offices:**

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

**Lawrence A. Rosen**

- 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**

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

**Further offices:**
- LANXESS Deutschland GmbH, Cologne[1] (Vice Chairman)
- RAG AG, Herne[1]
- RAG Deutsche Steinkohle AG, Herne[1]
- RWE AG, Essen[1]
- RWE Power AG, Cologne and Essen[1] (Vice Chairman)
- RWE Generation AG, Essen[1]
- KSBG – Kommunale Beteiligungsgesellschaft GmbH & Co. KG, Essen[1] (Vice Chairman)
- 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

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

**Ifraim Tairi**

- Chairman of the LANXESS Works Council at the Dormagen site
- Member of the LANXESS Central Works Council

**Further offices:**
- LANXESS Deutschland GmbH, Cologne[1]
- ARLANXEO Deutschland GmbH, Dormagen[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 (President of the Board of Administration)

**Dr. Matthias L. Wolfgruber**

- 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 Committee)
- Cabot Corporation, Boston, Massachusetts, U.S.

1) Statutory supervisory boards

The information about offices held refers to memberships of other supervisory boards and comparable supervisory bodies of companies in Germany and abroad (as of January 31, 2018).

# Report of the Supervisory Board

## DEAR STOCKHOLDERS,

We are looking back on an extremely successful year for LANXESS.

All segments increased their earnings. This was shown particularly clearly in the New LANXESS businesses. This is the term given to the businesses we manage outside of our joint venture ARLANXEO. The Group posted a significant EBITDA increase of 30% to €1.29 billion.

The change in the portfolio that LANXESS made in 2017 contributed to this increase. By acquiring Chemtura Corp., the Group took a meaningful step towards its diversification and the significant improvement of its portfolio. At the same time, necessary restructuring measures were initiated at operating level, and LANXESS successfully jettisoned smaller business areas that were not part of the Group's core business.

2018 will be another year characterized by growth. The Board of Management has resolved promising investments in organic growth and is simultaneously pursuing further portfolio optimization. The Group will continue to make progress in its transformation while acting on solid financial foundations.

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 advised the Board of Management regularly on the management of the company and monitored its work. In particular, it dealt with matters relating to the company's realignment following the acquisition of Chemtura, its strategic development and measures to increase competitiveness.

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 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 Chairman of the Supervisory Board 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 fiscal 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 14, 2017, was the review of the annual financial statements and consolidated financial statements for fiscal year 2016 and the proposal for use of the distributable profit. 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. It also informed us of the establishment of the dLX Group function, which is to deal with digitalization issues in the LANXESS Group. Lastly, the Supervisory Board decided upon the variable compensation for the Board of Management members for fiscal year 2016 on the basis of the identified target attainment. We introduced an age limit for both the Supervisory Board and the Board of Management.

At the meeting held on May 10, 2017, the Board of Management gave us detailed information about the steps taken to acquire Chemtura and the upcoming integration of the new business. At this meeting, we also set the new target for the proportion of women on the Board of Management, according to which the LANXESS AG Board of Management is to have at least one female member by June 30, 2022. We also adjusted the rules of procedure for the Supervisory Board on the basis of the amendments to the German Corporate Governance Code (GCGC). The Board of Management additionally made 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 informed us of the status of the Group-wide Manufacturing Excellence initiative. Another key topic at this meeting was a Board of Management personnel matter. The Supervisory Board resolved to appoint Mr. Stephen C. Forsyth as a member of the Board of Management for the period from June 1, 2017, to May 31, 2018. An accordingly adjusted allocation of Board of Management duties was resolved at the same time.

The meeting on May 26, 2017, served to prepare the Annual Stockholders' Meeting.

At the meeting held on August 9, 2017, the Board of Management gave us an overview of the progress made in integrating the acquired Chemtura business. It also reported on the measures to improve occupational safety and their results. We again dealt with a Board of Management personnel matter and resolved to reappoint Mr. Michael Pontzen as a member of the Board of Management of LANXESS AG with effect from April 1, 2018, to March 31, 2023.

At the meeting held on November 9, 2017, the Board of Management first gave us a report on LANXESS' activities in the areas of research and development. In addition, we discussed two acquisition projects with the Board of Management, namely the now completed acquisitions of the phosphorous additives business from Solvay in the U.S. and of IMD Solutions GmbH, a manufacturer of natural preservatives. The Supervisory Board then defined a skills profile for the entire body pursuant to Paragraph 5.4.1 GCGC. Finally, we approved the reappointment of Dr. Hubert Fink as a member of the Board of Management of LANXESS AG with effect from October 1, 2018, to September 30, 2023. As a further personnel measure, we resolved to continue a Long-Term Stock Performance Plan as a variable compensation component for the members of the Board of Management. The new plan applies to the period from 2018 to 2021.

At its meeting on December 8, 2017, the Supervisory Board reviewed in full and approved the corporate planning for 2018 proposed by the Board of Management. It 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 GCGC, we resolved to issue a declaration of compliance. In addition, the Board of Management reported on the LANXESS Group's financing policy. Lastly, the Supervisory Board defined the conditions for the Board of Management's variable compensation components for fiscal year 2018.

All members of the Supervisory Board and its committees performed their duties diligently and conscientiously. The average attendance at meetings of the Supervisory Board and its committees was 97%. 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 Audit Committee, the Presidial 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 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 2016, the quarterly reports issued during fiscal year 2017, and the condensed consolidated financial statements and interim management report included in the 2017 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 Chemtura acquisition. The Audit Committee also dealt with the concept for approving non-audit services. 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 2017 financial statements. In addition, the committee reviewed the investment policy for the German pension assets, the new obligations to report on non-financial matters as a result of the German act implementing the European Union's CSR Directive, various tax issues and their effects on LANXESS, the Group rating and the audit of OTC derivative 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 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 Presidial Committee also approved Mr. Zachert's assumption of a Supervisory Board post at Siemens AG.

The Nominations Committee convened twice in 2017 to deal with succession planning for the stockholder representatives. 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 a few justified cases. 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 in 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 2017 were audited by PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, the auditor appointed by the Annual Stockholders' Meeting on May 26, 2017, 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, 2018. 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, 2018. 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.

The composition of the Supervisory Board did not change in the past fiscal year.

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 2017.

Cologne, March 13, 2018
The Supervisory Board

Dr. Rolf Stomberg
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 subsidiaries and affiliates in Germany and elsewhere.

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/ Performance Chemicals/ High Performance Materials/ Engineering Materials |
| LANXESS Solutions US Inc., Middlebury, U.S. | Production and sales | Advanced Intermediates/ Specialty Additives/ Engineering Materials |
| LANXESS Corporation, Pittsburgh, U.S. | 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 India Private Limited, Thane, India | Production and sales | Advanced Intermediates/ Performance Chemicals/ Engineering Materials |
| Great Lakes Chemical Corporation, Wilmington, U.S. | Production | Specialty Additives |
| LANXESS Sales Netherlands B.V., Amsterdam, Netherlands | Sales organization | Specialty Additives |

In the context of the strategic alliance formed with Saudi Aramco for the synthetic rubber business, as explained under “Business organization and Group portfolio” in this combined management report, LANXESS AG holds a 50% interest in ARLANXEO Holding B.V., Maastricht, Netherlands. The following are the principal companies wholly owned by this subsidiary:

**Principal Direct Subsidiaries of ARLANXEO Holding B.V.**

| Company Name and Domicile | Function | Segment |
|---|---|---|
| ARLANXEO Singapore Pte. Ltd., Singapore | Production and sales | ARLANXEO |
| ARLANXEO USA LLC, Pittsburgh, U.S. | Production and sales | ARLANXEO |
| ARLANXEO Brasil S.A., Rio de Janeiro, Brazil | Production and sales | ARLANXEO |
| ARLANXEO Switzerland S.A., Granges-Paccot, Swiss | Sales organization | ARLANXEO |
| ARLANXEO Netherlands B.V., Sittard-Geleen, Netherlands | Production and sales | ARLANXEO |
| ARLANXEO Deutschland GmbH, Dormagen, Germany | Production and sales | ARLANXEO |
| ARLANXEO High Performance Elastomers, Changzhou, China | Production | ARLANXEO |

## 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 Group portfolio

On April 21, 2017, LANXESS successfully closed the acquisition of U.S. company Chemtura. The acquisition, which is the largest in LANXESS’s history, was a further major step in the Group’s realignment program. LANXESS has significantly expanded its own additives business and is now one of the world’s leading players in this growing market. In addition to additives, Chemtura’s businesses with urethanes and organometallics have also been integrated into the company. LANXESS has taken over some 2,500 employees at 20 sites in eleven countries.

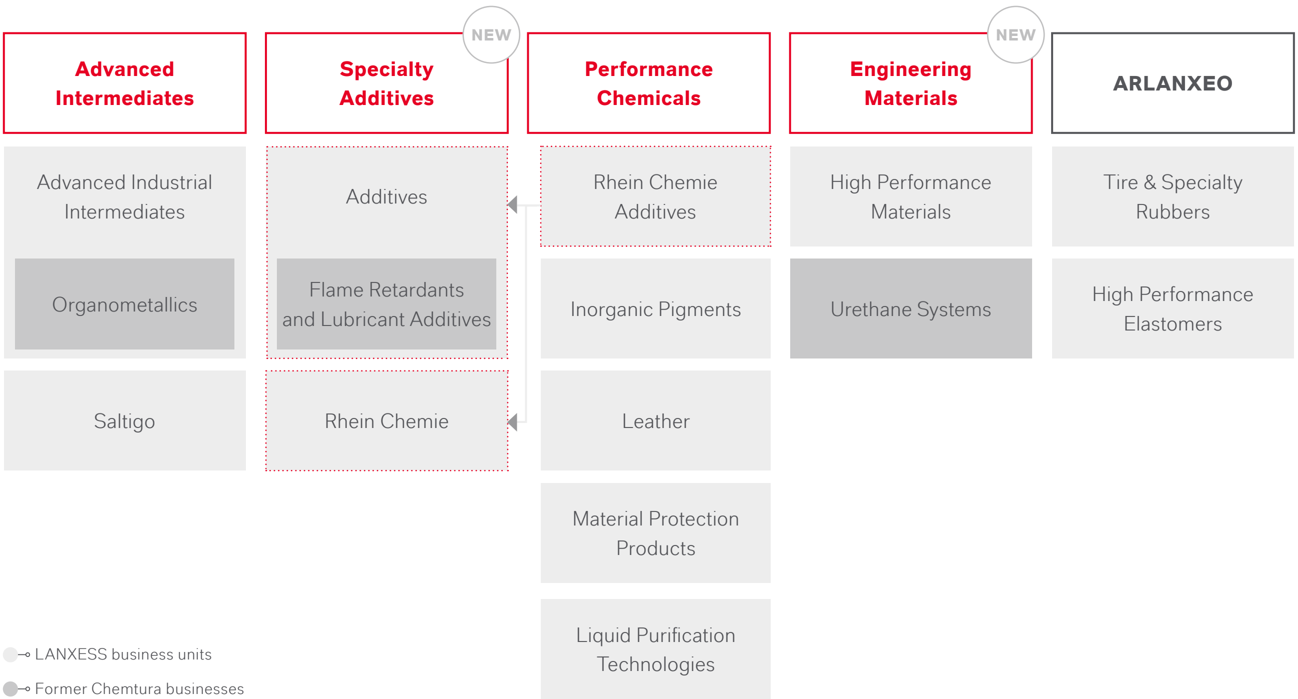
In connection with the acquisition of Chemtura, LANXESS acquired all shares in Chemtura Corporation, Middlebury, U.S., as well as its domestic and foreign subsidiaries and affiliates. As part of the integration of Chemtura into the LANXESS Group, companies acquired have been renamed and merged.

As a result of the transactions described above, Group structures have been reorganized. Since the second quarter of 2017, LANXESS has been reporting on five segments: Advanced Intermediates, Specialty Additives, Performance Chemicals, Engineering Materials and ARLANXEO. These segments comprise a total of twelve business units, each of which conducts its own operations and has global profit responsibility. With the exception of the ARLANXEO segment, changes have been made in all segments. Prior-year figures have been adjusted accordingly if necessary.

Chemtura's organometallics business has been integrated into the LANXESS Advanced Industrial Intermediates business unit in the Advanced Intermediates segment.

Chemtura's flame retardant and lubricant additives business has been combined with the LANXESS Plastic Additives and Lubricant Additives operations in the new Additives business unit. The Rhein Chemie business unit, from which Plastic Additives and Lubricant Additives have been separated out, will now encompass only the LANXESS Rubber Additives and Colorant Additives operations. The two business units Additives and Rhein Chemie make up the new Specialty Additives segment. The prior-year figures for this segment have been adjusted accordingly and derive from the previous business unit Rhein Chemie Additives, which has been separated out from the Performance Chemicals segment.

**Reporting Structure after Acquisition of Chemtura**




Chemtura's urethanes business will form the Urethane Systems business unit, which, together with the High Performance Materials business unit, constitutes the Engineering Materials segment. The prior-year figures for the Engineering Materials segment correspond to those of the former High Performance Materials segment.

As part of the consolidation of our plant network, we have bundled the Group's international chrome value chain in South Africa, and we closed production at the Zárate site in Argentina in the fourth quarter of 2017. In addition, we will bundle production of lubricant precursors at our Elmira site in Canada and close the Ankerweg site in Amsterdam, Netherlands, by November 2018 at the latest.

As part of its realignment, on April 1, 2016, the LANXESS Group and Aramco Overseas Holdings Coöperatief U.A., The Hague, Netherlands, a subsidiary of Saudi Aramco, formed a strategic alliance for the synthetic rubber business named ARLANXEO in which each party holds a 50% interest. The business continues to be included in the consolidated financial statements of the LANXESS Group and will be fully consolidated in the first three years because LANXESS has the opportunity to determine key aspects of financial and business policy. From the second quarter of 2018, i.e. a year before the end of full consolidation, ARLANXEO will be reflected as a discontinued operation as per IFRS 5.

Details about the scope of consolidation are provided in the Notes to the Consolidated Financial Statements as of December 31, 2017.

Our business units conduct their own operations, for which they have global profit responsibility. Group functions support our business units by providing financial, legal, technical and other centralized services. To make further progress with the digitalization of our value chains, the use of big data, the development of digital business models and embedding digital expertise among our employees, we established a new Group function in the reporting year, which is to actively shape the digital future of our Group. Complementing this global alignment of the business units and Group functions, the country organizations ensure the necessary proximity to markets and provide the organizational infrastructure required.

## 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** | Bergkamen, Brunsbüttel, Dormagen, Krefeld-Uerdingen, Leverkusen, Germany |
| | Antwerp, Belgium |
| | Liyang, China |
| | Nagda, Jhagadia, India |
| | Pyeongtaek, Republic of Korea |
| | Baytown, Bushy Park, Mapleton, U.S. |
| **Applications** | Agrochemicals |
| | Automotive |
| | Construction |
| | Aromas and flavors |
| | Pharmaceuticals |
| | Tire chemicals |
| | Semiconductors and photovoltaics |

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

**Specialty Additives**

| | |
|---|---|
| **Business units** | Rhein Chemie |
| | Additives |
| **Sites** | Burzaco, Merlo, Argentina |
| | Porto Feliz, Rio Claro, Brazil |
| | Nantong, Qingdao, China |
| | Krefeld-Uerdingen, Leverkusen and Mannheim, Germany |
| | Epierre, France |
| | Trafford Park, Great Britain |
| | Jhagadia, India |
| | Latina, Italy |
| | Toyohashi, Japan |
| | Elmira, West Hill, Canada |
| | Altamira, Reynosa, Mexico |
| | Ankerweg, Netherlands |
| | Lipetsk, Russia |
| | Kaohsiung, Taiwan |
| | Chardon, East Hanover, El Dorado, Fords, Greensboro, Little Rock, U.S. |
| **Applications** | Polymer additives |
| | Phosphorous-based or brominated flame retardants |
| | Lubricants |

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

**Performance Chemicals**

| | |
|---|---|
| **Business units** | Inorganic Pigments |
| | Material Protection Products |
| | Leather |
| | Liquid Purification Technologies |
| **Sites** | Sydney, Australia |
| | Porto Feliz, Brazil |
| | Changzhou, Shanghai, Ningbo, China |
| | Bitterfeld, Dormagen, Krefeld-Uerdingen, Leverkusen and Mannheim, Germany |
| | Branston, Sudbury, Great Britain |
| | Filago, Italy |
| | Singapore |
| | Vilassar de Mar, Spain |
| | Merebank, Newcastle and Rustenburg, South Africa |
| | Burgettstown, Memphis, Pittsburgh, U.S. |
| **Applications** | Disinfection |
| | Protection and preservation of wood, construction materials, coatings and foodstuffs |
| | Color pigments |
| | Products for leather processing and water treatment |

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

**Engineering Materials**

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

The ARLANXEO segment contains our synthetic rubber activities.

**ARLANXEO**

| | |
|---|---|
| **Business units** | Tire & Specialty Rubbers |
| | High Performance Elastomers |
| **Sites** | Leverkusen, Dormagen, Germany |
| | Zwijndrecht, Belgium |
| | Sittard-Geleen, Netherlands |
| | Singapore |
| | La Wantzenau and Port Jérôme, France |
| | Sarnia, Canada |
| | Orange, U.S. |
| | Cabo, Duque de Caxias, Triunfo, Brazil |
| | Changzhou, Nantong, China |
| **Applications** | Tires |
| | Automotive |
| | Electrical/electronics and medical equipment |

# STRATEGY

The chemical industry is a still-growing industry that is accustomed to change. To create value in the increasingly complex market environment, LANXESS has permanently continued to evolve. For instance, LANXESS can play an active role in shaping the change in its markets, even in challenging conditions.

## Realignment implemented

With our realignment program, we have reached key milestones in the context of our strategy. A new and more efficient organizational structure and extensive optimization of our business units and Group functions have not only brought us closer to our markets and customers, but also sustainably reduced our cost position by around €150 million. As a result of our program to optimize our production, sales and supply chains, we will reduce our costs by a further €150 million by the end of 2019. In Saudi Aramco, we have found a strong partner for our synthetic rubber business, and together we have successfully positioned the new strategic alliance ARLANXEO on the market. ARLANXEO will be reported as a discontinued operation from the second quarter of 2018. We pool LANXESS without ARLANXEO under New LANXESS.

The acquisition of Chemtura, which we completed sooner than expected, marks a major step towards a more balanced, more profitable portfolio.

## Maintaining growth, enhancing stability and profitability

Our strategic measures extend beyond the year 2021. The operational integration of Chemtura was successfully completed in 2017. We aim to achieve cost synergies of €100 million by 2020. We have expanded our "Manufacturing Excellence" initiative to the former Chemtura production sites to ensure that their processes and technologies are also optimized further. In addition, we are constantly analyzing and optimizing the cost structures of our own established businesses.

In order to further improve the positioning of our existing businesses and leverage future growth potential, we will invest around €400 million in our organic growth across all segments by 2020. Even after the acquisition of Chemtura, reducing economic dependency on individual sectors or closely correlated markets is still an important element of our strategy. For instance, we intend to increase our presence in attractive customer industries with innovative product applications.

In addition, we are also supporting our growth with the newly created dLX Group function for digitalization across functions, countries and all business units. It works on various initiatives to actively shape the digital future of our Group.

## Time horizon 2021: leading positions, more stable and with a stronger cash flow

Our target scenario from 2021:

› LANXESS is a more stable specialty chemicals group with a stronger cash flow and a more balanced portfolio. We have strengthened our regional presence in North America and Asia.
› Our businesses have attained a leading position in their markets. Our dependency on developments in specific regions and industries is reduced.

The improved positioning is to be reflected in the financial figures of LANXESS. To this end, we set new medium-term financial targets in 2017. From fiscal year 2021, our average operating margin – measured by EBITDA pre exceptionals – is expected to be between 14% and 18% over a business cycle. At the same time, the margin in any year is expected to move around the average level by no more than two to three percentage points. In terms of volume, LANXESS is expected to steadily grow faster than GDP. A sound investment-grade rating will remain a strict goal of our conservative financing policy. Accordingly, we also intend to use our increased financial strength to substantially reduce our net financial debt.

# VALUE MANAGEMENT AND CONTROL SYSTEM

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 (earnings before interest, income taxes, depreciation and amortization) 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.

**Value Management and Control System**

| | | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|
| EBITDA pre exceptionals | € million | 735 | 808 | 885 | 995 | 1,290 |
| EBITDA margin pre exceptionals | % | 8.9 | 10.1 | 11.2 | 12.9 | 13.3 |
| Capital employed | € million | 4,969 | 5,093 | 5,043 | 7,479 | 7,463 |
| ROCE | % | 5.8 | 7.9 | 8.4 | 6.9 | 9.3 |
| Days of sales in inventory (DSI) | Days | 58.0 | 65.4 | 67.2 | 67.2 | 64.7 |
| Days of sales outstanding (DSO) | Days | 47.8 | 48.0 | 47.6 | 51.1 | 50.7 |
| Net financial liabilities | € million | 1,731 | 1,336 | 1,211 | 2,394 | 2,252 |
| Net financial liabilities after deduction of time deposits and securities available for sale | € million | 1,731 | 1,336 | 1,211 | 269 | 2,252 |
| Net financial debt ratio | | 2.4x | 1.7x | 1.4x | 0.3x | 1.7x |
| Investment ratio | % | 7.5 | 7.7 | 5.5 | 5.7 | 5.7 |

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 of property, plant and equipment, amortization of intangible assets and excluding exceptional items. The latter are effects which, by nature or scope, have a particular impact on earnings, but which it would seem inappropriate to include in the assessment of business performance over several reporting periods. Exceptional items may include write-downs, reversals of impairment charges or the proceeds from the sale of assets, certain IT costs, 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 short-term effects, generally has no impact on the absolute margins that are significant to our profitability. We therefore set sales targets neither for 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.

### 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 risk-free 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 risk-free 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.

In fiscal year 2017, ROCE was 9.3% and thus slightly above our weighted average cost of capital (WACC) after adjustment for comparability. ROCE of 6.9% in the previous year was negatively affected by the completed acquisition of Chemtura and the associated need to reserve the corresponding financial resources.

### 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 2017, DSI was at 64.7 days (previous year: 67.2 days) and DSO at 50.7 days (previous year: 51.1 days). In this connection, receivables in the reporting period should be compared with a lower base in the prior year.

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 (adjusted for liabilities for accrued interest), less cash, cash equivalents and near-cash assets. After deduction of time deposits and securities available for sale, net financial liabilities as of December 31, 2017, amounted to €2,252 million, compared with €269 million at the end of the previous year. The increase results primarily from the financing of the Chemtura purchase price.

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 time deposits and securities available for sale, the net financial debt ratio as of December 31, 2017, rose to 1.7 from 0.3 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 2016, they increased by €241 million to €1,490 million. Including this additional component of debt, adjusted for related deferred tax assets and reduced by the receivables relating to pension obligations recognized under other non-current assets, the total net debt ratio in relation to EBITDA pre exceptionals was 2.6, compared with 1.2 at the previous year's reporting date.

**Net Financial Liabilities**

| € million | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|
| Non-current financial liabilities | 1,649 | 1,698 | 1,258 | 2,734 | 2,242 |
| Current financial liabilities | 668 | 182 | 443 | 78 | 633 |
| Less: | | | | | |
| Liabilities for accrued interest | (53) | (26) | (24) | (23) | (35) |
| Cash and cash equivalents | (427) | (418) | (366) | (355) | (538) |
| Near-cash assets | (106) | (100) | (100) | (40) | (50) |
| **Net financial liabilities** | **1,731** | **1,336** | **1,211** | **2,394** | **2,252** |
| Time deposits and securities available for sale | 0 | 0 | 0 | (2,125) | 0 |
| **Net financial liabilities after deduction of time deposits and securities available for sale** | **1,731** | **1,336** | **1,211** | **269** | **2,252** |

## 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, we experienced 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 2017 included BASF, BP, Braskem, Covestro, ExxonMobil, INEOS, LyondellBasell, Nova Chemicals, Sabic and Shell Chemicals.

Among the most important strategic raw materials by far for our production operations in 2017 were ammonia, butadiene, cyclohexane, ethylene, isobutylene, Raffinate I and toluene. In all, strategic raw materials accounted for a procurement volume of approximately €3.2 billion in fiscal year 2017 (previous year: approximately €2.2 billion). This equates to around 80% of our total procurement spend for raw materials and goods in 2017, which amounted to approximately €4.0 billion (previous year: €2.9 billion). Our total procurement spend in 2017 was around €6.9 billion (previous year: around €5.7 billion).

### Production

LANXESS is one of the world's major producers 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; Sittard-Geleen, Netherlands; Trafford Park, Great Britain; Latina, Italy; Orange, El Dorado and Perth Amboy, U.S.; Sarnia and Elmira, Canada; Triunfo and Duque de Caxias, Brazil; Jhagadia, India; Singapore; and Changzhou and Wuxi, 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 more than 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 68 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 73 of our own production sites in 20 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: tires, automotive, chemicals, agrochemicals, construction, electronics, leather and footwear, plastics, pharmaceuticals, food, water treatment and furniture.

**Shares of Sales by Industry Sector**

| in % | 2017 |
|---|---|
| Tires | ~20 |
| Automotive | ~20 |
| Chemicals | ~15 |
| Agrochemicals | ~10 |
| Construction, electrical/electronics, leather/footwear | ~15 |
| Others (cumulative share) | ~20 |

In fiscal year 2017, our top ten customers accounted for about 20% (previous year: 20%) of total sales. None of our customers accounted for more than 10% of Group sales. 60 (previous year: 51) 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 and ARLANXEO segments, which nonetheless generate relatively high sales, are typical of the high-performance plastics and synthetic rubber products businesses. 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. We have successfully integrated the research units for flame retardants, lubricants, urethanes and organometallics purchased as a result of the Chemtura acquisition.

### *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, the Uerdingen district of Krefeld and Dormagen, Germany; Naugatuck, U.S.; London, Canada; and Wuxi and Changzhou, China. We also operate a center for engineering plastics in Hong Kong. At our international 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 2017 totaled €145 million, or 1.5% of sales (previous year: €131 million or 1.7%). The High Performance Elastomers, Tire & Specialty Rubbers, High Performance Materials and Additives business units together accounted for the largest share of these expenses. Material Protection Products, Liquid Purification Technologies, Saltigo and Urethane Systems 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**

| | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|
| Research and development expenses (€ million) | 186 | 160 | 130 | 131 | 145 |
| % of sales | 2.2 | 2.0 | 1.6 | 1.7 | 1.5 |

At the end of 2017, we employed 711 people – against 589 in the previous year – in our research and development laboratories worldwide. The year-on-year increase was largely attributable to the integration of the Chemtura businesses.

**Number of Employees in Research and Development**

| | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|
| Year end | 931 | 708 | 585 | 589 | 711 |
| % of Group employees | 5.4 | 4.3 | 3.6 | 3.5 | 3.7 |

### *Fields of activity and patent strategy*

Within the context of our global realignment, we are focusing our research and development activities on market-driven projects with a short- to medium-term time horizon. As a result, the total number of projects increased from 270 to 360 in 2017, 238 (previous year: 176) of which aimed to develop new products and applications or improve existing ones. The remaining 122 projects (previous year: 94) 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 2017, we submitted 65 priority applications worldwide. As of December 31, 2017, the full patent portfolio included approximately 1,210 patent families covering around 8,200 property rights.

## Employees

As of December 31, 2017, the LANXESS Group had a total of 19,029 employees, against 16,721 at the closing date of the previous year. The increase was mainly attributable to the acquisition of Chemtura in April.

In the EMEA region (excluding Germany), the number of employees as of December 31, 2017, was 3,730, up from 3,251 in the previous year. In Germany, headcount rose from 7,600 to 8,036.

The number of employees in the North America region increased to 2,642 from 1,418 as of December 31, 2016, while Latin America saw its workforce decline from 1,435 at the end of the previous year to 1,419. At the reporting date, we employed 3,202 people in the Asia-Pacific region, which was 185 more than a year earlier.

Personnel expenses for the Group in fiscal year 2017 totaled €1,663 million (previous year: €1,467 million). Wages and salaries, at €1,302 million (previous year: €1,168 million), accounted for the greater part of this figure. Social security contributions amounted to €236 million (previous year: €194 million), while pension plan expenses were €111 million (previous year: €92 million) and social assistance benefits €14 million (previous year: €13 million).

## LEGAL ENVIRONMENT

There were no changes in the legal environment in fiscal year 2017 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

The global economy performed better than expected in 2017, boosted by low interest rates. While growing populist and protectionist trends such as emerging trade barriers in the U.S. market had a dampening effect in some areas, increased oil prices failed to curb growth.

The generally positive environment led to global economic growth of 3.1%, with contributions from all regions, particularly Asia-Pacific.

**GDP and Chemical Production in 2017**

| Change vs. prior year in real terms (%) | Gross domestic product | Chemical production |
|---|---|---|
| NAFTA | 2.3 | 1.8 |
| Latin America | 1.0 | 0.0 |
| EMEA (incl. Germany) | 2.4 | 3.5 |
| Germany | 2.6 | 3.5 |
| Asia-Pacific | 4.8 | 5.3 |
| **World** | **3.1** | **4.1** |

Source for 2017 growth rates: IHS Markit

One euro was worth US$1.20 at the end of 2017. The U.S. currency thus fell by 14.3% on the closing price of US$1.05 at the end of 2016. At US$1.13, the average price for the year was up slightly on the previous year's figure of US$1.11. Due to the regional positioning of our business, a weaker U.S. dollar generally has a negative 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 some raw materials rose sharply, particularly for aromatics and olefins, while there were only slight rises for organic and inorganic raw materials. We are particularly affected by the prices of petrochemical raw materials as they have a material impact on our production costs. The average price of butadiene for the year increased significantly on the procurement markets, as did the prices of other feedstocks such as cyclohexane, isobutylene and toluene.

## The chemical industry

Global chemical production was up 4.1%, driven by the Asia-Pacific and EMEA regions.

## Evolution of major user industries

Global automobile production rose by 2.6% during the reporting year. This stemmed mainly from a robust trend in Europe and the Asia-Pacific region. The positive trend in Latin America had little impact on the global trend as this region has comparatively less weight than the others.

Agrochemicals posted global growth of 3.8%, driven by growth in the Americas and Europe. The growth rate in the Asia-Pacific economic area lagged behind that of Europe.

The global construction industry grew by 3.2%. Asia-Pacific was the main driver here, with EMEA also performing strongly.

Global tire production increased by 3.0% in the reporting year, boosted especially by growth in Asia-Pacific.

Overall, the development of user industries had a positive influence on the LANXESS Group's business. Only the general growth of agrochemicals is not reflected in demand in our sector of customized agrochemical production.

**Evolution of Major User Industries in 2017**

| Change vs. prior year in real terms (%) | Automotive | Agrochemicals | Construction | Tires |
|---|---|---|---|---|
| NAFTA | (2.4) | 9.9 | 0.7 | (1.3) |
| Latin America | 19.0 | (1.8) | (3.6) | 13.4 |
| EMEA (incl. Germany) | 3.7 | 4.2 | 3.6 | 2.8 |
| Germany | (1.4) | 4.2 | 3.8 | (1.6) |
| Asia-Pacific | 3.0 | 3.3 | 4.5 | 3.2 |
| **World** | **2.6** | **3.8** | **3.2** | **3.0** |

Source for 2017 growth rates: IHS Markit, LMC

# KEY EVENTS INFLUENCING THE COMPANY'S BUSINESS

The company's business was mainly influenced by the successful operational integration of Chemtura and pleasing development of existing business.

The acquisition of the Chemours Clean and Disinfect specialties business in August 2016 also resulted in a pleasing portfolio effect on earnings.

In our existing business, higher sales volumes were the main growth driver. Higher procurement prices for raw materials and energy were passed on to customers via higher selling prices. Currency effects had an unfavorable effect on earnings.

# COMPARISON OF FORECAST AND ACTUAL BUSINESS

**Comparison of Forecast and Actual Business 2017**

| | Forecast for 2017 in Annual Report 2016 | Actual 2017 |
|---|---|---|
| **Business development: Group** | | |
| EBITDA pre exceptionals | • Up slightly on the previous year (€995 million)<br>• Takes account of the cost savings from realignment and contribution from the Clean and Disinfect specialties business acquired in 2016<br>• The Chemtura acquisition would make an additional contribution to the expected earnings performance<br>• Organic growth projects will be continued | • €1,290 million<br>• Cost position reduced in connection with the realignment; positive earnings contribution from the Clean and Disinfect specialties business<br>• Increase as a result of acquired Chemtura business units and positive performance of existing business |
| **Business development: segments** | | |
| Advanced Intermediates | • Stable business at development on a par with the previous year | • EBITDA pre exceptionals up slightly on the previous year: €335 million (previous year: €326 million) |
| Specialty Additives | • Slight improvement in business development[1] | • EBITDA pre exceptionals of €267 million (previous year: €151 million)<br>• Significant portfolio effects from Chemtura flame retardants and lubricants business<br>• Existing business almost as expected |
| Performance Chemicals | • Slight improvement in business development[1]<br>• Positive contribution from the Clean and Disinfect specialties business acquired in 2016 | • EBITDA pre exceptionals significantly higher than expected: €252 million (previous year: €223 million)<br>• Pleasing earnings contribution from the Clean and Disinfect specialties business |
| Engineering Materials (formerly: High Performance Materials) | • Business with plastics for lightweight construction in the automotive industry and for applications in the electrical and electronics industry is likely to be at the same level as the previous year | • EBITDA pre exceptionals well up on the previous year: €219 million (previous year: €159 million)<br>• Significant contribution from the acquired Chemtura urethanes business<br>• Existing business much better than expected |
| ARLANXEO | • Business development remains challenging<br>• Slight deterioration<br>• Ongoing price pressure for EPDM rubber, moderate improvement for butyl rubber<br>• Average price of the U.S. dollar on a par with the previous year | • EBITDA pre exceptionals better than expected: €385 million (previous year: €373 million) |
| **Raw material prices** | • Price rises on the procurement markets, particularly for petrochemical raw materials<br>• Continuation of occasionally highly volatile raw material prices | • Still volatile and substantially below the prior-year level |
| **Capital expenditures** | | |
| Cash outflows for capital expenditures | • €450–500 million | • €547 million<br>• Increase largely as a result of the acquisition of Chemtura and the associated greater need for investment |

Prior-year figures in line with the new segment structure
1) Forecast for the old Performance Chemicals segment, i.e. including the former Rhein Chemie Additives business unit, which is now part of the Specialty Additives segment.

In the combined management report for fiscal year 2016, we predicted that EBITDA pre exceptionals would be slightly higher in 2017 than in the previous year (€995 million). This forecast did not contain any effects arising from the planned acquisition of Chemtura. Following successful completion of the transaction on April 21, 2017, we forecast EBITDA pre exceptionals of between €1,225 million and €1,300 million and recently set a more specific figure of €1,250 million to €1,300 million in our reporting for the third quarter of 2017. The actual result of €1,290 million was at the upper end of this range and exceeded the previous year's by 29.6%.

The forecast originally prepared for fiscal year 2017 was based on the old Group structure in place at the time with four operating segments. On this basis, the results for existing business exceeded expectations. At minus €168 million, the reconciliation was also better than expected. The acquired Chemtura business units helped to ensure that EBITDA pre exceptionals was even further above the forecast.

Despite negative exchange rate effects, the early implementation of measures to improve operational competitiveness, which resulted in higher capacity utilization, led to earnings expectations being exceeded.

We had expected net income of LANXESS AG in the reporting year to be substantially lower than in the previous year. Largely due to a sharp fall in income from affiliated companies, net income totaled €23 million compared with €578 million in the prior-year period, which was influenced by special effects resulting from the establishment of ARLANXEO, a merger and changes in commercial law concerning the valuation of pension obligations.

## BUSINESS PERFORMANCE OF THE LANXESS GROUP

- Operational integration of the acquired Chemtura businesses successfully completed
- Acquired Chemtura businesses have significant positive impact on sales and earnings
- Sales volumes in all segments up on the previous year and 5.1% higher overall
- Substantial improvement of EBITDA pre exceptionals by 29.6% to €1,290 million
- EBITDA margin pre exceptionals at 13.3%, after 12.9% in the previous year
- Net income and earnings per share held back by exceptional charges
- Earnings per share adjusted for exceptional items and amortization of intangible assets increase from €2.69 to €4.14

**Key Financial Data**

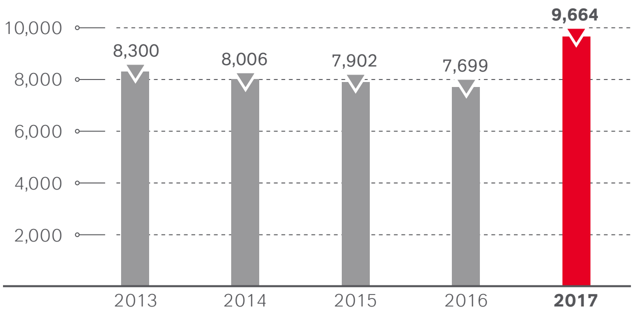
| € million | 2016 | 2017 | Change % |
|---|---|---|---|
| Sales | 7,699 | 9,664 | 25.5 |
| Gross profit | 1,754 | 2,145 | 22.3 |
| EBITDA pre exceptionals | 995 | 1,290 | 29.6 |
| EBITDA margin pre exceptionals | 12.9% | 13.3% | – |
| EBITDA | 945 | 1,072 | 13.4 |
| Operating result (EBIT) pre exceptionals | 514 | 695 | 35.2 |
| Operating result (EBIT) | 464 | 434 | (6.5) |
| EBIT margin | 6.0% | 4.5% | – |
| Financial result | (125) | (109) | 12.8 |
| Income before income taxes | 339 | 325 | (4.1) |
| Net income | 192 | 87 | (54.7) |
| Earnings per share (€) | 2.10 | 0.95 | (54.7) |
| Earnings per share adjusted for exceptional items and amortization of intangible assets | 2.69 | 4.14 | 53.9 |

## Sales and earnings

In the reporting period, LANXESS Group sales rose significantly by €1,965 million (25.5%) from €7,699 million in the previous year to €9,664 million. This performance was mainly influenced by the sales contributed from the acquired Chemtura businesses. The integration of the Chemtura business units and the contribution made by the Clean and Disinfect specialties business acquired in the previous year in the Material Protection Products business unit led to an increase in sales of 13.6%. In addition, the adjustment of selling prices, driven by raw material prices, and the increase in sales volumes had a positive impact. Higher selling prices led to a 7.9% sales increase and higher volumes to a 5.1% sales increase. By contrast, adverse exchange rate effects in the second half of the year saw sales decline by 1.1% overall.

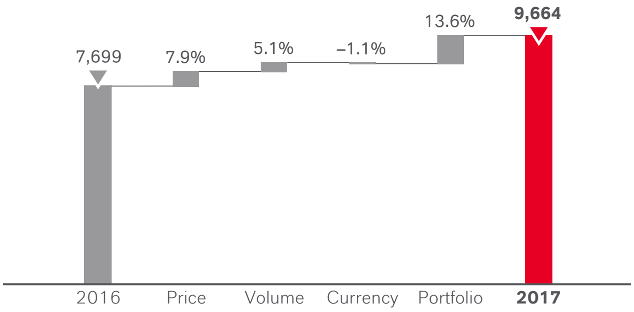
**Group Sales**

€ million




**Effects on Sales**

€ million



Our *Advanced Intermediates* segment posted a 13.1% increase in sales. The integration of Chemtura's organometallics operations into the Advanced Industrial Intermediates business unit had a particularly positive effect on sales. Higher selling prices due to an increase in procurement prices for raw materials and the positive volume trend boosted sales. By contrast, exchange rate movements had a slightly negative impact on sales.

Sales of our *Specialty Additives* segment were up by 90.7% on the previous year. This near-doubling of sales is mainly attributable to the integration of Chemtura's additives business into the new Additives business unit. The rise in sales was also driven by higher volumes in our existing additives business. Currency effects had an unfavorable effect on sales. Prices were slightly above prior-year levels.

Sales in our *Performance Chemicals* segment advanced by 10.5%. The integration of the Clean and Disinfect specialties business acquired in the previous year into the Material Protection Products business unit had a positive effect on sales. In addition, higher volumes and increased selling prices resulted in positive sales development. The impact of negative exchange rate effects decreased sales.

Our *Engineering Materials* segment posted a 29.4% increase in sales. This development was partly the result of the contribution from the newly acquired urethanes business. There was also a positive effect on sales for the High Performance Materials business unit as a result of higher selling prices and volumes. Exchange rates had a slightly negative impact on sales.

*ARLANXEO* posted a sales increase of 19.2%. This growth was particularly influenced by the increase in selling prices, reflecting higher raw material prices, and the rise in volumes. Exchange rate effects had a negative impact on the development of sales.

**Sales by Segment**

| € million | 2016 | 2017 | Change % | Proportion of Group sales % |
|---|---|---|---|---|
| Advanced Intermediates | 1,742 | 1,970 | 13.1 | 20.4 |
| Specialty Additives | 841 | 1,604 | 90.7 | 16.6 |
| Performance Chemicals | 1,301 | 1,438 | 10.5 | 14.9 |
| High Performance Materials | 1,056 | 1,366 | 29.4 | 14.1 |
| ARLANXEO | 2,710 | 3,230 | 19.2 | 33.4 |
| Reconciliation | 49 | 56 | 14.3 | 0.6 |
| | **7,699** | **9,664** | **25.5** | **100.0** |

Prior-year figures restated in line with the changed segment structure

## 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.

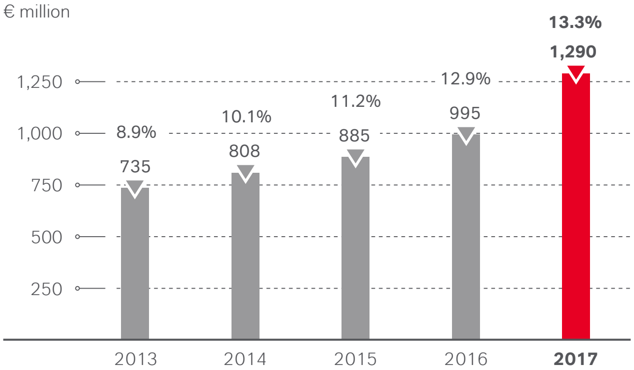
## Gross profit

The cost of sales increased by 26.5%, to €7,519 million, which was disproportionately large compared with sales. The absolute increase particularly resulted from the integration of the Chemtura business units and of the Clean and Disinfect specialties business bought in the previous year. In addition, higher procurement prices for raw materials and energy as well as higher volumes led to higher costs. By contrast, the movement in exchange rates, particularly of the U.S. dollar, had a positive effect on our manufacturing costs. Capacity utilization of around 82% was 2 percentage points above the prior-year level.

Gross profit was €2,145 million, up by €391 million or 22.3% against the previous year. This increase particularly resulted from the acquisition of the new business units from Chemtura and of the Clean and Disinfect specialties business bought in the previous year, as well as higher volumes. By contrast, the change in exchange rates had a negative impact on our sales. The increase in procurement prices for raw materials and energy was passed on to the market. The gross profit margin fell accordingly, from 22.8% to 22.2%.

## EBITDA pre exceptionals and operating result (EBIT)

**EBITDA and EBITDA Margin Pre Exceptionals**
€ million




Our operating result before depreciation and amortization (EBITDA) pre exceptionals increased by €295 million, or 29.6%, to €1,290 million in fiscal year 2017, after €995 million in the previous year. Positive overall earnings performance at Group level was predominantly the result of higher volumes, the contribution from the newly acquired Chemtura business, the portfolio contribution from the Clean and Disinfect specialties business acquired in the previous year and the strong operating performance of the other LANXESS business units. In contrast, the exchange rate trend had a negative impact on earnings. The increase in procurement prices for raw materials and energy was successfully passed on to the market by adjusting selling prices. Selling expenses rose by 22.0% to €953 million, especially due to portfolio effects, a volume-driven increase in freight costs and higher freight rates. Research and development costs amounted to €145 million, compared with €131 million in the previous year, while general administration expenses rose by €79 million to €382 million. The increase in the specific functional cost areas was largely attributable to the integration of the Chemtura businesses. The EBITDA margin pre exceptionals rose from 12.9% to 13.3%.

EBITDA pre exceptionals in our *Advanced Intermediates* segment amounted to €335 million compared with €326 million in the previous year. Higher volumes in particular resulted in a positive earnings contribution. Disadvantageous exchange rate effects had a countervailing effect. Higher procurement prices for raw materials and energy were passed on to customers by adjusting selling prices. The acquired organometallics business had virtually no impact on earnings performance.

Our *Specialty Additives* segment generated EBITDA pre exceptionals of €267 million, up by €116 million year-on-year. Earnings were lifted in particular by the portfolio effect from the acquired additives business. Higher volumes also impacted earnings positively. Higher procurement prices for raw material and energy resulted in an adjustment to selling prices. In addition, exchange rates had a negative impact on earnings.

The *Performance Chemicals* segment generated EBITDA pre exceptionals of €252 million, an increase of €29 million or 13.0% on the previous year. Higher volumes, in particular, had a positive impact on sales. Higher procurement prices for raw materials stood against higher selling prices. In addition, the contribution from the Clean and Disinfect specialties business acquired in the previous year improved earnings. The impact of negative exchange rate effects held back earnings.

EBITDA pre exceptionals in the *Engineering Materials* segment advanced by €60 million to €219 million, compared with the prior-year level of €159 million. Higher procurement prices for raw materials were passed on to customers by adjusting selling prices. In addition, increased volumes and the contribution from the acquired Urethanes business unit helped to improve earnings. Disadvantageous exchange rate effects had a countervailing effect.

*ARLANXEO* posted EBITDA pre exceptionals of €385 million compared with €373 million in the previous year. Higher volumes had a positive impact on sales. Higher procurement prices for raw materials and energy were passed on to customers by adjusting selling prices. Earnings were diminished by the considerable volatility of raw material prices and a negative currency effect.

**EBITDA Pre Exceptionals by Segment**

| € million | 2016 | 2017 | Change % |
|---|---|---|---|
| Advanced Intermediates | 326 | 335 | 2.8 |
| Specialty Additives | 151 | 267 | 76.8 |
| Performance Chemicals | 223 | 252 | 13.0 |
| Engineering Materials | 159 | 219 | 37.7 |
| ARLANXEO | 373 | 385 | 3.2 |
| Reconciliation | (237) | (168) | 29.1 |
| | **995** | **1,290** | **29.6** |

Prior-year figures restated in line with the changed segment structure

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

**Reconciliation of EBITDA Pre Exceptionals to Operating Result (EBIT)**

| € million | 2016 | 2017 | Change % |
|---|---|---|---|
| **EBITDA pre exceptionals** | **995** | **1,290** | **29.6** |
| Depreciation and amortization/reversals of impairment charges | (481) | (638) | (32.6) |
| Exceptional items in EBITDA | (50) | (218) | < (100) |
| **Operating result (EBIT)** | **464** | **434** | **(6.5)** |

The operating result (EBIT) of the Group totaled €434 million compared with €464 million in the previous year. The decline, which is the result of the exceptional items detailed in the following paragraph, was partially offset by a strong earnings performance. Depreciation and amortization of intangible assets and property, plant and equipment amounted to €639 million (previous year: €481 million) and also reflects the scheduled depreciation and amortization from our new Chemtura businesses and depreciation and amortization arising from the purchase price allocation of Chemtura as well as depreciation and amortization arising from the consolidation of the production of lubricant precursors and the planned discontinuation of production at the Ankerweg site in Amsterdam, the Netherlands, in November 2018 at the latest. €51 million of this was unscheduled, including exceptional items of €43 million. On the other hand, reversals of impairment charges totaling €1 million were recognized. Write-downs for the previous year amounted to €9 million.

Other operating result, which is the balance between other operating income and expenses, amounted to minus €231 million compared with minus €75 million in the previous year. Adjusted for exceptional items, it came to €30 million, which was €55 million higher than in the previous year. This increase was largely attributable to an improved result of currency hedging transactions. The net negative exceptional items of €261 million for the reporting year resulted from negative exceptional items of €272 million and positive exceptional items of €11 million, with the latter fully impacting on EBITDA. The negative exceptional items, of which €229 million impacted EBITDA and €43 million did not, were mainly connected with the acquisition of Chemtura, the bundling of the Group's international chromium value chain in South Africa and the associated ending of production at the Zárate site in Argentina as well as expenses relating to the consolidation of production of lubricant precursors and the intended discontinuation of production at the Ankerweg site in Amsterdam, Netherlands. €5.3 million of the positive exceptional items related to the sale of the U.S. subsidiary International Dioxcide Inc. at the North Kingstown site in Rhode Island, U.S., of the Material Protection Products business unit. In the previous year, net negative exceptional items of €50 million resulted from negative exceptional items of €56 million and positive exceptional items of €6 million. The exceptional items mainly related to the strategic realignment of the Group.

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

**Reconciliation of EBIT to Net Income**

| € million | 2016 | 2017 | Change % |
|---|---|---|---|
| **Operating result (EBIT)** | **464** | **434** | **(6.5)** |
| Income from investments accounted for using the equity method | 0 | 0 | – |
| Net interest expense | (63) | (85) | (34.9) |
| Other financial income and expense | (62) | (24) | 61.3 |
| **Financial result** | **(125)** | **(109)** | **12.8** |
| **Income before income taxes** | **339** | **325** | **(4.1)** |
| Income taxes | (144) | (201) | (39.6) |
| **Income after income taxes** | **195** | **124** | **(36.4)** |
| of which: | | | |
| attributable to non-controlling interests | 3 | 37 | > 100 |
| attributable to LANXESS AG stockholders (net income) | **192** | **87** | **(54.7)** |

## Financial result

The financial result came in at minus €109 million in fiscal year 2017, compared with minus €125 million for the previous year. Due to the increased financial liabilities in connection with the acquisition of Chemtura, interest expense increased and resulted in a net interest position of minus €85 million, compared with minus €63 million in the prior-year period. As in the previous year, companies accounted for using the equity method did not generate an earnings contribution. The balance of other financial income and expenses was minus €24 million, compared with minus €62 million in the prior-year period, and was positively influenced in particular by the payout of a dividend by Currenta GmbH & Co. OHG, Leverkusen, Germany, for fiscal year 2016.

## Income before income taxes

Due to the development of the operating result, income before income taxes fell by €14 million to €325 million.

## Income taxes

In fiscal year 2017, tax expense amounted to €201 million, compared with €144 million the year before. The Group's tax rate was 61.8%, after 42.5% in the previous year. The increase in the tax rate largely resulted from the U.S. tax reform legislation passed in December 2017, especially the one-off taxation of retained earnings of foreign investments held by our U.S. companies.

### Net income/earnings per share/earnings per share pre exceptional items and amortization of intangible assets

Net income totaled €87 million compared with €192 million in the previous year, and was significantly impacted by the exceptional items described. In 2017, earnings attributable to non-controlling interests amounted to €37 million compared with €3 million in the previous year, and resulted almost exclusively from Saudi Aramco's interest in ARLANXEO.

Earnings per share are calculated by dividing net income by the weighted average number of LANXESS shares in circulation during the reporting period. Earnings per share were €0.95, below the €2.10 recorded in the previous year.

We also calculate earnings per share pre exceptional items and amortization of intangible assets, which is not defined by International Financial Reporting Standards. This value was calculated from the earnings per share adjusted for exceptional items, amortization of intangible assets and attributable tax effects. The non-recurring earnings effects of the U.S. tax reform passed in December 2017 were also taken into account. Earnings per share adjusted for exceptional items and amortization of intangible assets were €4.14 against €2.69 in the previous year.

**Reconciliation to Earnings per Share Adjusted for Exceptional Items and Amortization of Intangible Assets**

| € million | 2016 | 2017 |
|---|---|---|
| **Net income** | **192** | **87** |
| Exceptional items[1] | 47 | 259 |
| Amortization of intangible assets/ reversal of impairment charges[1] | 31 | 64 |
| Income taxes[1) 2)] | (24) | (31) |
| **Net income adjusted for exceptional items and amortization of intangible assets** | **246** | **379** |
| Number of shares outstanding | 91,522,936 | 91,522,936 |
| **Earnings per share adjusted for exceptional items and amortization of intangible assets** | **2.69** | **4.14** |

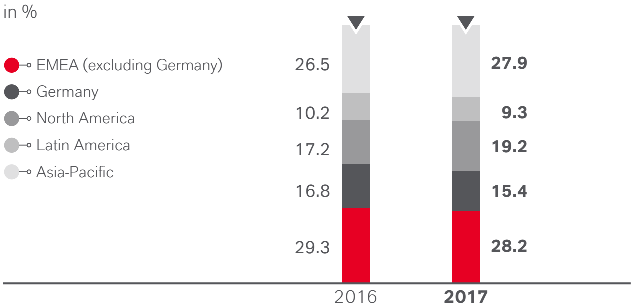
1) Excluding items attributable to non-controlling interests
2) Attributable tax effects and non-recurring earnings impacts of the U.S. tax reform.

## BUSINESS TRENDS BY REGION

**Sales by Market**

| | 2016 | | 2017 | | Change |
|---|---|---|---|---|---|
| | € million | % | € million | % | % |
| EMEA (excluding Germany) | 2,254 | 29.3 | 2,720 | 28.2 | 20.7 |
| Germany | 1,292 | 16.8 | 1,489 | 15.4 | 15.2 |
| North America | 1,326 | 17.2 | 1,859 | 19.2 | 40.2 |
| Latin America | 788 | 10.2 | 898 | 9.3 | 14.0 |
| Asia-Pacific | 2,039 | 26.5 | 2,698 | 27.9 | 32.3 |
| | **7,699** | **100.0** | **9,664** | **100.0** | **25.5** |

**Sales by Market**
in %




The acquisition of Chemtura in April 2017 and, to a limited extent, the purchase of the Chemours Clean and Disinfect specialties business in August 2016 resulted in occasionally substantial portfolio effects in the reporting period.

### EMEA (excluding Germany)

Sales in the EMEA region (excluding Germany) rose by €466 million, or 20.7%, to €2,720 million. Of this increase, €232 million was attributable to portfolio effects. After adjustment for these and for minor currency effects, sales were up by 10.6%. The ARLANXEO and Engineering Materials segments recorded sales growth in the low double-digit percentage range. The remaining segments posted growth rates in the single-digit-percentage range. Business performance in France, Italy, Turkey and Spain contributed to the positive development in the region. Slightly countervailing was the demand trend among others in some African countries.

### Germany

In Germany, the Group generated sales of €1,489 million in fiscal year 2017, up by €197 million, or 15.2%, on the previous year. After adjustment for very minor currency effects and appreciable portfolio effects of €60 million, sales rose by 10.6%. The Engineering Materials and Advanced Intermediates segments posted growth in the low double-digit percentage range. Business of the other segment rose by high single-digit percentages.

### North America

Sales in this region came to €1,859 million, up by €533 million, or 40.2%, on the previous year. Portfolio changes contributed €466 million to this. After adjustment for these and for currency effects, sales were up by 7.5%. This was largely attributable to business performance in the ARLANXEO, Advanced Intermediates and Engineering Materials segments, whose growth rates were in the high single-digit to low-double-digit percentage range. The Performance Chemicals segment increased its sales by only a low single-digit percentage, while the Specialty Additives segment fell just short of the previous year's sales figure.

### Latin America

In the Latin America region, sales rose by €110 million, or 14.0%, to €898 million. Portfolio changes contributed €27 million to this. After adjustment for these and for minor currency effects, there was an increase of 11.2%. This development was mainly driven by the ARLANXEO segment, which posted the largest absolute increase in sales in the low double-digit percentage range. The Advanced Intermediates and Specialty Additives segments bolstered this trend with growth rates of just under two digits and in the high single digits respectively. The Engineering Materials segment achieved low single-digit growth, while the Performance Chemicals segment posted a low single-digit percentage decrease in sales. Business performance in the region was mainly attributable to the rise in sales in Brazil and Mexico.

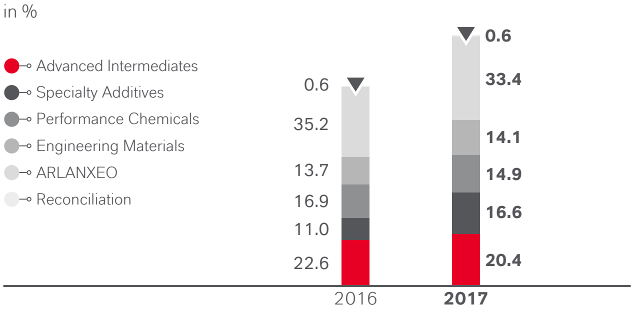
### Asia-Pacific

Sales in the Asia-Pacific region increased by €659 million, or 32.3%, to €2,698 million in fiscal year 2017. Portfolio changes accounted for €270 million. After adjustment for these and for minor currency effects, sales increased by 21.5%. This development was mainly driven by the ARLANXEO segment, which posted the largest absolute increase in sales in the high double-digit percentage range. The Performance Chemicals, Advanced Intermediates and Engineering Materials also saw their business expand by low double-digit percentages, while the Specialty Additives segment achieved only high single-digit percentage growth. The main driver of the region's positive operating performance was increasing sales in China, Singapore, Japan, India and Thailand.

## SEGMENT INFORMATION

- Advanced Intermediates: Strong business performance as a result of higher volumes, despite a challenging market environment for agrochemicals
- Specialty Additives: Substantial rise in sales and earnings driven by new Additives business of Chemtura and higher volumes in the existing additives business
- Performance Chemicals: Portfolio effects arising from the Clean and Disinfect specialties business acquired in 2016 as well as higher volumes led to growth in sales and earnings
- High Performance Materials: Significant improvement in earnings as a result of profitable business with plastics for lightweight construction and from the acquired urethanes business of Chemtura
- ARLANXEO: Positive development of sales and earnings despite the ongoing challenging competitive situation in the synthetic rubber business

**Sales by Segment**
in %




Prior-year figures restarted in line with the changed segment structure

## Advanced Intermediates

### Overview of Key Data

| | 2016 | | 2017 | | |
|---|---|---|---|---|---|
| | € million | Margin % | € million | Margin % | Change % |
| Sales | 1,742 | | 1,970 | | 13.1 |
| EBITDA pre exceptionals | 326 | 18.7 | 335 | 17.0 | 2.8 |
| EBITDA | 328 | 18.8 | 328 | 16.6 | 0.0 |
| Operating result (EBIT) pre exceptionals | 221 | 12.7 | 218 | 11.1 | (1.4) |
| Operating result (EBIT) | 223 | 12.8 | 211 | 10.7 | (5.4) |
| Cash outflows for capital expenditures | 123 | | 146 | | 18.7 |
| Depreciation and amortization | 105 | | 117[1] | | 11.4 |
| Employees as of Dec. 31 | 3,335 | | 3,661 | | 9.8 |

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

Our Advanced Intermediates segment recorded sales of €1,970 million in fiscal year 2017, 13.1% or €228 million more than in the previous year. The integration of Chemtura's organometallics operations into the Advanced Industrial Intermediates business unit had a positive effect of 5.8% on sales. Higher selling prices due to an increase in procurement prices for raw materials and larger volumes raised sales by 4.5% and 3.4% respectively. Exchange rate movements had a slightly negative impact on sales at 0.6%.

While selling prices in the Saltigo business unit were almost on a par with the previous year, the Advanced Industrial Intermediates business unit achieved higher selling prices. With demand remaining good in almost all end markets, the Advanced Industrial Intermediates business unit increased volumes. Buoyed by strong demand for fine chemicals, the Saltigo business unit posted higher volumes, particularly in the first half of the year, although these decreased due to ongoing weak demand in the agricultural industry. Sales in all regions were above prior-year levels.

EBITDA pre exceptionals in the Advanced Intermediates segment was €335 million, €9 million, or 2.8%, above the prior-year level. Higher volumes in particular contributed to this positive trend. Disadvantageous exchange rate effects had a countervailing effect. Higher procurement prices for raw materials and energy were passed on to customers by adjusting selling prices. The acquired organometallics business made virtually no contribution to earnings. The EBITDA margin pre exceptionals was 17.0%, down from 18.7% in the previous year.

In fiscal year 2017, negative exceptional items in the segment amounted to €7 million. These exceptional items fully impacted EBITDA and were largely connected to the acquisition of Chemtura. In the previous year, positive exceptional items of €2 million were posted. Please see "Notes on EBIT and EBITDA (Pre Exceptionals)" for details.

## Specialty Additives

### Overview of Key Data

| | 2016 | | 2017 | | |
|---|---|---|---|---|---|
| | € million | Margin % | € million | Margin % | Change % |
| Sales | 841 | | 1,604 | | 90.7 |
| EBITDA pre exceptionals | 151 | 18.0 | 267 | 16.6 | 76.8 |
| EBITDA | 151 | 18.0 | 192 | 12.0 | 27.2 |
| Operating result (EBIT) pre exceptionals | 123 | 14.6 | 167 | 10.4 | 35.8 |
| Operating result (EBIT) | 123 | 14.6 | 56 | 3.5 | (54.5) |
| Cash outflows for capital expenditures | 42 | | 83 | | 97.6 |
| Depreciation and amortization | 28 | | 136 | | > 100 |
| Employees as of Dec. 31 | 1,507 | | 2,936 | | 94.8 |

Prior-year figures in line with the new segment structure

Our Specialty Additives segment recorded sales of €1,604 million in fiscal year 2017, 90.7% or €763 million more than in the previous year. The integration of the Chemtura additives business into the Additives business unit resulted in an 85.5% effect on sales. Higher volumes in our existing additives business also added 6.1% to the rise in sales, with contributions from both business units. The negative exchange rate trend in both business units decreased sales in this segment by 1.2%. Both the Additives and the Rhein Chemie business units raised their selling prices slightly.

EBITDA pre exceptionals for the Specialty Additives segment was €267 million, €116 million, or 76.8%, above the prior-year level. This strong earnings performance was the result of the integration of the Chemtura additives business. Higher volumes also had a positive impact on earnings. Increased procurement prices for raw material and energy resulted in an adjustment to selling prices. In addition, exchange rates had a negative impact on earnings. The EBITDA margin pre exceptionals came in at 16.7%, against 18.0% in the previous year.

In fiscal year 2017, negative exceptional items in the segment totaled €111 million, of which €75 million impacted EBITDA and €36 million did not. These negative exceptional items related primarily to reductions in earnings arising from the Chemtura purchase price allocation and expenses in connection with the consolidation of production of lubricant precursors and the planned discontinuation of production at the Ankerweg site in Amsterdam, the Netherlands, in November 2018 at the latest. No exceptional items were recorded in the segment in the previous year. Please see "Notes on EBIT and EBITDA (Pre Exceptionals)" for details.

## Performance Chemicals

### Overview of Key Data

| | 2016 | | 2017 | | |
|---|---|---|---|---|---|
| | € million | Margin % | € million | Margin % | Change % |
| Sales | 1,301 | | 1,438 | | 10.5 |
| EBITDA pre exceptionals | 223 | 17.1 | 252 | 17.5 | 13.0 |
| EBITDA | 220 | 16.9 | 190 | 13.2 | (13.6) |
| Operating result (EBIT) pre exceptionals | 157 | 12.1 | 176 | 12.2 | 12.1 |
| Operating result (EBIT) | 154 | 11.8 | 108 | 7.5 | (29.9) |
| Cash outflows for capital expenditures | 76 | | 74 | | (2.6) |
| Depreciation and amortization | 66 | | 82 | | 24.2 |
| Employees as of Dec. 31 | 4,074 | | 3,880 | | (4.8) |

Prior-year figures in line with the new segment structure

Sales in the Performance Chemicals segment in fiscal year 2017 rose by €137 million, or 10.5%, to €1,438 million. The integration of the Clean and Disinfect specialties business acquired in 2016 into the Material Protection Products business unit had a positive effect of 4.9% on sales. Higher volumes also contributed 3.9%. The effect of higher raw material prices was passed on to customers. The price effect on sales was 3.2%. By contrast, negative currency effects decreased sales by 1.5%.

Nearly all business units in the segment recorded increased volumes. Volumes in the Inorganic Pigments business unit fell slightly. Selling prices rose as a result of the development in the Inorganic Pigments and Leather business units. Exchange rate changes had a negative impact on sales in all business units. In the Latin America region, the segment's sales were below the prior-year level. In all other regions, the segment posted positive business development.

EBITDA pre exceptionals for the Performance Chemicals segment advanced by €29 million, or 13.0%, against the previous year to €252 million. Higher volumes, in particular, had a positive impact on sales. However, negative exchange rate effects reduced earnings. The contribution of the Clean and Disinfect specialties business and the adjustments to selling prices due to higher procurement prices for raw materials and energy led to improved earnings. The EBITDA margin pre exceptionals increased from 17.1% to 17.5%.

In the reporting year, net negative exceptional items amounted to €68 million, resulting from negative exceptional items of €74 million and positive exceptional items of €6 million. The former were connected to the bundling of the Group's international chromium value chain in South Africa and the closure of the Zárate site in Argentina in the fourth quarter of 2017. €68 million of these negative exceptional items impacted EBITDA and €6 million did not. The positive exceptional items fully impacted EBITDA and largely related to the sale of the U.S. subsidiary International Dioxcide Inc. at the North Kingstown site in Rhode Island, U.S., of the Material Protection Products business unit. Negative exceptional items in the prior year amounted to €3 million and fully impacted EBITDA. Please see "Notes on EBIT and EBITDA (Pre Exceptionals)" for details.

## Engineering Materials

### Overview of Key Data

| | 2016 | | 2017 | | |
|---|---|---|---|---|---|
| | € million | Margin % | € million | Margin % | Change % |
| Sales | 1,056 | | 1,366 | | 29.4 |
| EBITDA pre exceptionals | 159 | 15.1 | 219 | 16.0 | 37.7 |
| EBITDA | 159 | 15.1 | 207 | 15.2 | 30.2 |
| Operating result (EBIT) pre exceptionals | 114 | 10.8 | 164 | 12.0 | 43.9 |
| Operating result (EBIT) | 114 | 10.8 | 151 | 11.1 | 32.5 |
| Cash outflows for capital expenditures | 46 | | 68 | | 47.8 |
| Depreciation and amortization | 45 | | 56 | | 24.4 |
| Employees as of Dec. 31 | 1,583 | | 1,976 | | 24.8 |

Prior-year figures in line with the new segment structure

Sales in our Engineering Materials segment increased by 29.4% year-on-year in fiscal year 2017, to €1,366 million. The increase in sales was, on the one hand, the result of the contribution from the newly acquired urethanes business, which added 15.7% to sales. On the other hand, there was a positive price effect of 8.0% on sales for the High Performance Materials business unit. In addition, higher sales volumes in both business units increased sales by 6.6%. Exchange rates had a negative impact on earnings of 0.9%. Sales in all regions were above prior-year levels.

EBITDA pre exceptionals in the Engineering Materials segment rose by a significant €60 million, or 37.7%, to €219 million. In the High Performance Materials business unit, higher procurement prices for raw materials were passed on to customers by adjusting selling prices. In addition, an optimized portfolio of products sold and increased sales volumes lifted earnings. However, the change in exchange rates had a negative impact on earnings. Earnings were buoyed by the contribution from the acquired urethanes business. The EBITDA margin pre exceptionals for the segment improved from 15.1% to 16.0%.

In fiscal year 2017, negative exceptional items in the segment totaled €13 million, of which €12 million impacted EBITDA and €1 million did not. The negative exceptional items were mainly the result of reductions in earnings from the purchase price allocation for Chemtura. No exceptional items were recorded in the segment in the previous year. Please see "Notes on EBIT and EBITDA (Pre Exceptionals)" for details.

## ARLANXEO

**Overview of Key Data**

| | 2016 | | 2017 | | |
|---|---|---|---|---|---|
| | € million | Margin % | € million | Margin % | Change % |
| Sales | 2,710 | | 3,230 | | 19.2 |
| EBITDA pre exceptionals | 373 | 13.8 | 385 | 11.9 | 3.2 |
| EBITDA | 375 | 13.8 | 386 | 12.0 | 2.9 |
| Operating result (EBIT) pre exceptionals | 153 | 5.6 | 158 | 4.9 | 3.3 |
| Operating result (EBIT) | 155 | 5.7 | 159 | 4.9 | 2.6 |
| Cash outflows for capital expenditures | 138 | | 149 | | 8.0 |
| Depreciation and amortization | 220 | | 227 | | 3.2 |
| Employees as of Dec. 31 | 3,463 | | 3,447 | | (0.5) |

Sales in our ARLANXEO segment rose by 19.2% year-on-year in fiscal year 2017, to €3,230 million. This growth was brought about in particular by the increase in selling prices in response to higher raw material prices in both business units, which in total resulted in a positive price effect of 14.7%. In addition, the increase in sales volumes in both business units had a positive effect on segment sales of 5.9%. In contrast, the exchange rate development of both business units had a negative impact on sales of 1.4%. Sales in all regions were above prior-year levels.

At €385 million, EBITDA pre exceptionals in the ARLANXEO segment was up on the prior-year level of €373 million. Earnings were particularly improved by higher volumes and an improved portfolio of products sold. The increase in procurement prices for raw materials and energy was passed on to the market. Earnings were diminished by a persistently challenging competitive situation for the synthetic rubber business, highly volatile raw material prices and a negative currency effect. The EBITDA margin pre exceptionals came in at 11.9%, against 13.8% in the previous year.

In the reporting year, net positive exceptional items amounted to €1 million, resulting from positive exceptional items of €3 million and negative exceptional items of €2 million. These exceptional items fully impacted EBITDA and were mainly connected with the realignment of ARLANXEO. In the previous year, net positive exceptional items of €2 million were posted. Please see "Notes on EBIT and EBITDA (Pre Exceptionals)" for details.

## Reconciliation

**Overview of Key Data**

| € million | 2016 | 2017 | Change % |
|---|---|---|---|
| Sales | 49 | 56 | 14.3 |
| EBITDA pre exceptionals | (237) | (168) | 29.1 |
| EBITDA | (288) | (231) | 19.8 |
| Operating result (EBIT) pre exceptionals | (254) | (188) | 26.0 |
| Operating result (EBIT) | (305) | (251) | 17.7 |
| Cash outflows for capital expenditures | 14 | 27 | 92.9 |
| Depreciation and amortization | 17 | 20 | 17.6 |
| Employees as of Dec. 31 | 2,759 | 3,129 | 13.4 |

EBITDA pre exceptionals for the reconciliation came to minus €168 million, compared with minus €237 million in the previous year. This change was mainly due to an improved result from hedging currency risks. Initial synergies have already been realized with regard to the increased administration expenses due to the integration of Chemtura. The net negative exceptional items of €63 million reported in the reconciliation resulted from negative exceptional items of €65 million and positive exceptional items of €2 million, and fully impacted EBITDA. The exceptional items largely resulted from expenses relating to the strategic realignment of the LANXESS Group, particularly the acquisition and integration of Chemtura, and from expenses in the context of digitalization projects. In the previous year, net negative exceptional items of €51 million were posted. 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 2016 | EBIT 2017 | EBITDA 2016 | EBITDA 2017 |
|---|---|---|---|---|
| **EBIT/EBITDA pre exceptionals** | **514** | **695** | **995** | **1,290** |
| **Advanced Intermediates** | **2** | **(7)** | **2** | **(7)** |
| Strategic realignment[1] | 0 | (4) | 0 | (4) |
| Other | 2 | (3) | 2 | (3) |
| **Specialty Additives** | **0** | **(111)** | **0** | **(75)** |
| Strategic realignment[1] | 0 | (63) | 0 | (56) |
| Optimization of the production network[2] | 0 | (48) | 0 | (19) |
| **Performance Chemicals** | **(3)** | **(68)** | **(3)** | **(62)** |
| Strategic realignment | (3) | 0 | (3) | 0 |
| Optimization of the production network[3] | 0 | (73) | 0 | (67) |
| Other | 0 | 5 | 0 | 5 |
| **Engineering Materials** | **0** | **(13)** | **0** | **(12)** |
| Strategic realignment[1] | 0 | (13) | 0 | (12) |
| **ARLANXEO** | **2** | **1** | **2** | **1** |
| Strategic realignment | 2 | 1 | 2 | 1 |
| **Reconciliation** | **(51)** | **(63)** | **(51)** | **(63)** |
| Strategic realignment | (42) | (33) | (42) | (33) |
| Digitalization and other | (9) | (30) | (9) | (30) |
| **Total exceptional items** | **(50)** | **(261)** | **(50)** | **(218)** |
| **EBIT/EBITDA** | **464** | **434** | **945** | **1,072** |

1) The exceptional items mainly related to the purchase price allocation and integration of Chemtura.
2) The exceptional items resulted primarily from expenses in connection with the consolidation of the production of lubricant precursors and the planned discontinuation of production at the Ankerweg site in Amsterdam, the Netherlands, in November 2018 at the latest.
3) The exceptional items were connected to the bundling of the Group’s international chromium value chain in South Africa and the closure of the Zárate site in Argentina in the fourth quarter of 2017.

*EBITDA* is calculated from earnings (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

### Statement of financial position

› Increase in total assets primarily as a result of the acquisition of Chemtura
› Equity ratio down from 37.7% to 32.8%, largely due to differences from foreign currency translation in other comprehensive income

**Structure of the Statement of Financial Position**

| | Dec. 31, 2016 | | Dec. 31, 2017 | | Change |
|---|---|---|---|---|---|
| | € million | % | € million | % | % |
| **ASSETS** | | | | | |
| Non-current assets | 4,519 | 45.8 | 6,439 | 61.9 | 42.5 |
| Current assets | 5,358 | 54.2 | 3,957 | 38.1 | (26.1) |
| **Total assets** | **9,877** | **100.0** | **10,396** | **100.0** | **5.3** |
| **EQUITY AND LIABILITIES** | | | | | |
| Equity (including non-controlling interests) | 3,728 | 37.7 | 3,414 | 32.8 | (8.4) |
| Non-current liabilities | 4,516 | 45.7 | 4,525 | 43.5 | 0.2 |
| Current liabilities | 1,633 | 16.6 | 2,458 | 23.6 | 50.5 |
| **Total equity and liabilities** | **9,877** | **100.0** | **10,396** | **100.0** | **5.3** |

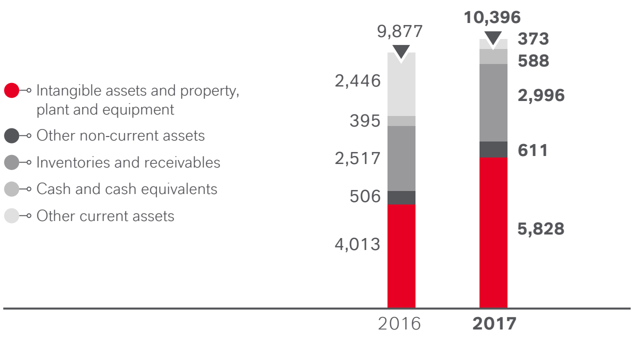
### Structure of the statement of financial position

As of December 31, 2017, the LANXESS Group’s total assets stood at €10,396 million, €519 million or 5.3% more than at the end of the previous year. This growth was attributable in particular to the acquisition of Chemtura.

Non-current assets increased by €1,920 million to €6,439 million. Intangible assets and property, plant and equipment rose by €1,815 million to €5,828 million here. Particularly on account of the goodwill resulting from the Chemtura acquisition, intangible assets rose to €1,769 million. For further information, please see the “Companies consolidated” section of the Notes.

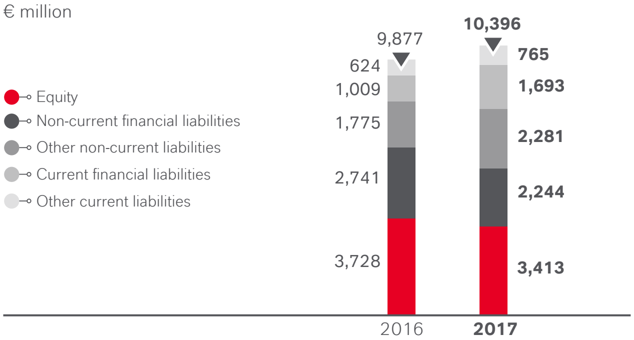
**Structure of the Statement of Financial Position – Assets**

€ 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 €547 million, up on the prior-year figure of €439 million. Net of reversals of write-downs of €1 million (previous year: €0 million), depreciation rose by €157 million from the prior-year level of €481 million to €638 million. The carrying amount of investments accounted for using the equity method was €0 million, the same as in the previous year. At €442 million, deferred tax assets were on a par with the previous year. The ratio of non-current assets to total assets rose from 45.8% to 61.9% on December 31, 2017.

Current assets decreased by €1,401 million, or 26.1%, compared with December 31, 2016, to €3,957 million. This effect was mainly attributable to the decrease in current financial assets from €2,123 million to €7 million. This decrease resulted primarily from maturing time deposits and the sale of securities to finance the Chemtura purchase price. Inventories were up by €251 million, or 17.6%, to €1,680 million, mainly due to portfolio effects. Currency effects had the opposite impact on inventories. Days of sales in inventory (DSI) decreased year-on-year from 67.2 to 64.7 days as a result of the positive sales development. Trade receivables rose again by €228 million, or 21.0%, to €1,316 million. At 50.7, days of sales outstanding (DSO) were on a par with the prior-year level of 51.1 days. Cash and cash equivalents increased by €183 million to €538 million. Near-cash assets rose to €50 million in the reporting year (previous year: €40 million). The ratio of current assets to total assets was 38.1%, compared with 54.2% on December 31, 2016.

Equity fell by €315 million, or 8.4%, to €3,413 million compared with December 31, 2016. A positive contribution of income after taxes was more than offset in particular by negative differences resulting from the currency translation of operations outside the euro zone, posted in other comprehensive income. The ratio of equity to the Group's total assets was 32.8% as of December 31, 2017, compared with 37.7% as of December 31, 2016.

Non-current liabilities as of December 31, 2017, rose by €9 million to €4,525 million. Provisions for pensions and other post-employment benefits increased by €241 million compared with the end of 2016, to €1,490 million. In addition, other non-current provisions rose from €319 million to €460 million. Both pensions and other post-employment benefits and other non-current provisions increased mainly because of the acquisition of Chemtura. The decrease in other non-current financial liabilities by €492 million to €2,242 million as of December 31, 2017, mainly resulted from the reclassification of a bond maturing in 2018 under current financial liabilities. The ratio of non-current liabilities to total assets was 43.5%, compared with 45.7% as of December 31, 2016.

Current liabilities came to €2,458 million, up by €825 million, or 50.5%, compared with December 31, 2016. The aforementioned reclassification of a bond from non-current to current financial liabilities was a key factor in their increase by €555 million to €633 million. Furthermore, other current provisions increased by €119 million to €525 million, and trade payables by €159 million to €1,048 million. The ratio of current liabilities to total assets was 23.6% as of December 31, 2017, after 16.6% at the end of 2016.

At €2,252 million, net financial liabilities were down on the figure as at December 31, 2016, of €2,394 million. After deduction of time deposits and securities available for sale, net financial liabilities as of December 31, 2017, increased to €2,252 million, compared with €269 million at the end of the previous year. This was largely due to the purchase price payment for Chemtura.

The Group's key ratios developed as follows:

**Ratios**

| in % | | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|
| **Equity ratio** | Equity[1] / Total assets | 27.9 | 29.8 | 32.2 | 37.7 | 32.8 |
| **Non-current asset ratio** | Non-current assets / Total assets | 52.7 | 56.6 | 57.9 | 45.8 | 61.9 |
| **Asset coverage I** | Equity[1] / Non-current assets | 52.9 | 52.7 | 55.6 | 82.5 | 53.0 |
| **Asset coverage II** | Equity[1] and non-current liabilities / Non-current assets | 137.2 | 136.7 | 125.8 | 182.4 | 123.3 |
| **Funding structure** | Current liabilities / Total liabilities | 38.3 | 32.3 | 40.0 | 26.6 | 35.2 |

1) Equity includes non-controlling interests.

## Capital expenditures

In 2017, our capital expenditures for property, plant and equipment and intangible assets amounted to €560 million, against €462 million in the previous year. Cash outflows made up €547 million of this total (previous year: €439 million). In the same period, depreciation and amortization totaled €639 million (previous year: €481 million), with depreciation and amortization being mitigated in the current year by reversals of write-downs of €1 million (previous year: €0 million). In addition, the figure for depreciation and amortization in 2017 included write-downs of €51 million (previous year: €9 million).

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

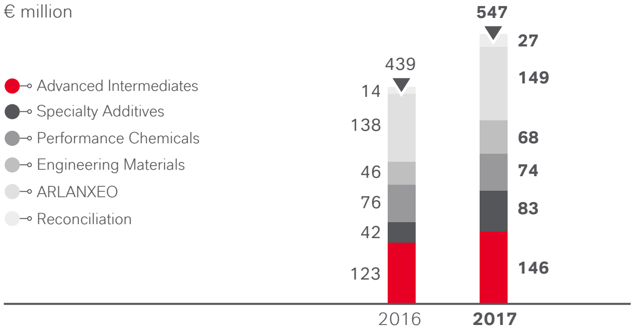
› Expansion and maintenance of existing facilities, construction of new facilities
› Measures to increase plant availability
› Projects to improve plant safety, enhance quality and comply with environmental protection requirements

Around two-thirds of the capital expenditures in 2017 went to maintain existing facilities, while the rest went toward expansion or efficiency improvement measures.

In regional terms, 42% of our capital expenditures in the reporting period were made in Germany, 25% in the EMEA region (excluding Germany), 17% in North America, 7% in Latin America and 9% in Asia-Pacific. Capital expenditures in Germany mostly comprised our investments to increase capacity and modernize facilities in all segments, especially investments in the Saltigo and Advanced Industrial Intermediates business units. Some of the capital expenditures made in the EMEA region (excluding Germany) were used at the site in Antwerp, Belgium, to further optimize production in the context of realignment to improve operational competitiveness. A portion of the capital expenditures in the Asia-Pacific region related to construction of a new plant for high-performance plastics at the site in Changzhou, China.

**Cash Outflows for Capital Expenditures by Segment**

€ million




Prior-year figures in line with the new segment structure

Capital expenditures in the Advanced Intermediates segment amounted to €156 million (previous year: €136 million). At €146 million (previous year: €123 million), cash outflows exceeded depreciation and amortization of €117 million (previous year: €105 million). These included cash outflows in connection with the construction of two multi-purpose production lines for the Saltigo business unit at the Leverkusen site in Germany. Production will commence in January 2018. Furthermore, in 2017, the Advanced Industrial Intermediates business unit, which is also part of the Advanced Intermediates segment, began significantly expanding production capacity at the sites in Leverkusen, the Uerdingen district of Krefeld and Brunsbüttel in Germany. Capital expenditures of €84 million were made in the Specialty Additives segment (previous year: €44 million). Cash outflows made up €83 million of this total (previous year: €42 million). By contrast, depreciation and amortization stood at €136 million (previous year: €28 million). The increase in capital expenditures largely resulted from the acquisition of Chemtura and the associated greater need for investment, particularly at the El Dorado site in the U.S. In the Performance Chemicals segment, capital expenditures came to €75 million (previous year: €80 million), €74 million (previous year: €76 million) of which were cash outflows. By contrast, depreciation and amortization stood at €82 million (previous year: €66 million). This also includes various smaller investment projects of the Inorganic Pigments business unit. In the Engineering Materials segment, capital expenditures totaled €68 million (previous year: €47 million), €68 million (previous year: €46 million) of which were cash outflows. Depreciation and amortization came to €56 million (previous year: €45 million). Some of the capital expenditures in this segment related to production optimization at the Belgian sites in the High Performance Materials business unit. In this business unit, LANXESS is also investing in construction of a new plant for high-performance plastics of the Durethan and Pocan brands at the Changzhou site, China. This compounding facility is set to start production in the second quarter of 2019.

In the ARLANXEO segment, capital expenditures totaled €150 million (previous year: €138 million), €149 million (previous year: €138 million) of which were cash outflows. Depreciation and amortization came to €227 million (previous year: €220 million). The major capital expenditures in this segment were made in the Tire & Specialty Rubbers business unit.

## Financial condition

- Strong cash flow from operating activities
- Cash flow provided by investing activities influenced by acquisition of Chemtura and interim investments of liquid assets
- 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 | 2016 | 2017 | Change |
|---|---|---|---|
| Income before income taxes | 339 | 325 | (14) |
| Depreciation and amortization/ reversals of impairment charges | 481 | 638 | 157 |
| Other items | (84) | (23) | 61 |
| **Net cash provided by operating activities before change in net working capital** | **736** | **940** | **204** |
| Change in net working capital | (47) | (72) | (25) |
| **Net cash provided by operating activities** | **689** | **868** | **179** |
| **Net cash used in investing activities** | **(2,879)** | **(167)** | **2,712** |
| **Net cash provided by (used in) financing activities** | **2,173** | **(508)** | **(2,681)** |
| Change in cash and cash equivalents from business activities | (17) | 193 | 210 |
| Cash and cash equivalents as of December 31 | 355 | 538 | 183 |
| Free cash flow | 250 | 321 | 71 |

Cash provided by operating activities, before changes in net working capital, increased by €204 million to €940 million in fiscal year 2017. The starting point was income before taxes of €325 million, which was down by €14 million year-on-year. Income before taxes was negatively impacted by depreciation and amortization of €638 million (net of reversals of write-downs of €1 million), which was up by €157 million on the prior-year level of €481 million. The increase in depreciation and amortization resulted primarily from an increased fixed asset portfolio following the acquisition of Chemtura. The other items in the reporting year included tax payments, effects from currency hedging of intercompany loans and cash outflows for variable compensation.

The change in net working capital against December 31, 2016, resulted in a cash outflow of €72 million compared with €47 million in the previous year. The outflow in the reporting period resulted in particular from the increase in trade receivables and inventories, while the rise in trade payables had a countervailing effect. Therefore, the net cash provided by operating activities totaled €868 million, which was well above the prior-year inflow of €689 million.

Investing activities resulted in a cash outflow of €167 million in fiscal year 2017, compared with €2,879 million in the prior-year period. While the outflow in the previous year largely stemmed from the investment of funds received from the issuance of new bonds for financing the acquisition of Chemtura, the returns from these investments and the subsequent purchase price payment had an impact in the reporting year. Cash outflows for purchases of intangible assets and property, plant and equipment amounted to €547 million, up on the prior-year figure of €439 million. Interest and dividends received totaled €56 million in fiscal year 2017, and mainly comprised the payment of a dividend by Currenta GmbH & Co. OHG, Leverkusen, Germany. At €2 million, cash inflows from the sale of intangible assets and property, plant and equipment were below the prior-year level of €7 million.

Net cash used in financing activities came to €508 million, against net cash provided by financing activities of €2,173 million the year before. One significant effect in the fiscal year was the repayment of borrowings of €523 million. In the previous year, the cash inflow for Saudi Aramco's interest in ARLANXEO and the issuance of eurobonds had a major impact on net cash inflows. Interest payments and other financial disbursements of €84 million were up on the previous year's amount of €73 million. An outflow of €67 million was accounted for by the dividend paid to the stockholders of LANXESS AG for fiscal year 2016, after €55 million in the previous year.

The net increase in cash and cash equivalents from business activities in fiscal year 2017 was €193 million, against a decrease of €17 million the previous year. After taking into account currency-related and other changes in cash and cash equivalents of €10 million, cash and cash equivalents at the closing date amounted to €538 million, against €355 million at the previous year's closing date. Taken together with near-cash assets (short-term investment of liquid assets in money market funds) of €50 million, which were higher than in the prior year (€40 million), the Group retained a solid liquidity position of €588 million as of December 31, 2017, compared with €395 million at the end of 2016.

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 €71 million to €321 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 fiscal year 2017, the rating agencies Standard & Poor's and Moody's confirmed their ratings for LANXESS of BBB– and Baa3, respectively. Standard & Poor's improved its outlook from "negative" to "stable," while Moody's kept its outlook at "stable." In January 2018, the European rating agency Scope performed an assessment of LANXESS for the first time. Scope Ratings rates LANXESS as BBB and has issued a stable outlook.

**Development of LANXESS Ratings and Rating Outlook Since 2013**

| | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|
| Standard & Poor's | BBB/negative<br>June 27, 2013 | BBB–/stable<br>May 19, 2014 | BBB–/positive<br>Sept. 24, 2015 | BBB–/negative<br>Sept. 26, 2016 | BBB–/stable<br>July 31, 2017 |
| Moody's Investors Service | Baa2/negative<br>August 14, 2013 | Baa3/stable<br>June 20, 2014 | Baa3/stable<br>July 2, 2015 | Baa3/stable<br>Sept. 26, 2016 | Baa3/stable<br>Oct. 20, 2017 |

### *Financing analysis*

In fiscal year 2017, LANXESS retained a balanced financing structure and a solid liquidity position. A corporate bond from the acquired Chemtura Corporation with an amount of US$450 million and a coupon of 5.75% was repaid prior to maturity in July 2017. LANXESS did not issue any new bonds in fiscal year 2017.

The existing debt issuance program allows the very flexible placement of bonds on the capital market. As of December 31, 2017, just under €2.2 billion of the €5 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.

Current financial liabilities increased from €78 million in the previous year to €633 million as of December 31, 2017. The rise in the fiscal year was largely based on the reclassification of the bond that matures in May 2018 in the amount of €500 million from non-current to current financial liabilities. We made only limited use of finance leases, which are reported as financial liabilities in the statement of financial position. As of December 31, 2017, the financial liabilities from finance leases were down slightly on the previous year at €61 million. The LANXESS Group uses operating leases mainly for operational reasons and not as a means of financing. Minimum non-discounted future payments relating to operating leases totaled €315 million against €334 million in the previous year.

As of December 31, 2017, LANXESS had no material financing items off statement of financial position in the form of factoring, asset-backed structures or project financing, for example.

The Group's total financial liabilities, net of accrued interest, increased from €2,789 million in 2016 to €2,840 million as of December 31, 2017. Net financial liabilities – total financial liabilities net of cash, cash equivalents, accrued interest and near-cash assets – amounted to €2,252 million in the reporting year, down from €2,394 million as of December 31, 2016. As of December 31, 2016, moreover, time deposits and securities available for sale totaling €2,125 million were deducted. Net financial liabilities after deduction of time deposits and securities available for sale amounted to €269 million at the end of 2016. There were no corresponding financial assets to deduct as of December 31, 2017. 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 97% in the reporting year, down slightly on the prior-year level of 98%. The weighted average interest rate for our financial liabilities was 2.7% at year end 2017, in line with the prior-year figure.

The following overview shows LANXESS's financing structure as of December 31, 2017, in detail, including its principal liquidity reserves.

**Financing Structure**

| Instrument | Amount € million | Term | Interest rate % | Financial covenant |
|---|---|---|---|---|
| Eurobond 2011/2018 (€500 million) | 500 | May 2018 | 4.125 | no |
| Eurobond 2016/2021 (€500 million) | 497 | October 2021 | 0.250 | no |
| Eurobond 2012/2022 (€500 million) | 496 | November 2022 | 2.625 | no |
| Eurobond 2016/2026 (€500 million) | 493 | October 2026 | 1.000 | no |
| Hybrid bond 2016/2076 (€500 million) | 489 | 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 | 105 | n/a | | no |
| Finance lease | 61 | n/a | | no |
| **Total financial liabilities** | **2,840** | | | |
| Cash and cash equivalents | 538 | ≤ 3 months | | |
| Near-cash assets | 50 | ≤ 3 months | | |
| **Total liquidity** | **588** | | | |
| **Net financial liabilities** | **2,252** | | | |
| Time deposits and securities available for sale | 0 | | | |
| **Net financial liabilities after deduction of time deposits and securities available for sale** | **2,252** | | | |

The other loans related mainly to the use of credit facilities by subsidiaries in China, which are extended on a regular basis. No refinancing risks existed at the time these financial statements were prepared. The next bond, which matures in May 2018 and amounts to €500 million, can be redeemed from liquidity and existing credit lines. Refinancing on the capital market is another available option.

### *Liquidity analysis*

In addition to cash and cash equivalents of €538 million and near-cash assets of €50 million, LANXESS has additional liquidity reserves in the form of undrawn credit facilities. Money market investments are largely made in bilateral instruments at banks and money market funds. Around 88% of our cash funds are held in Group companies in countries with no restrictions on foreign exchange and capital transfers. The remaining approximately 12% are held in companies in regulated capital markets where cash transfers are restricted.

Thanks to our good liquidity position, our solvency was assured at all times in fiscal year 2017.

By far the most important of LANXESS's credit lines is the syndicated credit facility of €1.25 billion with a term until May 2022. The term was extended in May 2017 in the context of a supplementary agreement. Previously, the maturity date was in February 2020.

The credit facility remains largely 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 around €1.3 billion as of December 31, 2017, compared with €1.8 billion at the end of the previous year.

The total of liquid assets and undrawn credit lines gives us available liquidity of around €1.9 billion. This is around €2.4 billion less than in the previous year. The decrease relates to the completed acquisition of Chemtura. Our solvency is safeguarded for the short and long term.

## MANAGEMENT'S SUMMARY OF BUSINESS DEVELOPMENT AND THE FISCAL YEAR

In the reporting period, LANXESS Group sales climbed by 25.5% from €7,699 million in the previous year to €9,664 million. This rise in sales resulted in roughly equal measure from the acquired Chemtura business units and the existing business of the LANXESS Group. The Clean and Disinfect specialties business acquired in the previous year also had a pleasing portfolio effect on sales. Reflecting raw material prices and volumes, higher sales were recorded for existing business in all operating segments, although they were slightly diminished by adverse exchange rate effects.

EBITDA pre exceptionals in 2017 increased by €295 million from €995 million to €1,290 million. This mainly stemmed from a contribution from the acquired Chemtura business units as well as improved earnings from existing business, which chiefly benefited from increased volumes.

As a result of significant non-recurring exceptional items, net income and earnings per share fell year-on-year from €192 million to €87 million and from €2.10 to €0.95 respectively.

We view the development of earnings as positive overall.

We upheld our conservative accounting and financing policy in 2017 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. The equity ratio fell from 37.7% to 32.8%, largely due to currency effects in other comprehensive income. Total assets increased from €9,877 million to €10,396 million, largely as a result of the Chemtura acquisition.

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 decreased by €142 million to €2,252 million. In fiscal year 2017, the rating agencies Standard & Poor's and Moody's confirmed our ratings of BBB– and Baa3, respectively. Standard & Poor's improved its outlook from "negative" to "stable," while Moody's kept its outlook at "stable."

We continue to regard our business situation as positive. With the acquisition of Chemtura, we have strengthened our regional presence, particularly in North America, and have taken a major step towards becoming a more stable specialty chemicals group with a stronger cash flow and a more balanced portfolio.

## KEY BUSINESS DATA – MULTI-PERIOD OVERVIEW

**Indicators**

| € million | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|
| **Earnings performance** | | | | | |
| Sales | 8,300 | 8,006 | 7,902 | 7,699 | 9,664 |
| EBITDA pre exceptionals | 735 | 808 | 885 | 995 | 1,290 |
| EBITDA margin pre exceptionals | 8.9% | 10.1% | 11.2% | 12.9% | 13.3% |
| EBITDA | 624 | 644 | 833 | 945 | 1,072 |
| Operating result (EBIT) pre exceptionals | 288 | 402 | 422 | 514 | 695 |
| Operating result (EBIT) | (93) | 218 | 415 | 464 | 434 |
| EBIT margin | (1.1)% | 2.7% | 5.3% | 6.0% | 4.5% |
| Net income (loss) | (159) | 47 | 165 | 192 | 87 |
| Earnings per share (€) | (1.91) | 0.53 | 1.80 | 2.10 | 0.95 |
| | | | | | |
| **Financial position** | | | | | |
| Cash flow from operating activities | 641 | 797 | 692 | 689 | 868 |
| Depreciation and amortization/ reversals of impairment charges | 717 | 426 | 418 | 481 | 638 |
| Cash outflows for capital expenditures | 624 | 614 | 434 | 439 | 547 |
| Net financial liabilities | 1,731 | 1,336 | 1,211 | 2,394 | 2,252 |
| Net financial liabilities after deduction of time deposits and securities available for sale | 1,731 | 1,336 | 1,211 | 269 | 2,252 |
| | | | | | |
| **Assets and liabilities** | | | | | |
| Total assets | 6,811 | 7,250 | 7,219 | 9,877 | 10,396 |
| Non-current assets | 3,592 | 4,101 | 4,180 | 4,519 | 6,439 |
| Current assets | 3,219 | 3,149 | 3,039 | 5,358 | 3,957 |
| Net working capital | 1,679 | 1,600 | 1,526 | 1,628 | 1,948 |
| Equity (including non-controlling interests) | 1,900 | 2,161 | 2,323 | 3,728 | 3,413 |
| Pension provisions | 943 | 1,290 | 1,215 | 1,249 | 1,490 |
| | | | | | |
| **Indicators** | | | | | |
| ROCE | 5.8% | 7.9% | 8.4% | 6.9% | 9.3% |
| Equity ratio | 27.9% | 29.8% | 32.2% | 37.7% | 32.8% |
| Non-current asset ratio | 52.7% | 56.6% | 57.9% | 45.8% | 61.9% |
| Asset coverage I | 52.9% | 52.7% | 55.6% | 82.5% | 53.0% |
| Net working capital/sales | 20.2% | 20.0% | 19.3% | 21.1% | 20.2% |
| Employees (as of December 31) | 17,343 | 16,584 | 16,225 | 16,721 | 19,029 |

# 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 | 2016 | 2017 | Change % |
|---|---|---|---|
| **Sales** | **6** | **6** | **0.0** |
| Cost of sales | (6) | (6) | 0.0 |
| **Gross profit** | **0** | **0** | **–** |
| General administration expenses | (37) | (46) | (24.3) |
| Other operating income | 3 | 1 | (66.7) |
| Other operating expenses | (9) | (1) | 88.9 |
| **Operating result** | **(43)** | **(46)** | **(7.0)** |
| Income from investments in affiliated companies | 762 | 194 | (74.5) |
| Income from loans held as financial assets | 8 | 9 | 12.5 |
| Net interest expense | (50) | (65) | (30.0) |
| Other financial income and expenses – net | (10) | (10) | 0.0 |
| **Financial result** | **710** | **128** | **(82.0)** |
| Income (loss) before income taxes | (89) | (59) | 33.7 |
| **Income taxes** | **578** | **23** | **(96.0)** |
| **Net income** | **578** | **23** | **(96.0)** |
| Carryforward to new account | 43 | 93 | > 100 |
| Withdrawal from other retained earnings | (289) | 0 | 100.0 |
| **Distributable profit** | **332** | **116** | **(65.1)** |

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 €6 million, which was at the same level as 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 €9 million, or 24.3%, to €46 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 €46 million, compared with minus €43 million in the previous year.

The financial result, which comprises the balance of income and losses from investments in affiliated companies, the net interest position, income from other securities and loans included in financial non-current assets, and other financial income and expense, fell from €710 million to €128 million. This change was primarily due to the profit transfer of €194 million from LANXESS Deutschland GmbH, which was €568 million lower than in the previous year. The prior-year figure mainly resulted from the effects of establishing the strategic alliance for the synthetic rubber business, a merger, and changes in legal provisions governing the valuation of pension obligations. The financial result was negatively influenced by the €15 million deterioration in the net interest position to minus €65 million. The increased external financing at LANXESS AG in the previous year had a full-year effect for the first time in the reporting period.

Income taxes resulted in expenses of €59 million. These comprised tax expenses of €79 million for the reporting period and tax income of €20 million for previous years. Net income for fiscal year 2017 was €23 million after €578 million in the previous year.

As of December 31, 2017, the company reported a distributable profit of €116 million taking into account the profit carryforward of €93 million. In the previous year, a distributable profit of €332 million was posted. By resolution of the Annual Stockholders' Meeting of May 26, 2017, a further €175 million was allocated from the distributable profit for 2016 to other retained earnings.

## Asset and capital structure of LANXESS AG

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

| | Dec. 31, 2016 | | Dec. 31, 2017 | | Change |
|---|---|---|---|---|---|
| | € million | % | € million | % | % |
| **ASSETS** | | | | | |
| Financial assets | 980 | 16.6 | 980 | 19.3 | 0.0 |
| **Non-current assets** | **980** | **16.6** | **980** | **19.3** | **0.0** |
| Receivables from affiliated companies | 2,510 | 42.4 | 3,849 | 75.8 | 53.3 |
| Other assets | 1,985 | 33.5 | 51 | 1.0 | (97.4) |
| Liquid assets and securities | 415 | 7.0 | 174 | 3.4 | (58.1) |
| **Current assets** | **4,910** | **82.9** | **4,074** | **80.2** | **(17.0)** |
| **Prepaid expenses** | **29** | **0.5** | **26** | **0.5** | **(10.3)** |
| **Total assets** | **5,919** | **100.0** | **5,080** | **100.0** | **(14.2)** |
| **EQUITY AND LIABILITIES** | | | | | |
| **Equity** | **2,041** | **34.5** | **2,000** | **39.4** | **(2.0)** |
| **Provisions** | **130** | **2.2** | **124** | **2.4** | **(4.6)** |
| Bonds | 2,700 | 45.6 | 2,700 | 53.2 | 0.0 |
| Liabilities to banks | 23 | 0.4 | 34 | 0.7 | 47.8 |
| Payables to affiliated companies | 1,021 | 17.2 | 220 | 4.3 | (78.5) |
| Other liabilities | 4 | 0.1 | 2 | 0.0 | (50.0) |
| **Liabilities** | **3,748** | **63.3** | **2,956** | **58.2** | **(21.1)** |
| **Total assets** | **5,919** | **100.0** | **5,080** | **100.0** | **(14.2)** |

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 €5,080 million as of December 31, 2017, which was €839 million, or 14.2%, below the prior-year figure. Non-current assets were €980 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 increased from 16.6% to 19.3%. Current assets decreased by €836 million, or 17.0%, to €4,074 million and accounted for 80.2% of total assets, compared with 82.9% in the previous year. Receivables from subsidiaries accounted for 75.8% of total assets and related principally to short-term loans, financial transactions and claims to profit or loss transfers. Other receivables accounted for 1.0% of total assets compared with 33.5% in the previous year. The prior-year primarily resulted from non-available time deposits. The share of bank balances and securities in total assets decreased from 7.0% to 3.4%.

Equity decreased by €41 million to €2,000 million, largely due to the dividend payment for fiscal year 2016. This was partly offset by net income of €23 million. The equity ratio was 39.4%, after 34.5% at the end of 2016.

The provisions decreased by €6 million to €124 million and related mainly to commitments to employees and to statutory and contractual obligations. Liabilities decreased by €792 million to €2,956 million. This was mainly because of the decline in payables to affiliated companies, which were down by €801 million on the previous year at €220 million.

# COMPENSATION REPORT

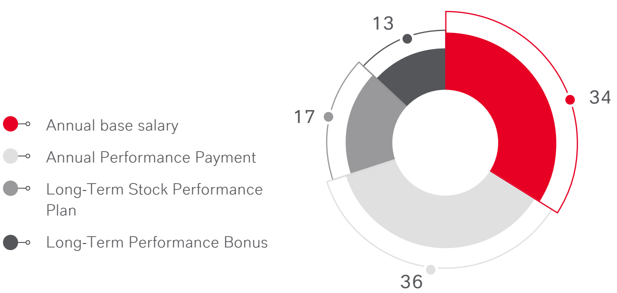
## Compensation of the Board of Management

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. 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. Consideration is also given to compensation at comparable companies and the company's overall compensation structure, including as well 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. The compensation structure is also designed to be competitive in the international market for highly qualified executives and 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.

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.

The components of the compensation for members of the Board of Management are the annual base salary; the short-term and long-term variable components, which are the Annual Performance Payment, the Long-Term Stock Performance Plan and the Long-Term Performance Bonus; and a retirement pension. The three variable components are linked to LANXESS's annual performance and to its corporate success over a number of years. The average compensation mix of 34% annual base salary and 66% variable compensation components, assuming 100% target attainment, is strongly aligned with the company's performance and long-term value creation. The present service contracts for members of the Board of Management set out the annual base salary and caps on the amounts for the variable compensation components. They do not provide for a separate cap on total compensation, even taking into account a possible discretionary bonus.

**Compensation Mix for Members of the Board of Management**
in %




### *Annual base salary*

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 that paid at other comparable companies. It is paid each month pro-rata as salary.

### *Variable compensation*

The annual performance-related component of variable compensation is the Annual Performance Payment (APP). It is based on corporate business targets such as attainment of specific targets for EBITDA pre exceptionals. As the importance of ARLANXEO to the LANXESS Group has diminished and will continue to decline, reference is made here to EBITDA pre exceptionals of New LANXESS, i.e. LANXESS excluding ARLANXEO. In the case of 100% target attainment, the individual APP budget for fiscal year 2017 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 2017, 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 considerably missed, it is possible that there is no APP payment (0%). In addition, the Supervisory Board reserves the right to reduce the APP in the event of serious occupational safety and/or environmental problems.

The Long-Term Stock Performance Plan (LTSP) over several years is another element of variable compensation. This compensation component is based on the performance of LANXESS stock. The LTSP 2014–2017 program set up in 2014 uses the MSCI World Chemicals Index as a reference value. The Dow Jones STOXX 600 Chemicals$^{SM}$ serves as a reference index for the LTSP 2010–2013, in place since 2010, from which exercisable rights are still outstanding. The LTSP responds to the call by legislators for a stronger focus on long-term company performance. It is divided into four four-year tranches. The possible payment per tranche is 30% of the individual target income, assuming 100% target attainment. The condition for participation in the LTSP is a prior personal investment each year in LANXESS shares to a value of 5% of the annual base salary. These shares are subject to an average vesting period of five years (LTSP 2010–2013) and four years (LTSP 2014–2017). The rights granted by the LTSP may be exercised at the end of these periods. The exercise period is three years in general, but five years for the 2012 and 2013 tranches.

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

The personnel expenses in fiscal year 2017 for share-based compensation were €935 thousand for Mr. Zachert (previous year: €1,966 thousand), €91 thousand for Dr. Fink (previous year: €293 thousand), €91 thousand for Mr. Pontzen (previous year: €293 thousand) and €441 thousand for Dr. van Roessel (previous year: €879 thousand).

The Long-Term Performance Bonus (LTPB), which is the third variable component, is likewise aligned with long-term corporate performance. It rewards target attainment only after two successive 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 two fiscal years. The LTPB for the Board of Management is set by the Supervisory Board and currently amounts to 45% of fixed annual compensation in the event of average APP target attainment of 100%.

Stephen C. Forsyth, appointed to the Board of Management on June 1, 2017, receives fixed compensation in the context of his one-year fixed term on the Board of Management, as well as the APP as performance-related variable compensation. However, he does not participate in the long-term compensation components LTSP and LTPB.

**Compensation of the Board of Management**

| | | **Fixed compensation** | | **Variable compensation** | | | | **Payments from LTSP rights** | |
|---|---|---|---|---|---|---|---|---|---|
| **€ thousand** | Year | Annual base salary | Compensation in kind | Performance bonus[4] | LTPB (multi-year) | Payment for previous years | Total cash compensation | Fair values | **Total** |
| Matthias Zachert | **2017** | **1,200** | **73** | **3,000** | **1,080[2]** | **(41)[4]** | **5,312** | **737** | **6,049** |
| | 2016 | 1,200 | 73 | 2,250 | 810[1] | (82)[3] | 4,251 | 1,337 | 5,588 |
| Dr. Hubert Fink | **2017** | **475** | **53** | **1,100** | **528[2]** | **(13)[4]** | **2,143** | **246** | **2,389** |
| | 2016 | 450 | 53 | 675 | 304[1] | (7)[3] | 1,475 | 446 | 1,921 |
| Michael Pontzen | **2017** | **525** | **47** | **1,100** | **528[2]** | **(13)[4]** | **2,187** | **246** | **2,433** |
| | 2016 | 450 | 44 | 675 | 304[1] | (20)[3] | 1,453 | 446 | 1,899 |
| Dr. Rainier van Roessel | **2017** | **650** | **51** | **1,300** | **585[2]** | **(19)[4]** | **2,567** | **355** | **2,922** |
| | 2016 | 650 | 50 | 975 | 439[1] | (38)[3] | 2,076 | 368 | 2,444 |
| Stephen C. Forsyth (appointed June 1, 2017) | **2017** | **263** | **–** | **525** | **–** | **–** | **788** | **–** | **788** |
| | 2016 | – | – | – | – | – | – | – | – |
| **Total** | **2017** | **3,113** | **224** | **7,025** | **2,721** | **(86)** | **12,997** | **1,584** | **14,581** |
| | 2016 | 2,750 | 220 | 4,575 | 1,857 | (147) | 9,255 | 2,597 | 11,852 |

1) Payment of 50% each in 2017 and 2018 2) Payment of 50% each in 2018 and 2019 3) Payment in 2016 and 2017, respectively 4) Payment in 2017 and 2018, respectively

The aggregate compensation for the Board of Management was €14,581 thousand (previous year: €11,852 thousand), comprising €3,337 thousand (previous year: €2,970 thousand) in non-performance-related components, €9,660 thousand (previous year: €6,285 thousand) in performance-related components and €1,584 thousand (previous year: €2,597 thousand) in components with a long-term incentive effect. In the context of the LTSP, a total of 1,740,000 rights were granted to the members of the Board of Management for 2017. In the previous year, a total of 1,740,000 rights were granted for 2016 and an additional 1,350,000 rights each for 2012 and 2013. Regarding the fair value per right of the individual tranches on the reporting date, please see Note [15] to the consolidated financial statements.

### *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 25% of the annual base salary and APP. The maximum amount taken into account for calculating the APP contribution is that due on 100% target attainment, irrespective of the actual target attainment. 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. 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 for the Board of Management members serving as of December 31, 2017:

**Pension Claims**

| € thousand | | IFRS | | HGB | |
|---|---|---|---|---|---|
| | Year | Service Costs | Present Value of the Obligations | Net Expense for Pension Entitlements | Present Value of the Obligations |
| Matthias Zachert | **2017** | **775** | **5,613** | **1,080** | **4,106** |
| | 2016 | 659 | 4,522 | 789 | 3,026 |
| Dr. Hubert Fink | **2017** | **309** | **3,626** | **550** | **2,666** |
| | 2016 | 142 | 3,162 | 189 | 2,116 |
| Michael Pontzen | **2017** | **268** | **2,108** | **451** | **1,423** |
| | 2016 | 228 | 1,607 | 170 | 972 |
| Dr. Rainier van Roessel | **2017** | **157** | **7,030** | **504** | **6,082** |
| | 2016 | 144 | 6,742 | 237 | 5,577 |
| Stephen C. Forsyth (appointed June 1, 2017) | **2017** | **0** | **0** | **0** | **0** |
| | 2016 | 0 | 0 | 0 | 0 |
| **Total** | **2017** | **1,509** | **18,377** | **2,585** | **14,277** |
| | 2016 | 1,173 | 16,033 | 1,385 | 11,691 |

As of December 31, 2017, obligations to former members of the Board of Management totaled €34,828 thousand (previous year: €34,497 thousand) under IFRS accounting rules and €27,772 thousand (previous year: €26,041 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 assuming 100% target achievement and compensation pro rata temporis of LTSP rights. On the basis of agreements existing with Dr. Fink and Mr. Pontzen, the calculation of severance payments to be made in the event of early termination of their service contracts does not include the LTPB and LTSP variable compensation components.

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

Payments totaling €473 thousand (previous year: €1,244 thousand) were made to former members of the Board of Management in fiscal year 2017.

### *Other*

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

No loans were granted to members of the Board of Management in fiscal year 2017.

### *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 2016 and 2017, 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**

| € thousand | Matthias Zachert<br>Chairman of the Board of Management | | | | Dr. Hubert Fink<br>Member of the Board of Management | | | |
|---|---|---|---|---|---|---|---|---|
| | Target value 2016 | Target value 2017 | 2017 (min.) | 2017 (max.) | Target value 2016 | Target value 2017 | 2017 (min.) | 2017 (max.) |
| Annual base salary | 1,200 | 1,200 | 1,200 | 1,200 | 450 | 475 | 475 | 475 |
| Compensation in kind | 73 | 73 | 73 | 73 | 53 | 53 | 53 | 53 |
| **Total** | **1,273** | **1,273** | **1,273** | **1,273** | **503** | **528** | **528** | **528** |
| **Annual Performance Payment (APP)** | **1,500** | **1,500** | **0** | **3,000** | **450** | **550** | **0** | **1,100** |
| **Multi-year variable compensation** | **1,876** | **1,277** | **0** | **2,700** | **649** | **517** | **0** | **1,068** |
| LTPB (tranche 2016–2017) | 540 | – | – | – | 203 | 23 | – | 33 |
| LTPB (tranche 2017–2018) | – | 540 | 0 | 1,080 | – | 248 | 0 | 495 |
| LTSP 2010–2013 (tranche 2012) | 356 | – | – | – | 119 | – | – | – |
| LTSP 2010–2013 (tranche 2013) | 243 | – | – | – | 81 | – | – | – |
| LTSP 2014–2017 (tranche 2016) | 737 | – | – | – | 246 | – | – | – |
| LTSP 2014–2017 (tranche 2017) | – | 737 | 0 | 1,620 | – | 246 | 0 | 540 |
| **Total** | **4,649** | **4,050** | **1,273** | **6,973** | **1,602** | **1,595** | **528** | **2,696** |
| Service cost | 659 | 775 | 775 | 775 | 142 | 309 | 309 | 309 |
| **Total compensation** | **5,308** | **4,825** | **2,048** | **7,748** | **1,744** | **1,904** | **837** | **3,005** |

**Compensation Granted**

| € thousand | Michael Pontzen<br>Chief Financial Officer | | | | Dr. Rainier van Roessel<br>Member of the Board of Management | | | |
|---|---|---|---|---|---|---|---|---|
| | Target value 2016 | Target value 2017 | 2017 (min.) | 2017 (max.) | Target value 2016 | Target value 2017 | 2017 (min.) | 2017 (max.) |
| Annual base salary | 450 | 525 | 525 | 525 | 650 | 650 | 650 | 650 |
| Compensation in kind | 44 | 47 | 47 | 47 | 50 | 51 | 51 | 51 |
| **Total** | **494** | **572** | **572** | **572** | **700** | **701** | **701** | **701** |
| **Annual Performance Payment (APP)** | **450** | **550** | **0** | **1,100** | **650** | **650** | **0** | **1,300** |
| **Multi-year variable compensation** | **649** | **517** | **0** | **1,068** | **661** | **648** | **0** | **1,365** |
| LTPB (tranche 2016–2017) | 203 | 23 | – | 33 | 293 | – | – | – |
| LTPB (tranche 2017–2018) | – | 248 | 0 | 495 | – | 293 | 0 | 585 |
| LTSP 2010–2013 (tranche 2012) | 119 | – | – | – | 3 | – | – | – |
| LTSP 2010–2013 (tranche 2013) | 81 | – | – | – | 10 | – | – | – |
| LTSP 2014–2017 (tranche 2016) | 246 | – | – | – | 355 | – | – | – |
| LTSP 2014–2017 (tranche 2017) | – | 246 | 0 | 540 | – | 355 | 0 | 780 |
| **Total** | **1,593** | **1,639** | **572** | **2,740** | **2,011** | **1,999** | **701** | **3,366** |
| Service cost | 228 | 268 | 268 | 268 | 144 | 157 | 157 | 157 |
| **Total compensation** | **1,821** | **1,907** | **840** | **3,008** | **2,155** | **2,156** | **858** | **3,523** |

**Compensation Granted**

| € thousand | Stephen C. Forsyth<br>Member of the Board of Management<br>Appointed June 1, 2017 | | | |
|---|---|---|---|---|
| | Target value 2016 | Target value 2017 | 2017 (min.) | 2017 (max.) |
| Annual base salary | – | 263 | 263 | 263 |
| Compensation in kind | – | – | – | – |
| **Total** | **–** | **263** | **263** | **263** |
| **Annual Performance Payment (APP)** | **–** | **263** | **0** | **525** |
| **Multi-year variable compensation** | | | | |
| LTPB (tranche 2016–2017) | – | – | – | – |
| LTPB (tranche 2017–2018) | – | – | – | – |
| LTSP 2010–2013 (tranche 2012) | – | – | – | – |
| LTSP 2010–2013 (tranche 2013) | – | – | – | – |
| LTSP 2014–2017 (tranche 2016) | – | – | – | – |
| LTSP 2014–2017 (tranche 2017) | – | – | – | – |
| **Total** | **–** | **526** | **263** | **788** |
| Service cost | – | – | – | – |
| **Total compensation** | **–** | **526** | **263** | **788** |

**Allocations**

| € thousand | Matthias Zachert<br>Chairman of the Board of Management 2016 | 2017 | Dr. Hubert Fink<br>Member of the Board of Management 2016 | 2017 |
|---|---|---|---|---|
| Annual base salary | 1,200 | 1,200 | 450 | 475 |
| Compensation in kind | 73 | 73 | 53 | 53 |
| **Total** | **1,273** | **1,273** | **503** | **528** |
| **Annual Performance Payment (APP)** | **2,190** | **2,970** | **670** | **1,091** |
| **Multi-year variable compensation** | **788** | **935** | **188** | **429** |
| LTPB (tranche 2014–2015) | (11) | | (1) | |
| LTPB (tranche 2015–2016) | 799 | (5) | 189 | (2) |
| LTPB (tranche 2016–2017) | | 940 | | 431 |
| LTSP 2010–2013 | – | – | – | – |
| LTSP 2014–2017 | – | – | – | – |
| **Total** | **4,251** | **5,178** | **1,361** | **2,048** |
| Service cost | 659 | 775 | 142 | 309 |
| **Total compensation** | **4,910** | **5,953** | **1,503** | **2,357** |

**Allocations**

| € thousand | Michael Pontzen<br>Chief Financial Officer 2016 | 2017 | Dr. Rainier van Roessel<br>Member of the Board of Management 2016 | 2017 |
|---|---|---|---|---|
| Annual base salary | 450 | 525 | 650 | 650 |
| Compensation in kind | 44 | 47 | 50 | 51 |
| **Total** | **494** | **572** | **700** | **701** |
| **Annual Performance Payment (APP)** | **661** | **1,091** | **949** | **1,287** |
| **Multi-year variable compensation** | **260** | **429** | **427** | **506** |
| LTPB (tranche 2014–2015) | (3) | | (6) | |
| LTPB (tranche 2015–2016) | 263 | (2) | 433 | (3) |
| LTPB (tranche 2016–2017) | | 431 | | 509 |
| LTSP 2010–2013 | – | – | – | – |
| LTSP 2014–2017 | – | – | – | – |
| **Total** | **1,415** | **2,092** | **2,076** | **2,494** |
| Service cost | 228 | 268 | 144 | 157 |
| **Total compensation** | **1,643** | **2,360** | **2,220** | **2,651** |

**Allocations**

| € thousand | Stephen C. Forsyth<br>Member of the Board of Management<br>Appointed June 1, 2017 2016 | 2017 |
|---|---|---|
| Annual base salary | – | 263 |
| Compensation in kind | – | – |
| **Total** | **–** | **263** |
| **Annual Performance Payment (APP)** | **–** | **525** |
| **Multi-year variable compensation** | **–** | **–** |
| LTPB (tranche 2014–2015) | – | – |
| LTPB (tranche 2015–2016) | – | – |
| LTPB (tranche 2016–2017) | | |
| LTSP 2010–2013 | – | – |
| LTSP 2014–2017 | – | – |
| **Total** | **–** | **788** |
| Service cost | – | – |
| **Total compensation** | **–** | **788** |

## 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.

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. 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 Chemicals℠ 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 Chemicals℠ 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.

No variable compensation was paid out in fiscal year 2017.

The expected compensation payable for the current terms of office of Supervisory Board members was valued at €950 thousand (previous year: €600 thousand) as of December 31, 2017, 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. Rolf Stomberg, Chairman | **2017** | **240,000** | **0[2]** | **16,500** | **5,000** | **261,500** |
| | 2016 | 240,000 | 0[2] | 18,000 | 5,000 | 263,000 |
| Ralf Sikorski, Vice Chairman | **2017** | **120,000** | **40,000** | **16,500** | **5,000** | **181,500** |
| | 2016 | 103,388 | 40,000 | 18,000 | 5,000 | 166,388 |
| Gisela Seidel (resigned May 31, 2016) | **2017** | **–** | **–** | **–** | **–** | **–** |
| | 2016 | 49,836 | 16,612 | 7,500 | 2,077 | 76,025 |
| Werner Czaplik | **2017** | **80,000** | **40,000** | **15,000** | **5,000** | **140,000** |
| | 2016 | 80,000 | 40,000 | 16,500 | 5,000 | 141,500 |
| Dr. Hans-Dieter Gerriets | **2017** | **80,000** | **40,000** | **15,000** | **5,000** | **140,000** |
| | 2016 | 80,000 | 40,000 | 16,500 | 5,000 | 141,500 |
| Dr. Heike Hanagarth (appointed July 1, 2016) | **2017** | **80,000** | **–** | **9,000** | **5,000** | **94,000** |
| | 2016 | 40,219 | – | 6,000 | 2,514 | 48,733 |
| Dr. Friedrich Janssen | **2017** | **80,000** | **80,000** | **13,500** | **5,000** | **178,500** |
| | 2016 | 80,000 | 80,000 | 16,500 | 5,000 | 181,500 |
| Thomas Meiers | **2017** | **80,000** | **40,000** | **15,000** | **5,000** | **140,000** |
| | 2016 | 80,000 | 40,000 | 16,500 | 5,000 | 141,500 |
| Claudia Nemat (resigned June 30, 2016) | **2017** | – | – | – | – | – |
| | 2016 | 39,781 | 19,891 | 4,500 | 2,486 | 66,658 |
| Lawrence A. Rosen | **2017** | **80,000** | **40,000** | **13,500** | **5,000** | **138,500** |
| | 2016 | 80,000 | 40,000 | 13,500 | 5,000 | 138,500 |
| Manuela Strauch | **2017** | **80,000** | **40,000** | **16,500** | **5,000** | **141,500** |
| | 2016 | 80,000 | 40,000 | 13,500 | 5,000 | 138,500 |
| Ifraim Tairi (appointed July 1, 2016) | **2017** | **80,000** | **40,000** | **16,500** | **5,000** | **141,500** |
| | 2016 | 46,776 | 15,847 | 9,000 | 2,924 | 74,547 |
| Theo H. Walthie | **2017** | **80,000** | **80,000** | **22,500** | **5,000** | **187,500** |
| | 2016 | 80,000 | 55,847 | 19,500 | 5,000 | 160,347 |
| Dr. Matthias L. Wolfgruber | **2017** | **80,000** | **40,000** | **13,500** | **5,000** | **138,500** |
| | 2016 | 80,000 | 40,000 | 15,000 | 5,000 | 140,000 |
| **Total** | **2017** | **1,160,000** | **480,000** | **183,000** | **60,000** | **1,883,000** |
| | 2016 | 1,160,000 | 468,197 | 190,500 | 60,001 | 1,878,698 |

1) Figures exclude value-added tax 2) Paid through fixed compensation as per Section 12, Paragraph 2, of the articles of association

## REPORT PURSUANT TO SECTIONS 289A, PARAGRAPH 1, AND 315A, PARAGRAPH 1, OF THE GERMAN COMMERCIAL CODE (HGB)

Pursuant to Section 289a, Paragraph 1, Sentence 1, Nos. 1 to 9, and Section 315a, Paragraph 1, 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 €91,522,936 as of December 31, 2017, and is composed of 91,522,936 no-par bearer shares. 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 lock-up 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 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 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*

The Annual Stockholders' Meeting of LANXESS AG on May 20, 2016, authorized the Board of Management until May 19, 2021, to acquire shares in the company representing up to 10% of the capital stock 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. Among other things, it can retire the shares, sell them other than via the stock exchange or an offer to the stockholders, or transfer them against consideration in kind for the purpose of acquiring companies, parts of companies or equity interests in companies or in order to conclude mergers. The Board of Management is further authorized to offer the shares acquired for sale to persons who are or were employed by the company or an affiliated company (employee shares).

#### *Conditional capital*

The Annual Stockholders' Meeting of LANXESS AG on May 13, 2015, authorized the Board of Management until May 22, 2018, with the approval of the Supervisory Board, to issue – in one or more installments – warrant bonds and/or convertible bonds, profit-participation rights and/or income bonds or a combination of these instruments (collectively referred to as "bonds") – as either registered or bearer bonds – with a total nominal value of up to €1,000,000,000, with or without limited maturity, and to grant 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 €18,304,587 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 €18,304,587 (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 bonds 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 22, 2018, on the basis of the authorization granted to the Board of Management by the Annual Stockholders' Meeting on May 13, 2015, 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. When deciding on the exclusion of stockholders' subscription rights, the Board of Management will take into consideration that the issue of shares on the basis of other authorizations granted by the Annual Stockholders' Meeting of May 13, 2015, for capital measures under exclusion of the stockholders' subscription rights may only be used up to a maximum amount of 20% of the capital stock that exists at the time the resolution is passed. The Board of Management will be bound by this condition until a future Annual Stockholders' Meeting again resolves to authorize the Board of Management to implement capital measures under exclusion of stockholders' subscription rights.

### *Authorized Capital I, II and III*

Pursuant to Section 4, Paragraph 2, of LANXESS AG's articles of association, the Annual Stockholders' Meeting on May 23, 2013, authorized the Board of Management until May 22, 2018, with the approval of the Supervisory Board, to increase the capital stock on one or more occasions by issuing new no-par shares against cash or contributions in kind up to a total amount of €16,640,534 (Authorized Capital I). Stockholders are generally entitled to subscription rights when Authorized Capital is utilized. However, pursuant to Section 4, Paragraph 2, 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.

In addition, pursuant to Section 4, Paragraph 3, of LANXESS AG's articles of association, the Annual Stockholders' Meeting on May 13, 2015, authorized the Board of Management until May 22, 2018, with the approval of the Supervisory Board, to increase the company's capital stock on one or more occasions by issuing new no-par shares against cash or contributions in kind up to a total amount of €18,304,587 (Authorized Capital II). Stockholders are generally entitled to subscription rights when Authorized Capital is utilized. However, 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. When deciding to exclude stockholders' subscription rights for Authorized Capital II, the Board of Management will take into consideration that the authorizations granted by the Annual Stockholders' Meeting of May 13, 2015, for capital measures under exclusion of the stockholders' subscription may only be used up to a maximum amount of 20% of the capital stock that exists at the time the resolution is passed. The shares issued from Authorized Capital II under exclusion of subscription rights by way of capital increases against contributions in kind shall not exceed 10% of the capital stock that exists at the time the resolution is passed. The Board of Management will be bound by this condition until a future Annual Stockholders' Meeting again resolves to authorize the Board of Management to implement capital measures under exclusion of stockholders' subscription rights. Finally, 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. The Board of Management continues to abide by the content of the restrictions to the overall scope of the capital measures without subscription rights set out in the invitation to the Annual Stockholders' Meeting of May 13, 2015, at the time of creation of the Authorized Capital II, on which a resolution was passed at the Annual Stockholders' Meeting of May 13, 2015, including after creation of new Authorized Capital III.

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 2011 and the €500 million eurobond issued by LANXESS Finance B.V. in fiscal year 2012, both of which were 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), respectively, issued by LANXESS AG in fiscal year 2016 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 €1,250 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.

   In connection with the conclusion of an agreement with Aramco Overseas Holdings Coöperatief U.A. to establish a strategic partnership for synthetic rubber in which each party holds a 50% interest, it was agreed in the shareholders' agreement that, in the event of a change of control at one of the shareholders, the other shareholder has the right to acquire the shares of the other shareholder at a reduced price.

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 on the LANXESS website in section Investor Relations 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 2017 was characterized by fundamentally sound economic growth. An escalation of the crisis in the Middle East and the situation in East Asia could curb growth of the global economy in the 2018 reporting year. For the Europe region, we believe that a disorganized Brexit process would negatively affect the economic situation. The economic situation in Europe will be impacted by continuation of the relatively expansive monetary policy. We expect raw material prices to be volatile, with a moderate increase overall.

In fiscal year 2018, we expect moderate growth of 3.0% for the *global economy,* driven mainly by business performance in Asia-Pacific. China remains among the main drivers of growth. Due to the recovery of the Latin American economy and the U.S. tax reform, we expect stronger growth of gross domestic product in the Americas of 2.5% overall. With the growth drivers in EMEA (including Germany) remaining intact, we expect economic growth of 2.0% based on 2017.

We expect the global *chemical industry* production to expand by 3.5%.

**Expected Growth in 2018**

| Change vs. prior year in real terms (%)[1] | Gross domestic product | Chemical production |
|---|---|---|
| Americas | 2.5 | 3.5 |
| EMEA (incl. Germany) | 2.0 | 1.5 |
| Asia-Pacific | 4.5 | 4.0 |
| **World** | **3.0** | **3.5** |

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

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

**Expected Evolution of Major User Industries in 2018**

| Change vs. prior year in real terms (%)[1] | Tires | Automotive | Agrochemicals | Construction |
|---|---|---|---|---|
| Americas | 4.0 | 1.0 | 5.5 | 4.0 |
| EMEA (incl. Germany) | 3.0 | 3.0 | 1.5 | 2.5 |
| Asia-Pacific | 3.0 | 1.5 | 3.0 | 4.5 |
| **World** | **3.0** | **2.0** | **3.0** | **3.5** |

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

## Future perspectives

### *Expected earnings position of the LANXESS Group*

The following earnings forecast relates to New LANXESS and covers the Advanced Intermediates, Specialty Additives, Performance Chemicals and Engineering Materials segments. ARLANXEO will be classified as a discontinued operation from April 1, 2018. Accordingly, both the EBITDA pre exceptionals for the LANXESS Group reported in the future reporting periods and also the one subsequently forecast contain no EBITDA contributions from ARLANXEO.

We anticipate a positive development of our existing business in fiscal year 2018. The forecast volume growth of the global economy and the cost-effectiveness measures initiated in the integration of Chemtura should have a corresponding positive effect on our earnings performance. A persistently weak U.S. dollar will continue to have a considerably negative impact on our business.

For the Advanced Intermediates segment, we expect business in 2018 to be on a par with the previous year overall. The segment will continue to benefit from wide diversification in end markets. Regarding demand from our customers in the agricultural industry, we still expect a fairly low level, especially in the first half of the year.

Our Specialty Additives segment, established in 2017, should perform significantly above the prior-year level as a result of the acquired Chemtura businesses and the expected synergies. In particular, we expect a rise in earnings, as the acquired Chemtura businesses are taken into account for a full year for the first time.

For our Performance Chemicals segment, we expect business performance to be on a par with the previous year.

For our Engineering Materials segment, which includes the business with plastics for lightweight construction in the automotive industry and for applications in the electrical and electronics industry, we are anticipating performance slightly above the prior-year level. This growth is based on the ongoing success of business with high-performance plastics as well as the earnings contribution of the urethanes business gained as a result of the Chemtura acquisition.

In the New LANXESS Reconciliation segment, we anticipate earnings on a par with the previous year. Higher administration expenses due to the first-time inclusion over a full 12-month cycle are partially compensated for by additional synergies relating to the Chemtura integration. The segment also includes currency hedging.

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

Against the background of the expected performance of the segments of New LANXESS, we anticipate that EBITDA pre exceptionals for the full year 2018 will be slightly higher compared with the prior year. The expected cost reductions, synergies from the acquisition of Chemtura and earnings contributions of the businesses acquired in 2017 are taken into account here. EBITDA pre exceptionals of New LANXESS totaled around €925 million in fiscal year 2017.

### *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 €1.9 billion in cash and undrawn credit lines as of the end of 2017, 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 the strategy of LANXESS.

#### 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. In 2018, we expect total cash outflows for capital expenditures of around €450 million for New LANXESS. In this way, we are still seeking to achieve a balanced investment cycle to ensure our financial headroom.

#### Financing measures

LANXESS is in a good position due to the long-term nature of its financing. The maturity of a €500 million bond in May 2018 can be covered from liquidity and existing credit lines. Refinancing of the bond on the capital market is also conceivable. 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 2018, we expect the financial statements of LANXESS AG to show substantially higher net income than in the previous year. Other than by the administration expenses the company incurs in performing its tasks as a management holding company, net income is 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 depend in large measure 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 follows a consistent dividend policy. For future dividend proposals, we intend to increase the dividend if possible but at least to maintain it at a stable level. The Board of Management and Supervisory Board of LANXESS AG will therefore propose to the Annual Stockholders’ Meeting on May 15, 2018, that a dividend of €0.80 per share be declared for fiscal year 2017.

### *Summary of the Group’s projected performance*

We anticipate slightly positive business development in the current year.

We will be continuing the strategic realignment of the Group in 2018 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 towards organic growth.

We assume a slightly positive development of EBITDA pre exceptionals for the full year 2018.

## 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 through the company's organizational structure, its workflows, its planning, reporting and communication systems, and 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)
- Risk mitigation (measures to minimize damage upon occurrence of a risk event)
- Communication of the key opportunities and risks to the management committees of the business units and Group functions

The Corporate Risk Committee 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. The Corporate Controlling Group function centrally determines the top opportunities and risks only after the information has been gathered.

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. In the reporting year, there was no cause for immediate reporting of this kind.

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 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 to 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 system. 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 groups. In the context of our opportunity and risk management, this catalog is continuously updated and adapted to current developments. Compared with the previous year, the following major changes have occurred: separate groups have been formed for security and the environment as well as IT and security on account of their increased importance. The categories in the "corporate strategy" group have been assigned to individual groups in which strategic opportunities and risks may arise. Furthermore, the "plant operations and hazards" has been renamed as "production and technology," the "legal, regulatory and political environment" group is now called "legal and country-specific environment and compliance."

Overall, all opportunities and risks are to be assigned to the following eight groups:

| 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. The volatility of raw material prices, especially for our key raw material butadiene, impacts our ARLANXEO segment in particular.

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.

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 and are checked via ongoing goods-in analyses.

#### Human resources

We see a clear opportunity in the implementation of our performance culture, with which we aim to establish a corporate culture based on shared values via wide-ranging measures and in which responsible and morally irreproachable actions and striving for performance do not contradict each other. We assume that this will lead to increased employee motivation and therefore better performance. By strengthening the corporate culture in this way, we aim to achieve greater employee satisfaction and increased employee loyalty.

In view of enduring changes arising from digitalization and company acquisitions, there is a risk of demotivation and reduced service provision of employees. This risk can be significant if employees do not feel sufficiently involved in decisions or do not understand new processes and practices. We counter this risk by communicating next steps and forthcoming measures as clearly and early as possible. This is supplemented by targeted training measures, particularly in the area of management in the context of the performance culture described above.

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 just as detrimental to earnings as increases in raw material prices, as described above, but in the case of human resources we cannot hedge the risk in futures markets or pass it on to our customers. 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 are deploy legally secure collective agreements. When making acquisitions, we give high priority to professional project management, 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 agreements to be reached at an early stage.

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. We take various approaches to mitigating the risk of losing this expertise. We seek to increase our employees' loyalty to the company with attractive compensation models, challenging jobs and international career options. In addition, we deal with structured succession planning at annual HR development conferences. To maintain constant contact with outstanding employees and be able to support them in line with their individual needs, we have established a professional performance management system worldwide with the Performance Dialog and 360° feedback.

The growing lack particularly of *skilled employees* in our markets is a problem for us, primarily in Germany. In particular, we see the risk of a shortage of skilled chemical production technicians and chemical laboratory assistants as well as skilled employees in other fields such as IT. Regular HR development conferences help us to hone in-house skills. In addition, we continue to invest in the next generation of employees, either by increasing the 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. Externally, we maintain intensive cooperations with research institutes, universities, colleges and high schools in Germany, as well as with public-sector entities both in Germany and all other key target markets. At many events and conferences around the world, we have positioned our company as an attractive employer and continue to seek early contact with highly talented young people. In Germany, where we have the largest headcount, we have established a LANXESS program to provide both financial and expert support for undergraduate and postgraduate students. We are also extending our loyalty program for particularly outstanding interns. Both these programs focus on the natural and engineering sciences.

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 as well the risk of outdated knowledge or loss of knowledge. We see this as a medium-term and long-term risk, which is why we set up the extensive demographic program Xcare back in 2011 to counter the challenges of demographic change in a structured way. A whole host of new initiatives have since been initiated and implemented. For instance, 45 demography positions (for chemical production technicians and engineers) have been created, additional training courses have been developed and workplace reintegration programs have been stepped up (reintegration after illness).

**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 unplanned 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. Thus, for example, the success of our investments in Asia has been substantially impacted by the challenging competitive situation in the synthetic rubber businesses. 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 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.

Our product portfolio includes substances that are classified as hazardous to health. In order 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 the implementation of 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, could result in higher costs and in part substantial disadvantages in international competition. 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 140 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 supports our business activities worldwide, including the processes from receiving an order to receiving payment and from placing an order to paying a vendor. It is important that the people who use the systems receive correct and meaningful information when they need it. We support this by developing a uniform, integrated system architecture and investing in the expansion and modernization of 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. To mitigate such risks, we invest in suitable 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. With a view to improving the security of our IT infrastructure, we evaluate security measures for their suitability in defending against current attack scenarios. Where necessary, these measures are upgraded. Additional security systems are being established worldwide and existing ones adapted to current needs as defense against new and specific threats. We also regularly train the users of our IT systems on IT risks, appropriate conduct and preventive measures.

**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. In particular, we see emerging protectionist trends as a medium-term risk to growth and stability. 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. As well as the influence of general economic development, the particular dependence of the rubber business in our ARLANXEO segment on customers in the tire and automotive industries can result in sales volatility. Additional and unplanned sales opportunities may arise through access to new markets or the acquisition of new *customers.* 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. We counter such trends by systematically managing costs and continually adjusting our product portfolio, sharpening its focus and aligning our offering with innovative customer segments which will enable us to operate successfully in the long term.

In our ARLANXEO segment, the synthetic rubber businesses continue to face intense competition, partly from new manufacturers entering the market. In some businesses, this may result in further overcapacities and stronger competition on prices. We are pursuing a product-specific strategy in these areas based on factors such as product and process differentiation and global positioning. Through the partnership with Saudi Aramco, we intend to achieve a strategic strengthening of our synthetic rubbers business in this competitive environment in the medium 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 | Counterparty 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. Fixed exchange rates were used in our planning for fiscal year 2018. 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). We have already entered into hedging transactions for 2018, 2019 and 2020 to mitigate the effects of currency fluctuations.

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. These risks and the currency risks arising on 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.

*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. For subsequent years, we have already entered into hedging transactions to mitigate the effects of interest rate fluctuations.

*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 €1.25 billion syndicated credit facility, which remained largely undrawn on the reporting date. Its original term was extended in February 2015, and again in May 2017 to 2022. In addition to credit facilities, the Group has short-term liquidity reserves of €538 million in the form of cash and cash equivalents. Furthermore, as of the reporting date, LANXESS had investments in money-market funds amounting to €50 million. Accordingly, the LANXESS Group has a liquidity position based on a broad range of financing instruments.

Counterparty risks

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 in respect of 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, from external consultants.

When gathering information 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 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 in respect of 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.

### *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 New LANXESS. 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.

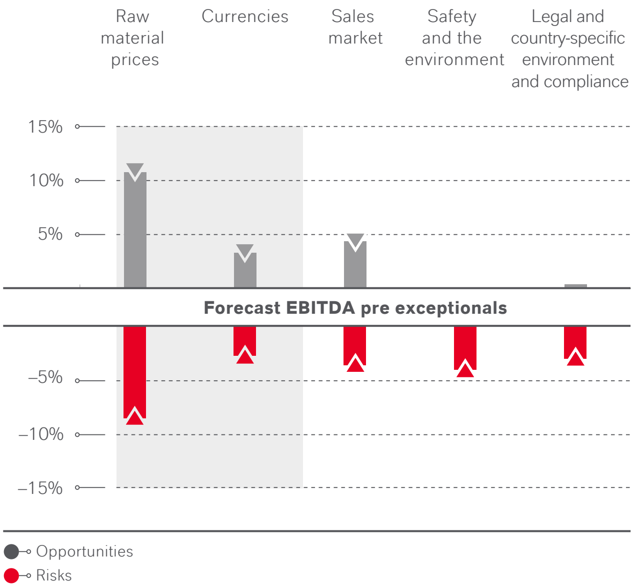
Within the context of opportunity and risk management for the planning year, the raw material prices category was considered to be of medium to high significance. Based on the scenarios applied or the assumed probability of occurrence, this category could produce a positive deviation of 11% and a negative deviation of 9% from our projected EBITDA pre exceptionals, which is our key controlling parameter.

In the previous year, the currency and economic development categories were also considered to be of medium to high significance. The economic development category is now assigned to the sales market group. The categories of energy and policy as well as product safety in the legal and country-specific environment and compliance group have been assigned to the new safety and environment group, which is particularly influenced by the risks in the energy and environmental policy category. The opportunities and risks of the other categories in this group are now of very little significance.

Even though all other categories or groups apart from the raw materials prices category in the procurement markets group are of little importance to opportunity and risk reporting for 2018, possible positive and negative deviations from targets are also set out below for the categories and groups that were significant in the previous year:

**Opportunity and Risk Profile[1)]**

in %




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 remains in a phase of radical change, which naturally entails economic opportunities and risks. However, the global realignment of the LANXESS Group continued in 2017 gives us the headroom which will enable us to remain effective and competitive even in the evolving operating environment. In addition, the realignment will allow us to leverage strategic and operational opportunities and to make maximum use of growth potential.

With the acquisition of Chemtura in the reporting year, we significantly expanded our additives business and are now one of the world's major providers in the growing market for flame retardant and lubricant additives. Furthermore, with the acquisition of the Chemours Clean and Disinfect specialties business completed in the previous year, we also expanded our position in mid-sized and less cyclical markets with a high margin and good growth prospects. Reducing economic dependency on individual sectors or closely correlated markets is still an important element of our strategy. For instance, we intend to increase our presence in attractive customer industries with innovative product applications.

In the context of the realignment, we found a strong partner for ARLANXEO last year in Saudi Aramco, with whom share opportunities and risks in the cyclical and intensely competitive market for synthetic rubbers.

Our risk exposure during the reporting year improved compared with the previous year due 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 is somewhat less reliable, for example due to the changes in our procurement and customer markets.

The economic ramifications of Brexit continue to represent an uncertainty that is difficult to assess.

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 implemented or agreed in the reporting year, we are confident of mastering 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, 2016 | Dec. 31, 2017 |
|---|---|---|---|
| **ASSETS** | | | |
| Intangible assets | (1) | 494 | 1,769 |
| Property, plant and equipment | (2) | 3,519 | 4,059 |
| Investments accounted for using the equity method | (3) | 0 | 0 |
| Investments in other affiliated companies | (4) | 12 | 9 |
| Non-current derivative assets | (5) | 1 | 7 |
| Other non-current financial assets | (6) | 19 | 20 |
| Non-current income tax receivables | (7) | 7 | 20 |
| Deferred taxes | (29) | 442 | 442 |
| Other non-current assets | (8) | 25 | 113 |
| **Non-current assets** | | **4,519** | **6,439** |
| Inventories | (9) | 1,429 | 1,680 |
| Trade receivables | (10) | 1,088 | 1,316 |
| Cash and cash equivalents | | 355 | 538 |
| Near-cash assets | (11) | 40 | 50 |
| Current derivative assets | (5) | 65 | 45 |
| Other current financial assets | (6) | 2,130 | 7 |
| Current income tax receivables | (7) | 67 | 47 |
| Other current assets | (12) | 184 | 274 |
| **Current assets** | | **5,358** | **3,957** |
| **Total assets** | | **9,877** | **10,396** |
| **EQUITY AND LIABILITIES** | | | |
| Capital stock and capital reserves | | 1,317 | 1,317 |
| Other reserves | | 1,257 | 1,381 |
| Net income | | 192 | 87 |
| Other equity components | | (214) | (498) |
| Equity attributable to non-controlling interests | | 1,176 | 1,126 |
| **Equity** | (13) | **3,728** | **3,413** |
| Provisions for pensions and other post-employment benefits | (14) | 1,249 | 1,490 |
| Other non-current provisions | (15) | 319 | 460 |
| Non-current derivative liabilities | (5) | 7 | 2 |
| Other non-current financial liabilities | (16) | 2,734 | 2,242 |
| Non-current income tax liabilities | (17) | 31 | 119 |
| Other non-current liabilities | (18) | 93 | 99 |
| Deferred taxes | (29) | 83 | 113 |
| **Non-current liabilities** | | **4,516** | **4,525** |
| Other current provisions | (15) | 406 | 525 |
| Trade payables | (19) | 889 | 1,048 |
| Current derivative liabilities | (5) | 42 | 12 |
| Other current financial liabilities | (16) | 78 | 633 |
| Current income tax liabilities | (17) | 44 | 61 |
| Other current liabilities | (18) | 174 | 179 |
| **Current liabilities** | | **1,633** | **2,458** |
| **Total equity and liabilities** | | **9,877** | **10,396** |

# Income Statement
## LANXESS Group

| € million | Note | 2016 | 2017 |
|---|---|---|---|
| **Sales** | (21) | **7,699** | **9,664** |
| Cost of sales | (22) | (5,945) | (7,519) |
| **Gross profit** | | **1,754** | **2,145** |
| Selling expenses | (23) | (781) | (953) |
| Research and development expenses | (24) | (131) | (145) |
| General administration expenses | (25) | (303) | (382) |
| Other operating income | (26) | 147 | 179 |
| Other operating expenses | (27) | (222) | (410) |
| **Operating result (EBIT)** | | **464** | **434** |
| Income from investments accounted for using the equity method | | 0 | 0 |
| Interest income | | 9 | 8 |
| Interest expense | | (72) | (93) |
| Other financial income and expense | | (62) | (24) |
| **Financial result** | (28) | **(125)** | **(109)** |
| **Income before income taxes** | | **339** | **325** |
| Income taxes | (29) | (144) | (201) |
| **Income after income taxes** | | **195** | **124** |
| of which attributable to non-controlling interests | | 3 | 37 |
| of which attributable to LANXESS AG stockholders (net income) | | 192 | 87 |
| **Earnings per share (undiluted/diluted) (€)** | (30) | **2.10** | **0.95** |

# Statement of Comprehensive Income
## LANXESS Group

| € million | 2016 | 2017 |
|---|---|---|
| **Income after income taxes** | **195** | **124** |
| **Items that will not be reclassified subsequently to profit or loss** | | |
| Remeasurements of the net defined benefit liability for post-employment benefit plans | (233) | (48) |
| Income taxes | 75 | 13 |
| | **(158)** | **(35)** |
| **Items that may be reclassified subsequently to profit or loss if specific conditions are met** | | |
| Exchange differences on translation of operations outside the eurozone | 179 | (385) |
| Financial instruments | 68 | 42 |
| Income taxes | (20) | (12) |
| | **227** | **(355)** |
| **Other comprehensive income, net of income tax** | **69** | **(390)** |
| **Total comprehensive income** | **264** | **(266)** |
| of which attributable to non-controlling interests | 56 | (60) |
| of which attributable to LANXESS AG stockholders | 208 | (206) |

# 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 | | | |
| **Dec. 31, 2015** | **91** | **1,226** | **1,313** | **165** | **(422)** | **(63)** | **2,310** | **13** | **2,323** |
| Allocations to retained earnings | | | 165 | (165) | | | 0 | | 0 |
| Transactions with owners | | | (15) | | 102 | 2 | 89 | 1,107 | 1,196 |
| Dividend payments | | | (55) | | | | (55) | 0 | (55) |
| Total comprehensive income | | | (151) | 192 | 121 | 46 | 208 | 56 | 264 |
| *Income after income taxes* | | | | *192* | | | *192* | *3* | *195* |
| *Other comprehensive income, net of income tax* | | | *(151)* | | *121* | *46* | *16* | *53* | *69* |
| *Remeasurements of the net defined benefit liability for post-employment benefit plans* | | | *(222)* | | | | *(222)* | *(11)* | *(233)* |
| *Exchange differences on translation of operations outside the eurozone* | | | | | *121* | | *121* | *58* | *179* |
| *Financial instruments* | | | | | | *65* | *65* | *3* | *68* |
| *Income taxes on other comprehensive income* | | | *71* | | | *(19)* | *52* | *3* | *55* |
| **Dec. 31, 2016** | **91** | **1,226** | **1,257** | **192** | **(199)** | **(15)** | **2,552** | **1,176** | **3,728** |
| Allocations to retained earnings | | | 192 | (192) | | | 0 | | 0 |
| Transactions with owners | | | 5 | | | | 5 | 13 | 18 |
| Dividend payments | | | (64) | | | | (64) | (3) | (67) |
| Total comprehensive income | | | (9) | 87 | (310) | 26 | (206) | (60) | (266) |
| *Income after income taxes* | | | | 87 | | | 87 | 37 | 124 |
| *Other comprehensive income, net of income tax* | | | (9) | | (310) | 26 | (293) | (97) | (390) |
| *Remeasurements of the net defined benefit liability for post-employment benefit plans* | | | *(11)* | | | | *(11)* | *(37)* | *(48)* |
| *Exchange differences on translation of operations outside the eurozone* | | | | | *(310)* | | *(310)* | *(75)* | *(385)* |
| *Financial instruments* | | | | | | *38* | *38* | *4* | *42* |
| *Income taxes on other comprehensive income* | | | *2* | | | *(12)* | *(10)* | *11* | *1* |
| **Dec. 31, 2017** | **91** | **1,226** | **1,381** | **87** | **(509)** | **11** | **2,287** | **1,126** | **3,413** |

# Statement of Cash Flows
## LANXESS Group

| € million | Note | 2016 | 2017 |
|---|---|---|---|
| **Income before income taxes** | | **339** | **325** |
| Amortization, depreciation, write-downs and reversals of impairment charges of intangible assets, property, plant and equipment | | 481 | 638 |
| Losses on disposals of intangible assets and property, plant and equipment | | 0 | 1 |
| Income from investments accounted for using the equity method | | 0 | 0 |
| Financial losses | | 56 | 39 |
| Income taxes paid | | (184) | (183) |
| Changes in inventories | | (45) | (15) |
| Changes in trade receivables | | (96) | (101) |
| Changes in trade payables | | 94 | 44 |
| Changes in other assets and liabilities | | 44 | 120 |
| **Net cash provided by operating activities** | (37) | **689** | **868** |
| Cash outflows for purchases of intangible assets and property, plant and equipment | | (439) | (547) |
| Cash inflows from sales of intangible assets and property, plant and equipment | | 7 | 2 |
| Cash outflows for financial assets | | (2,125) | (110) |
| Cash inflows from financial assets | | 66 | 2,226 |
| Cash outflows for the acquisition of subsidiaries and other businesses, less acquired cash and cash equivalents | | (198) | (1,803) |
| Cash inflows from sales of intangible assets and property, plant and equipment | | – | 9 |
| Interest and dividends received | | 10 | 56 |
| Cash outflows for external funding of pension obligations (CTAs) | | (200) | – |
| **Net cash used in investing activities** | (37) | **(2,879)** | **(167)** |
| Cash inflows from non-controlling interests | | 1,194 | 18 |
| Proceeds from borrowings | | 1,529 | 148 |
| Repayments of borrowings | | (422) | (523) |
| Interest paid and other financial disbursements | | (73) | (84) |
| Dividend payments | | (55) | (67) |
| **Net cash provided by (used in) financing activities** | (37) | **2,173** | **(508)** |
| **Change in cash and cash equivalents from business activities** | | **(17)** | **193** |
| Cash and cash equivalents as of January 1 | | 366 | 355 |
| Exchange differences and other changes in cash and cash equivalents | | 6 | (10) |
| **Cash and cash equivalents as of December 31** | (37) | **355** | **538** |

# 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 the LANXESS AG, to which the auditors, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt am 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 2017 were prepared by the Board of Management of LANXESS AG and authorized for submission to the Supervisory Board on February 28, 2018. 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. They are explained 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, 2017, 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).

The mandatory first-time application of the following financial reporting standards and interpretations in fiscal year 2017 currently has no impact, or no material impact, on the LANXESS Group:

| **Standard/Interpretation** | |
|---|---|
| IAS 12 | Income Taxes – The changes include clarifications on the recognition of deferred tax assets on temporary differences from unrealized losses |
| IAS 7 | Statement of Cash Flows – Disclosure Initiative – The changes require enhanced disclosures on the borrowing costs in the statement of financial position for which associated payments were or will be recognized in the statement of cash flows as cash flows from financing activities |
| IFRS 12 | Annual Improvements to the International Financial Reporting Standards, 2014–2016 Cycle – application of disclosure of interests in other entities classified as non-current assets held for sale and discontinued operations in accordance with IFRS 5 |

## FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET MANDATORY

In fiscal year 2017, 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.

### Financial Instruments

In July 2014, the IAS published the final version of IFRS 9. This contains revised regulations for the classification and measurement of financial assets and liabilities as well as rules on the impairment of financial instruments. Beside already incurred losses, the expected credit loss model is used to anticipate and recognize expected future losses. Further, the standard introduces new rules on hedge accounting. The new standard was endorsed by the E.U. in November 2016 and is to be applied for annual periods beginning on or after January 1, 2018. The LANXESS Group utilizes the exemption from retrospective application of the standard and applies it prospectively from January 1, 2018, for the classification, measurement and impairment of financial instruments. In contrast, the new requirements for hedge accounting will be applied retrospectively. The IASB published further amendments to IFRS 9 in October 2017. They relate to early repayment options with negative prepayment penalties and are to be applied for annual periods beginning on or after January 1, 2019.

The conversion to the new IFRS 9 requirements is expected to have the following effects:

› The application of the new requirements will have no material effects on *classification and measurement of financial assets and liabilities.* The change in measurement of the equity instruments of €9 million recognized at cost at the end of the reporting period to fair value measurement will not have a material impact on the recognized values. Likewise, no material effects are expected on future recognition.
› The implementation of the new rules on the *impairment of financial instruments* requires the estimation of expected credit losses based on historical losses and future loss expectations. The change primarily relates to trade receivables, contract assets according to IFRS 15 and external loans. As of December 31, 2017, there were expected credit losses of approximately 1.3% or around €17 million on trade receivables. As of January 1, 2018, these are increased by around 0.1% of the carrying amount of the trade receivables as of December 31, 2017, due to the introduction of the new requirements and the inclusion of contract assets. On the basis of historically low loss rates, no material change is expected for fiscal year 2018.
› The implementation of the new requirements for *hedge accounting* relates in particular to the separate designation and measurement of individual components of forward rates and the exclusion of individual components of currency hedges. Hedging costs in particular are treated separately. At the time of the changeover on January 1, 2018, these amount to around 0.3% of the nominal values of derivatives hedged as of December 31, 2017, in hedge accounting (cash flow hedges) and will continue to be recognized in other comprehensive income. No material changes are expected for fiscal year 2018.

As of January 1, 2018, the application of the new IFRS 9 rules will result in an overall negative effect on equity after deferred taxes of around €1 million.

### Revenue from Contracts with Customers

The IASB published the new standard IFRS 15 on May 28, 2014. IFRS 15 primarily supersedes IAS 11 and IAS 18 and introduces a five-step model containing basic principles for revenue recognition. These basic principles relate, in particular, to the allocation of revenues to the distinct performance obligations and the associated revenues and rules on the timing of revenue recognition. The standard also introduces contract assets and contract liabilities as line items in the statement of financial position for differences between the revenue recognized in accordance with IFRS 15 and goods and services invoiced. The standard also contains further rules on specific issues and requires additional disclosures in the notes on the type, level, timing and uncertainties relating to revenues from contracts with customers. As a result of the amendment to IFRS 15 published in September 2015, the date of initial application has been postponed from January 1, 2017, to annual periods beginning on or after January 1, 2018. In April 2016, the IASB published further clarifications relating to simplifications for first-time application, the identification of performance obligations, the definition of principal versus agent, and recognition of license revenues. While the E.U. endorsed the standard in September 2016, the clarifications were endorsed in October 2017.

The application of the new rules from January 1, 2018, is expected to have the following effects compared to the current recognition of revenue:

- One business model used by the LANXESS Group is the manufacture of products on the basis of *long-term sales contracts with a contractually defined minimum purchase requirement.* Based on current contractual terms, under IFRS 15 in the future the expected total revenue from sale of the minimum amount must be estimated for the full term of the contract and allocated among the individual deliveries. The changes will result in a periodic shift in the timing of revenues and recognition as contract assets or liabilities. By contrast, under the present method, revenue is recognized on the basis of the agreed selling price. At the time of the changeover on January 1, 2018, this results in contract assets of approximately 0.2% and contract liabilities of approximately 0.1% of the 2017 consolidated sales. This primarily relates to the Advanced Intermediates, Specialty Additives and ARLANXEO segments. Due to the reversal of the contract assets and liabilities over the sometimes multi-year terms of the contracts concerned, no material effects are expected on the consolidated sales for fiscal year 2018.
- Another business model used by the LANXESS Group is the manufacture of *customer-specific products on the basis of long-term supply agreements with a contractually defined minimum purchase requirement.* Based on 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. Under the present contractual terms, in the future the revenue from the sale of the minimum amount will have to be recognized over the production period and thus earlier than at present. Contract assets will be recognized for the corresponding receivables until the products are delivered. At present, revenue is recognized as of the delivery date. At the time of the changeover on January 1, 2018, this results in contract assets of approximately 0.4% of the 2017 consolidated sales and contrastingly reduced inventories of approximately 0.4% of the 2017 consolidated production costs. This concerns the Advanced Intermediates segment. This is primarily a changeover effect at the time of initial application, as in subsequent periods revenue will also be recognized in the production period and thus earlier. In this respect, no material effects are expected on the consolidated sales for fiscal year 2018.
- All segments use a business model where the *sale of products includes organizing freight services.* Under IFRS 15, recognition of revenue over time or at a point in time is based on the transfer of control to the customer. At LANXESS, the IFRS 15 criteria regarding the transfer of control to be assessed for this purpose primarily lead to a periodic shift in the timing of revenue recognition to the completion of the freight service due to the agreed delivery conditions. In this respect, the freight service is not to be treated as a separate performance obligation. Compared to fiscal year 2017, this results in lower trade receivables of approximately 2.1% of the 2017 consolidated sales and contrastingly increased inventories of approximately 2.1% of the 2017 consolidated production costs at the time of the changeover on January 1, 2018. This is primarily a changeover effect at the time of initial application, as a periodic shift in the timing of revenues of a similar amount is expected on future reporting dates. Therefore no material effects are expected on the consolidated sales for fiscal year 2018.

As of January 1, 2018, the application of the new IFRS 15 rules will result in an overall negative effect on equity after deferred taxes of around €16 million.

### Leases

On January 13, 2016, the IASB published the new standard IFRS 16, which supersedes IAS 17. Under IFRS 16, lessees will 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. Depreciation and amortization on the capitalized right-of-use asset and interest expense for compounding the lease liabilities are recorded in the income statement. For lessees, the distinction between operating and finance leases is abolished. The new standard also contains options for the treatment of short-term leases and leases of low value. If these options are applied, the costs of these leases are expensed immediately. There are no significant changes for lessors. The new standard is to be applied for annual periods beginning on or after January 1, 2019. Earlier application is permitted if IFRS 15 is applied. The standard was endorsed by the E.U. in October 2017. The LANXESS Group will apply the new standard from January 1, 2019.

In fiscal year 2016, the LANXESS Group set up a preliminary project on the introduction of IFRS 16. Initial analyses of the impact have been performed at Group level. The system solution was selected in fiscal year 2017. The contract will be accepted and the system implemented in fiscal year 2018. If IFRS 16 had been applicable as of January 1, 2018, it would have been necessary to present the future lease payments relating to operating leases contained in Note [33] as discounted financial lease payments in the statement of financial position. No decisions have yet been taken on whether to exercise any options.

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 14 | Regulatory Deferral Accounts | Jan. 30, 2014 | – | no |
| IFRS 10, IAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 | Sept. 11, 2014 | – | no |
| IFRS 2 | Share-based Payment – Amendments to IFRS 2 – Classification and Measurement | June, 20, 2016 | 2018 | yes |
| IFRS 4 | Insurance Contracts – Applying IFRS 9 “Financial Instruments” with IFRS 4 “Insurance Contracts” | Sept. 12, 2016 | 2018 | yes |
| Various IAS and IFRS | Annual Improvements to the International Financial Reporting Standards, 2014–2016 Cycle | Dec. 08, 2016 | 2018 | yes |
| IFRIC 22 | Foreign Currency Transactions and Advance Consideration | Dec. 08, 2016 | 2018 | no |
| IAS 40 | Investment Property – Amendments to IAS 40 – Transfers of Investment Property | Dec. 08, 2016 | 2018 | no |
| IFRS 17 | Insurance Contracts | May 18, 2017 | 2021 | no |
| IFRIC 23 | Uncertainty over Income Tax Treatments | June 07, 2017 | 2019 | no |
| IAS 28 | Investments in Associates and Joint Ventures – Amendments to IAS 28 – Long-term Interests in Associates and Joint Ventures | Oct. 12, 2017 | 2019 | no |
| Various IAS and IFRS | Annual Improvements to the International Financial Reporting Standards, 2015–2017 Cycle | Dec. 12, 2017 | 2019 | no |

# 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 cost of acquisition.

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 recorded 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.

If a company is deconsolidated, the relevant exchange differences are reversed and recognized in profit or loss.

The principal exchange rates used for currency translation in the LANXESS Group were:

**Exchange Rates**

| | | Closing rate, Dec. 31 | | Average rate | |
|---|---|---|---|---|---|
| €1 | | 2016 | 2017 | 2016 | 2017 |
| Argentina | ARS | 16.70 | 22.63 | 16.33 | 18.74 |
| Brazil | BRL | 3.44 | 3.97 | 3.86 | 3.61 |
| China | CNY | 7.32 | 7.80 | 7.35 | 7.63 |
| Great Britain | GBP | 0.86 | 0.89 | 0.82 | 0.88 |
| India | INR | 71.60 | 76.60 | 74.34 | 73.51 |
| Japan | JPY | 123.40 | 135.01 | 120.29 | 126.67 |
| Canada | CAD | 1.42 | 1.50 | 1.47 | 1.46 |
| Singapore | SGD | 1.52 | 1.60 | 1.53 | 1.56 |
| South Africa | ZAR | 14.46 | 14.81 | 16.27 | 15.04 |
| U.S. | USD | 1.05 | 1.20 | 1.11 | 1.13 |

## 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 2017 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 is 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 and 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 ordinary, 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 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 | 6 to 20 years |
| Machinery and equipment | 6 to 12 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 | 4 to 10 years |

## Leases

In accordance with IAS 17, leased assets where substantially all risks and rewards incidental to ownership are transferred (finance leases) are capitalized at the lower of their fair value and the present value of the minimum lease payments at the date of commencement. They are depreciated over their useful lives. If subsequent transfer of title to the leased asset is uncertain, it is depreciated over the shorter of its estimated useful life and the lease term.

The future lease payments are recorded as financial liabilities. Liabilities under finance leases are recognized at the fair value of the leased asset at commencement date or the present value of the minimum lease payments, whichever is lower. The minimum lease payments are 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 lessee recognizes the lease payments as expense.

Property, plant and equipment also includes assets that LANXESS leases or rents out to third parties under agreements other than finance leases. However, if the lessee is to be regarded as the economic owner of the assets, a receivable is recognized in the amount of the discounted future lease or rental payments.

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.

## 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. These include primary financial instruments, such as trade receivables or payables and other financial assets or liabilities, as well as derivative financial instruments, which are used to hedge risks arising from changes in currency exchange rates, raw material prices or 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.

Trade receivables and other financial receivables are initially recognized at fair value and subsequently accounted for at amortized cost using the effective interest method. Where write-downs are necessary as a result of impairment testing, they are recognized using separate accounts.

Investments in affiliates and equity instruments included in non-current assets are classified as available-for-sale financial assets and recognized at fair value, except where their fair value cannot be reliably determined, in which case they are recognized at amortized cost. Where objective evidence exists that such assets may be impaired, an impairment charge is recognized on the basis of an impairment test.

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.

Financial assets held for trading are recognized at fair value. Any gain or loss arising from subsequent measurement is reflected in the income statement.

All other primary financial assets are classified as available for sale and recognized at fair value except if they are allocable to loans and receivables. Any gain or loss resulting from subsequent measurement, with the exception of write-downs and of gains and losses from currency translation, is recognized in other comprehensive income until the asset is derecognized.

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 nonderivative financial assets or liabilities at fair value through profit or loss upon 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 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, changes in the value of such instruments are recognized separately in other comprehensive income until the underlying transactions are realized. The amounts recognized here are subsequently reclassified to other operating income or cost of sales, as appropriate, when the hedged transaction is recognized in profit or loss. Any portion of the change in 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 value 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 principal 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.

The fair value of securities is determined from their market price on the closing date, disregarding transaction costs.

The fair value of loans and liabilities to banks is calculated from discounted future interest payments and capital repayment amounts.

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 finance 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. They are derived from their trading or listed prices using the "forward method." 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.

### 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.

### Cash and cash equivalents

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.

### Non-current assets and liabilities held for sale

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.

Assets classified as held for sale are no longer depreciated. They are recognized at the lower of fair value less costs to sell and the carrying amount.

### 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 recorded.

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 returns are simulated and the expected payment is calculated from the value of the rights based on a two-dimensional standard distribution of returns. 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.

Subsidies 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 the income statement over the underlying period or expected useful life of the assets to which they relate.

## Sales and other revenues

Revenues are recognized as soon as delivery has been made or the service rendered and are reported net of sales taxes and deductions. This is normally the case when the significant risks and rewards associated with ownership of the goods pass to the purchaser. It must also be sufficiently probable that the economic benefits will be obtained and the costs incurred must be reliably determinable.

Customer rebates are reflected in the period in which the revenues are realized. Revenues such as license fees, rental income, interest income or dividends that are attributable to a subsequent fiscal year are accrued.

## Research and development costs

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 at their expected value provided that payment or reimbursement is considered probable.

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 of subsidiaries resulting in the loss of control are recognized through profit or loss. In the case of successive share disposals without loss of control, the decline in the majority share is recognized outside profit or loss 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 outside profit or loss.

## Statement of cash flows

The statement of cash flows shows how cash inflows and outflows during the 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 from operating activities are calculated using the indirect method. This involves eliminating the translation effects and the effects of changes in the scope of consolidation from the changes recognized in the items on 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 finance 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.

Payments relating to operating leases are included in cash flows from operating activities. Disbursements made under finance 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.

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 (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 after deducting cash and cash equivalents acquired or divested.

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, as in the previous year with the exception of further subdivisions of cash-generating units in the Advanced Industrial Intermediates (Advanced Industrial Intermediates and Antioxidants & Accelerators), Tire & Specialty Rubbers (Butyl Rubber and Performance Butadiene Rubbers) and High Performance Elastomers (High Performance Elastomers and Keltan Elastomers) business units.

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. For the impairment test on goodwill in the Tire & Specialty Rubbers business unit, as in the previous year, the Butyl Rubber and Performance Butadiene Rubbers cash-generating units were tested as a group of cash-generating units. Moreover, the Advanced Industrial Intermediates and Antioxidants & Accelerators cash-generating units form a group for the purpose of the impairment test on goodwill in the Advanced Industrial Intermediates business unit, as in the previous year.

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 [36]).

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.

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 year 2016 and 2017 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").

Management's assumptions and estimates used for the *impairment test conducted on assets* in fiscal year 2017 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 7.2% (previous year: 5.8%), while the impairment tests as of the closing date are based on a discount rate after taxes of 7.0% (previous year: 6.4%). The impairment tests of the cash-generating units showed no need for the recognition of impairment charges in fiscal year 2016 and 2017. No need for reversals of impairment charges recognized for assets in previous years was identified in fiscal year 2016 or 2017.

The fair value less costs of disposal was calculated using net present value methods which are allocated to Level 3 of the fair value hierarchy.

The annual *impairment test for the principal goodwill items* is performed on the basis of fair value less costs of disposal. The goodwill items are carried in local currency.

As of December 31, 2017, the goodwill acquired in the reporting year through the acquisition of the U.S. chemicals group Chemtura, Middlebury, U.S., amounted to €611 million after currency effects. The flame retardant and lubricant additives business has been combined with the LANXESS Plastic Additives and Lubricant Additives operations (previous year: Rhein Chemie Additives business unit) in the new Additives business unit and allocated to the Specialty Additives segment. The acquisition increased the goodwill of the Additives business unit as of December 31, 2017, by €470 million to €482 million. The Urethane Systems business unit was established for the former Chemtura urethanes business and allocated to the Engineering Materials segment. The acquisition resulted in goodwill of €141 million as of December 31, 2017. The former Chemtura business with organometallics has been integrated into the LANXESS Advanced Industrial Intermediates business unit in the Advanced Intermediates segment. The fair value less costs of disposal was calculated using a net present value method which is allocated to Level 3 of the fair value hierarchy.

On December 18, 2017, the LANXESS Group acquired goodwill of €20 million from the acquisition of all shares in the biotech startup IMD Natural Solutions GmbH, Dortmund, Germany. The acquired goodwill was allocated to the Material Protection Products business unit in the Performance Chemicals segment and tested for impairment as of the reporting date. As a result of the acquired goodwill and contrary currency effects, the goodwill of the Material Protection Products business unit increased to €133 million (previous year: €125 million). The fair value less costs of disposal was calculated using a net present value method which is allocated to Level 3 of the fair value hierarchy.

In the previous year, the LANXESS Group acquired goodwill of €93 million through the acquisition of the Clean and Disinfect specialties business of U.S. chemical company Chemours. The newly acquired goodwill was allocated to the Material Protection Products business unit in the Performance Chemicals segment.

Further significant goodwill of €66 million (previous year: €76 million) relates to the Tire & Specialty Rubbers business unit. The change in goodwill compared to the previous year is attributable to currency effects. The High Performance Materials business unit includes goodwill of €18 million (previous year: €18 million). The goodwill of the Rhein Chemie Additives business unit of €21 million stated in the previous year was transferred to the Additives business unit and the Rhein Chemie business unit.

Information on calculating the net cash flows can be found in this chapter and the previous chapter. The Additives business unit and the Rhein Chemie business unit (formerly Rhein Chemie Additives business unit) are dependent on various processing industries. The Material Protection Products business unit is dependent on the development of various industries, and the Tire & Specialty Rubbers business unit is dependent in large part on market developments in the tire and automotive industries. The High Performance Materials business unit and the Urethane Systems business unit are influenced primarily by market development in the automotive industry 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 4% was planned for the Additives cash-generating unit, 5% for the Urethane Systems cash-generating unit, and 5% (previous year: 5%) for the Material Protection Products cash-generating unit. The five-year planning period for the group of cash-generating units that comprises the Tire & Specialty Rubber business unit assumes average annual sales growth of 3% (previous year: 5%). Average annual sales growth of 2% (previous year: 2%) was planned for the High Performance Materials cash-generating unit. No growth rates are reflected in the perpetual annuity calculation. In the current fiscal year, lower EBITDA values than in the last planning period were assumed for the steady state for the Saltigo, Leather, High Performance Materials and Liquid Purification Technologies business units in the perpetual annuity calculation. Higher EBITDA values than in the last planning period were assumed for the steady state for the Material Protection Products and Keltan Elastomers cash-generating units in the perpetual annuity calculation. In the previous year, lower EBITDA values than in the last planning period were assumed for the steady state for the Leather, Keltan Elastomers and Butyl Rubber cash-generating units in the perpetual annuity calculation.

The impairment test performed on goodwill items in fiscal year 2016 and 2017 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.

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 2017 consolidated financial statements, the LANXESS Group performed sensitivity analyses on provisions, as required by the 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. 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. In the event of unfavorable developments, LANXESS could be faced with additional charges in the low-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. In addition, the last-minute passage of the U.S. tax reform legislation has caused uncertainties in individual areas, especially with regard to the "one-time" taxation of the retained earnings of foreign subsidiaries held by U.S. subsidiaries. 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.

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, 2017 | 24 | 9 | 7 | 5 | 18 | 63 |
| Additions | 16 | 7 | 7 | 3 | 13 | 46 |
| Retirements | | | (1) | | | (1) |
| Mergers | | (4) | | | (1) | (5) |
| **Dec. 31, 2017** | **40** | **12** | **13** | **8** | **30** | **103** |
| **Consolidated associates and jointly controlled entities** | | | | | | |
| Jan. 1, 2017 | | 2 | | | | 2 |
| Additions | | | 1 | | | 1 |
| Retirements | | | | | | 0 |
| Mergers | | | | | | 0 |
| **Dec. 31, 2017** | **0** | **2** | **1** | **0** | **0** | **3** |
| **Non-consolidated companies** | | | | | | |
| Jan. 1, 2017 | 1 | 2 | 2 | 3 | 2 | 10 |
| Additions | 1 | 1 | | 1 | | 3 |
| Retirements | | | | | | 0 |
| Mergers | | | (1) | | | (1) |
| **Dec. 31, 2017** | **2** | **3** | **1** | **4** | **2** | **12** |
| **Total** | | | | | | |
| Jan. 1, 2017 | 25 | 13 | 9 | 8 | 20 | 75 |
| Additions | 17 | 8 | 8 | 4 | 13 | 50 |
| Retirements | | | (1) | | | (1) |
| Mergers | | (4) | (1) | | (1) | (6) |
| **Dec. 31, 2017** | **42** | **17** | **15** | **12** | **32** | **118** |

The U.S. chemicals group Chemtura was acquired on April 21, 2017. LANXESS thereby acquired all shares in Chemtura Corporation, Middlebury, U.S., as well as its domestic and foreign subsidiaries and affiliates. As a result of the integration of Chemtura into the LANXESS Group, companies acquired have been merged in Germany and renamed worldwide.

Furthermore, IMD Natural Solutions GmbH, Dortmund, Germany, was acquired in the reporting period. In addition, ARLANXEO Branch Offices B.V., Maastricht, Netherlands, was newly established and fully consolidated. International Dioxcide Inc., North Kingstown, U.S., was sold in 2017, and LANXESS Elastomers Trading (Shanghai) Co., Ltd., Shanghai, China, was merged into LANXESS Chemical, China Co., Ltd., Shanghai, China.

In the previous year, the LANXESS Group and Aramco Overseas Holdings Coöperatief U.A., The Hague, Netherlands, a subsidiary of Saudi Aramco, formed a strategic alliance for the synthetic rubber business named ARLANXEO, in which each party holds a 50% interest. ARLANXEO is still included in the consolidated financial statements of the LANXESS Group and is fully consolidated because the casting vote of the chairman of the Shareholders' Committee of ARLANXEO, who is appointed by LANXESS, gives LANXESS the opportunity to determine key aspects of its financial and business policy. ARLANXEO will be classified as a discontinued operation one year before the end of full consolidation, i.e. from April 1, 2018.

Among the non-consolidated companies, LANXESS Additives Inc., Wilmington, U.S., became LANXESS Solutions US Inc., Wilmington, U.S., and was placed into the fully consolidated company Chemtura Corporation, Wilmington, U.S. The latter was renamed LANXESS Solutions US Inc., Wilmington, U.S. In addition, Siebte LXS GmbH, Cologne, Germany, was founded.

The structured entities Dirlem (Pty) Ltd., Modderfontein, South Africa, and Rustenburg Chrome Employees Empowerment Trust, Modderfontein, South Africa, were also consolidated in the EMEA (excluding Germany) region in previous years. The purpose of these structured entities was to ensure employee participation in the company in accordance with South Africa's Black Economic Empowerment legislation. LANXESS exercised control because the principal business activities were defined by LANXESS when the structured entities were established. Because the conditions for control were no longer met, significant influence was no longer exerted on the business activities in fiscal year 2017. The companies are therefore no longer included in the consolidated financial statements.

Europigments, S.L., Barcelona, Spain, and Rhein Chemie (Qingdao) Co., Ltd., Qingdao, China, are production companies in which LANXESS has a stake of 52% 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.

ARLANXEO-TRSC (Nantong) Chemical Industrial Co., Ltd., Nantong, China, is a producer of nitrile rubber. LANXESS's share in its capital is 50%. This company is fully consolidated because LANXESS can determine key aspects of its financial and business policy.

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 between them. 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.

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 using the equity method (see Note [3]). 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. In view of 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].

Cash transfers from companies in Argentina, Brazil, China, India, Russia, South Africa, Republic of Korea and Taiwan are subject to restrictions as a result of regulated capital markets. These affect approximately 13% (previous year: 20%) of the LANXESS Group's cash, cash equivalents and near-cash assets.

Non-consolidated companies are accounted for at cost. 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 equity.

## Acquisitions

The U.S. chemicals group Chemtura was acquired on April 21, 2017, and included in the consolidated financial statements as of this date. In connection with the acquisition of Chemtura, LANXESS acquired all shares in Chemtura Corporation, Middlebury, U.S., as well as its domestic and foreign subsidiaries and affiliates. The purchase price of around €2.0 billion was paid using funds from corporate bonds successfully placed in the previous year as well as existing liquidity. LANXESS has thus expanded its own additives portfolio and is becoming one of the world's major providers in this growing market. Chemtura's flame retardant and lubricant additives business has been combined with the LANXESS Plastic Additives and Lubricant Additives operations in the new Additives business unit. Chemtura's business with organometallics has been integrated into the LANXESS Advanced Industrial Intermediates business unit in the Advanced Intermediates segment. Chemtura's urethanes business will now be run as the Urethane Systems business unit, which, together with the High Performance Materials business unit, constitutes the Engineering Materials segment.

The acquisition was accounted for as a business combination in accordance with IFRS 3. For the purchase price allocation, the identifiable assets, liabilities and contingent liabilities of the business acquired were recognized at fair value. The purchase price allocation was performed on the basis of the information available on and immediately after the acquisition date. IFRS permits adjustment of the purchase price allocation within one year after the acquisition date on the basis of new knowledge and information. This can especially affect items based on assumptions and estimates. These are primarily provisions, contingent liabilities and deferred taxes. Changes in other items also cannot be ruled out, but there are currently no indications of this.

Since the acquisition date, the new business has contributed sales of €994 million and negatively influenced the earnings of the LANXESS Group by €112 million, primarily due to exceptional items. Group earnings were also negatively impacted by effects resulting from the purchase price allocation. If the business had been already acquired as of January 1, 2017, the contribution to LANXESS Group sales would have increased by an additional amount of approximately €455 million, while the contribution to net income would have changed only slightly. Earnings effects resulting from the revaluation of assets and liabilities were included retroactively from January 1, 2017. Intra-group results between Chemtura and LANXESS were eliminated. Intangible assets of €769 million were established in the context of the purchase price allocation, comprising €536 million for customer relationships, €105 million for trademarks and €128 million in other intangible assets.

The goodwill of €683 million resulting from the acquisition mainly reflects additional business opportunities arising primarily with new customers in the European and North American markets. The goodwill also includes an improvement in the cost structure and the procurement of raw materials, as well as higher capacity utilization in production. €525 million of the goodwill is allocated to the Additives business unit and €158 million to Urethane Systems.

The goodwill is not tax-deductible.

€38 million of the total purchase price of €2,014 million is attributable to payment obligations of transferred employees. The employees' entitlements result from Chemtura's share-based compensation programs and are based on the price paid per Chemtura share as part of the acquisition. The outstanding payment obligations of €14 million as of the reporting date on December 31, 2017, are shown under personnel-related provisions and have a term until 2020. The gross amount of trade receivables due is €221 million, of which €2 million is expected to be uncollectible. Other non-current liabilities total €326 million and include contingent liabilities of a single-digit million euro amount.

In connection with this acquisition, transaction costs of €2 million were recognized in other operating expenses during the reporting period. The majority of the transaction costs, classified as exceptional items, was incurred in the previous year. For more information, please see "Notes on EBIT and EBITDA (Pre Exceptionals)" in the management report.

The following table shows the effects of the acquisition on the Group's financial position:

**Additions from Acquisition**

| € million | Fair values at first-time consolidation |
|---|---|
| Intangible assets | 769 |
| Property, plant and equipment | 847 |
| Inventories | 349 |
| Trade receivables | 219 |
| Cash and cash equivalents | 215 |
| Other assets | 246 |
| **Total assets** | **2,645** |
| Provisions for pensions and other post-employment benefits | 217 |
| Other non-current liabilities | 339 |
| Trade payables | 169 |
| Other current financial liabilities | 461 |
| Other current liabilities | 128 |
| **Total liabilities** | **1,314** |
| **Net acquired assets (excl. goodwill)** | **1,331** |
| **Cost of acquisition** | **2,014** |
| **Goodwill** | **683** |

On December 18, 2017, LANXESS acquired all shares in the biotech startup IMD Natural Solutions GmbH, Dortmund, Germany, and thus expanded its expertise in biotechnology. At its laboratory in Dortmund, IMD Natural Solutions develops natural active ingredients for the beverages, food and consumer goods industries. The core product is currently in the registration phase. The first market launch is scheduled for 2018 in the U.S. The company was allocated to the Material Protection Products business unit in the Performance Chemicals segment.

The acquisition was accounted for as a business combination in accordance with IFRS 3. For the purchase price allocation, the identifiable assets, liabilities and contingent liabilities of the business acquired were recognized at fair value. The purchase price allocation was performed on the basis of the information available on and immediately after the acquisition date. IFRS permits adjustment of the purchase price allocation within one year after the acquisition date on the basis of new knowledge and information. This can basically impact all items taken into consideration in the purchase price allocation. As part of the purchase agreement, a contingent consideration with a fair value of €11 million was agreed with the sellers as of December 31, 2017. The contingent consideration whose payment is regarded as highly likely is recognized under other financial liabilities as of the end of 2017. No material transaction costs were incurred in connection with the transaction. The goodwill is not tax-deductible.

The company was included in the consolidated financial statements for the first time as of December 31, 2017. The following table shows the effects of the acquisition on the Group's assets:

**Additions from Acquisition**

| € million | Fair values at first-time consolidation |
|---|---|
| Intangible assets | 15 |
| Property, plant and equipment | 0 |
| Inventories | 0 |
| Other assets | 1 |
| Cash and cash equivalents | 1 |
| **Total assets** | **17** |
| Non-current liabilities | 7 |
| Current liabilities | 0 |
| **Total liabilities** | **7** |
| **Net acquired assets (excl. equity)** | **10** |
| **Cost of acquisition** | **30** |
| **Goodwill** | **20** |

## Divestments

On October 31, 2017, LANXESS sold its U.S. subsidiary International Dioxcide Inc., North Kingstown, U.S., to the Canadian Superior Plus Corporation, Toronto, Canada. LANXESS had taken over the chlorine dioxide business as part of the acquisition of the clean and disinfect specialties business from the U.S. chemical company Chemours last year and integrated it into the Material Protection Products business unit in the Performance Chemicals segment. Net assets of €4 million were disposed of in this sale. These net assets primarily comprise inventories of €2 million, trade receivables of €5 million and trade payables of €4 million. Proceeds of €5 million from the sale of this company were recognized in other operating income.

## 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 | – |
| ARLANXEO Deutschland GmbH, Dormagen | 100 |
| Bond-Laminates GmbH, Brilon | 100 |
| IAB Ionenaustauscher GmbH Bitterfeld, Greppin | 100 |
| IMD Natural Solutions GmbH, Dortmund | 100 |
| LANXESS Accounting GmbH, Cologne | 100 |
| LANXESS Buna GmbH, Marl | 100 |
| LANXESS Deutschland GmbH, Cologne | 100 |
| LANXESS Distribution GmbH, Leverkusen | 100 |
| LANXESS OMS Holding GmbH, Bergkamen | 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 |
| ARLANXEO Belgium N.V., Zwijndrecht, Belgium | 100 |
| ARLANXEO Branch Offices B.V., Maastricht, Netherlands | 100 |
| ARLANXEO Elastomères France S.A.S., Lillebonne, France | 100 |
| ARLANXEO Emulsion Rubber France S.A.S., La Wantzenau, France | 100 |
| ARLANXEO Holding B.V., Maastricht, Netherlands | 50 |
| ARLANXEO Netherlands B.V., Sittard-Geleen, Netherlands | 100 |
| ARLANXEO Switzerland S.A., Granges-Paccot, Switzerland | 100 |
| Chemours Jersey Ltd., St Helier, Jersey | 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 |
| 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 |

**Company Name and Domicile**

| | Interest held in % |
|---|---|
| **Fully consolidated companies** | |
| 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 Services Switzerland GmbH, Frauenfeld, Switzerland | 100 |
| LANXESS Solutions Belgium N.V., Antwerp, Belgium | 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** | |
| ARLANXEO Canada Inc., Sarnia, Canada | 100 |
| ARLANXEO U.S.A. Holdings Corp., Pittsburgh, U.S. | 100 |
| ARLANXEO U.S.A. LLC, Pittsburgh, U.S. | 100 |
| 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 |
| LANXESS Holding Company US Inc., Wilmington, New Castle, U.S. | 100 |
| LANXESS Laurel US LLC, Wilmington, New Castle, U.S. | 100 |
| LANXESS Services US LLC, Wilmington, New Castle, U.S. | 100 |
| LANXESS Solutions US Inc., Wilmington, New Castle, U.S. | 100 |
| LANXESS Sybron Chemicals Inc., Birmingham, U.S. | 100 |
| Sybron Chemical Holdings Inc., Birmingham, U.S. | 100 |
| **Latin America** | |
| ARLANXEO Brasil S.A., Duque de Caxias, Brazil | 100 |
| Chemtura Corporation Mexico, S. de R.L. de C.V., Atizapan de Zaragoza, 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 |
| LANXESS Laurel de Mexico, S.A. de C.V., Reynosa, Mexico | 100 |
| Rhein Chemie Uruguay S.A., Colonia, Uruguay | 100 |

**Company Name and Domicile**

| | Interest held in % |
|---|---|
| **Fully consolidated companies** | |
| **Asia-Pacific** | |
| ARLANXEO High Performance Elastomers, (Changzhou) Co., Ltd., Changzhou, China | 100 |
| ARLANXEO Singapore Pte. Ltd, Singapore, Singapore | 100 |
| ARLANXEO-TSRC, (Nantong) Chemical Industrial Co., Ltd., Nantong, China | 50 |
| Chemtura Chemicals Nanjing Co. Ltd., Nanjing, China | 100 |
| Chemtura China Holding Co. Ltd., Shanghai, China | 100 |
| Chemtura Shanghai 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 |
| 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., New Delhi, India | 100 |
| LANXESS Solutions Japan K.K., Tokyo, Japan | 100 |
| LANXESS Solutions Korea Inc., Gyeonggi-do, Republic of Korea | 100 |
| LANXESS Solutions Singapore Pte. Ltd., Singapore, Singapore | 100 |
| LANXESS Specialty Chemicals Co., Ltd., Shanghai, China | 100 |
| LANXESS Taiwan Ltd., Kaohsiung, Taiwan | 100 |
| Rhein Chemie (Qingdao) Co., Ltd., Qingdao, China | 90 |
| **Jointly controlled entity** | |
| **Germany** | |
| DuBay Polymer GmbH, Hamm | 50 |
| **North America** | |
| Rubicon LLC, Salt Lake City, U.S. | 50 |
| **Associate accounted for using the equity method** | |
| **Germany** | |
| Currenta GmbH & Co. OHG, Leverkusen | 40 |

**Company Name and Domicile**

| | Interest held in % |
|---|---|
| **Non-consolidated immaterial subsidiaries** | |
| **Germany** | |
| LANXESS Middle East GmbH, Cologne | 100 |
| LANXESS Digital GmbH, Berlin | 100 |
| Siebte LXS GmbH, Cologne | 100 |
| **EMEA (excluding Germany)** | |
| Gulf Stabilizers Industries Sales FZCO, Dubai, UAE | 52 |
| W. Hawley & Son Ltd., Newbury, Great Britain | 100 |
| **North America** | |
| LANXESS Energy LLC, Wilmington, New Castle, U.S. | 100 |
| **Latin America** | |
| Comercial Andinas Ltda., Santiago de Chile, Chile | 100 |
| Crompton Servicios, S.A. de C.V., Atizapan de Zaragoza, Mexico | 100 |
| Petroflex Trading S.A., Montevideo, Uruguay | 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 | 100 |

# NOTES TO THE STATEMENT OF FINANCIAL POSITION

## 1 | Intangible Assets

Changes in intangible assets were as follows:

**Changes in Intangible Assets in 2016**

| € million | Acquired goodwill | Other intangible assets | Advance payments | Total |
|---|---|---|---|---|
| Cost of acquisition or generation, Dec. 31, 2015 | 148 | 368 | 36 | 552 |
| Acquisitions | 93 | 94 | – | 187 |
| Capital expenditures | – | 10 | 15 | 25 |
| Disposals | – | (7) | 0 | (7) |
| Reclassifications | – | 15 | (15) | 0 |
| Exchange differences | 20 | 7 | 0 | 27 |
| **Cost of acquisition or generation, Dec. 31, 2016** | **261** | **487** | **36** | **784** |
| Accumulated amortization and write-downs, Dec. 31, 2015 | (12) | (240) | 0 | (252) |
| Amortization and write-downs in 2016 | – | (33) | 0 | (33) |
| of which write-downs | – | 0 | 0 | 0 |
| Reversals of impairment charges | – | – | – | 0 |
| Disposals | – | 4 | 0 | 4 |
| Reclassifications | – | 0 | 0 | 0 |
| Exchange differences | (1) | (8) | – | (9) |
| **Accumulated amortization and write-downs, Dec. 31, 2016** | **(13)** | **(277)** | **0** | **(290)** |
| **Carrying amounts, Dec. 31, 2016** | **248** | **210** | **36** | **494** |

**Changes in Intangible Assets in 2017**

| € million | Acquired goodwill | Other intangible assets | Advance payments | Total |
|---|---|---|---|---|
| Cost of acquisition or generation, Dec. 31, 2016 | 261 | 487 | 36 | 784 |
| Acquisitions | 703 | 784 | – | 1,487 |
| Capital expenditures | – | 17 | 22 | 39 |
| Disposals | – | (9) | 0 | (9) |
| Reclassifications | – | 9 | (9) | 0 |
| Exchange differences | (98) | (92) | 0 | (190) |
| **Cost of acquisition or generation, Dec. 31, 2017** | **866** | **1,196** | **49** | **2,111** |
| Accumulated amortization and write-downs, Dec. 31, 2016 | (13) | (277) | 0 | (290) |
| Amortization and write-downs in 2017 | – | (75) | 0 | (75) |
| of which write-downs | – | (9) | 0 | (9) |
| Reversals of impairment charges | – | – | – | 0 |
| Disposals | – | 7 | 0 | 7 |
| Reclassifications | – | 0 | 0 | 0 |
| Exchange differences | 2 | 14 | – | 16 |
| **Accumulated amortization and write-downs, Dec. 31, 2017** | **(11)** | **(331)** | **0** | **(342)** |
| **Carrying amounts, Dec. 31, 2017** | **855** | **865** | **49** | **1,769** |

The changes due to acquisitions in fiscal year 2017 relate to the acquisitions of the U.S. chemicals company Chemtura and of the biotech startup IMD Natural Solutions GmbH, based in Dortmund.

## 2 | Property, Plant and Equipment

Changes in property, plant and equipment were as follows:

**Changes in Property, Plant and Equipment in 2016**

| € 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, 2015 | 1,821 | 7,478 | 336 | 311 | 9,946 |
| Acquisitions | 4 | 11 | 0 | 1 | 16 |
| Capital expenditures | 25 | 129 | 21 | 262 | 437 |
| Disposals | (10) | (138) | (22) | 0 | (170) |
| Reclassifications | 30 | 165 | 16 | (211) | 0 |
| Exchange differences | 30 | 110 | 7 | 14 | 161 |
| **Cost of acquisition or construction, Dec. 31, 2016** | **1,900** | **7,755** | **358** | **377** | **10,390** |
| Accumulated depreciation and write-downs, Dec. 31, 2015 | (979) | (5,268) | (250) | (2) | (6,499) |
| Depreciation and write-downs in 2016 | (61) | (353) | (34) | 0 | (448) |
| of which write-downs | (2) | (6) | (1) | 0 | (9) |
| Reversals of impairment charges | 0 | 0 | 0 | – | 0 |
| Disposals | 7 | 137 | 22 | 0 | 166 |
| Reclassifications | 0 | 0 | 0 | 0 | 0 |
| Exchange differences | (13) | (72) | (4) | (1) | (90) |
| **Accumulated depreciation and write-downs, Dec. 31, 2016** | **(1,046)** | **(5,556)** | **(266)** | **(3)** | **(6,871)** |
| **Carrying amounts, Dec. 31, 2016** | **854** | **2,199** | **92** | **374** | **3,519** |

**Changes in Property, Plant and Equipment in 2017**

| € 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, 2016 | 1,900 | 7,755 | 358 | 377 | 10,390 |
| Acquisitions | 204 | 586 | 8 | 49 | 847 |
| Capital expenditures | 18 | 148 | 19 | 336 | 521 |
| Disposals | (12) | (78) | (17) | (4) | (111) |
| Reclassifications | 38 | 193 | 17 | (248) | 0 |
| Exchange differences | (99) | (311) | (13) | (20) | (443) |
| **Cost of acquisition or construction, Dec. 31, 2017** | **2,049** | **8,293** | **372** | **490** | **11,204** |
| Accumulated depreciation and write-downs, Dec. 31, 2016 | (1,046) | (5,556) | (266) | (3) | (6,871) |
| Depreciation and write-downs in 2017 | (81) | (443) | (39) | (1) | (564) |
| of which write-downs | (12) | (28) | (1) | (1) | (42) |
| Reversals of impairment charges | 0 | 1 | – | – | 1 |
| Disposals | 11 | 80 | 17 | 2 | 110 |
| Reclassifications | 0 | 0 | 0 | 0 | 0 |
| Exchange differences | 26 | 145 | 8 | 0 | 179 |
| **Accumulated depreciation and write-downs, Dec. 31, 2017** | **(1,090)** | **(5,773)** | **(280)** | **(2)** | **(7,145)** |
| **Carrying amounts, Dec. 31, 2017** | **959** | **2,520** | **92** | **488** | **4,059** |

The changes due to acquisitions in fiscal year 2017 relate to the acquisitions of the U.S. chemicals company Chemtura and of the biotech startup IMD Natural Solutions GmbH, based in Dortmund.

Write-downs were recognized on land and buildings, technical equipment and machinery, and other fixtures, fittings and equipment due to reorganization and other value-decreasing events.

The reversals of impairment charges in fiscal year 2017 related to impairment charges recognized in previous years on individual assets.

Capitalized property, plant and equipment includes assets with the following gross and net values held under finance leases:

**Assets Held Under Finance Leases**

| € million | Dec. 31, 2016 Gross carrying amount | Dec. 31, 2016 Net carrying amount | Dec. 31, 2017 Gross carrying amount | Dec. 31, 2017 Net carrying amount |
|---|---|---|---|---|
| Buildings | 4 | 2 | 4 | 3 |
| Technical equipment and machinery | 88 | 56 | 86 | 47 |
| Fittings and equipment | 19 | 10 | 16 | 8 |
| | **111** | **68** | **106** | **58** |

Directly attributable borrowing costs of €3 million (previous year: €2 million) were capitalized. An annual average cost of debt for the LANXESS Group of 2.7% (previous year: 3.5%) 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 statements, statements of comprehensive income and statements of financial position of that company:

**Data from the Income Statement and Statement of Comprehensive Income**

| € million | 2016 | 2017 |
|---|---|---|
| Sales | 1,212 | 1,304 |
| Operating result (EBIT) | 110 | 105 |
| Income after income taxes | 81 | 61 |
| Other comprehensive income, net of income tax | (57) | 28 |
| Total comprehensive income | 24 | 89 |

**Data from the Statement of Financial Position**

| € million | Dec. 31, 2016 | Dec. 31, 2017 |
|---|---|---|
| Non-current assets | 739 | 810 |
| Current assets | 582 | 462 |
| **Total assets** | **1,321** | **1,272** |
| Non-current liabilities | 1,106 | 1,076 |
| Current liabilities | 307 | 315 |
| **Total liabilities** | **1,413** | **1,391** |
| **Equity** | **(92)** | **(119)** |
| Adjustment of LANXESS's interest and equity valuation | 45 | 62 |
| Pro rata loss not recognized in consolidated financial statements | 47 | 57 |
| **Investments accounted for using the equity method** | **0** | **0** |

The carrying amount of the investment in Currenta GmbH & Co. OHG was unchanged from the previous year at €0 million. As of the reporting date, a share of the accounting loss amounting to €57 million (previous year: €47 million) was not recognized. The change resulted from the loss-increasing profit transfer of €45 million, the loss-reducing income of €24 million and the loss-reducing gains of €11 million recognized in other comprehensive income, which are not subsequently reclassified to profit or loss. In the previous year, the unrecognized loss declined by €7 million due to income of €32 million and primarily the losses of €23 million recognized in other comprehensive income.

## 4 | Investments in Other Affiliated Companies

This item contains interests in other affiliated companies totaling €9 million (previous year: €12 million).

As of December 31, 2017, all other investments classified as available-for-sale financial assets – apart from the shares in BioAmber Inc., Minneapolis, U.S. – comprised unlisted equity instruments. Since the fair values of these instruments at the closing date could not be reliably determined, they were recognized at cost. There are currently no plans to sell these investments.

## 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. They are capitalized in the consolidated financial statements for fiscal year 2017 at a total fair value of €52 million (previous year: €66 million). Instruments with a negative fair value totaling €14 million (previous year: €49 million) are recognized as liabilities.

**Derivative Financial Instruments**

| € million | Dec. 31, 2016 Notional amount | Positive fair values | Negative fair values |
|---|---|---|---|
| Current forward exchange contracts | 2,725 | 65 | (42) |
| Current forward commodity contracts | 4 | 0 | – |
| Non-current forward exchange contracts | 121 | 1 | (7) |
| Non-current forward tax contracts | – | – | – |
| Long-term embedded derivatives not designated as hedging instruments | – | – | – |
| | **2,850** | **66** | **(49)** |

**Derivative Financial Instruments**

| € million | Dec. 31, 2017 Notional amount | Positive fair values | Negative fair values |
|---|---|---|---|
| Current forward exchange contracts | 2,581 | 45 | (12) |
| Current forward commodity contracts | 4 | 0 | – |
| Non-current forward exchange contracts | 241 | 5 | (2) |
| Non-current forward tax contracts | 500 | 0 | – |
| Long-term embedded derivatives not designated as hedging instruments | – | 2 | – |
| | **3,326** | **52** | **(14)** |

### *Cash flow hedges*

As of December 31, 2017, the unrealized gains recognized in other comprehensive income in fiscal year 2017 or earlier periods from currency hedging contracts that qualify for hedge accounting amounted to €17 million (previous year: €14 million losses). In fiscal year 2017, €4 million was reclassified from equity to profit or loss due to the realization of the hedged transactions and recognized as a gain (previous year: €36 million loss). Currency hedging contracts concluded to hedge future sales in foreign currencies had a total notional amount of €824 million (previous year: €452 million). As of December 31, 2017, these contracts had positive fair values of €27 million (previous year: €7 million) and negative fair values of €3 million (previous year: €26 million). Contracts with a total notional amount of €583 million (previous year: €357 million) were due within one year. The hedged cash flows will be realized within the next three years.

The LANXESS Group expects that, of the unrealized gains on currency hedges recognized in other comprehensive income as of the reporting date, €15 million will be reclassified from equity to profit or loss in fiscal year 2018 and €2 million in fiscal year 2019 (previous year: unrealized losses of €12 million in fiscal year 2017 and €2 million in fiscal year 2018).

### *Forward commodity contracts*

As in the previous year, the unrealized gains recognized in other comprehensive income in fiscal year 2017 for forward commodity transactions that qualify for hedge accounting amounted to €0 million. Hedging was on the basis of forward commodity contracts. The notional amount of the forward commodity contracts held for hedging purposes was €4 million (previous year: €4 million) and, as in the previous year, they had a positive fair value of €0 million on December 31, 2017. The contracts were due within one year and the hedged cash flows will be realized within the next year.

### *Forward interest rate contracts*

The unrealized gains recognized in other comprehensive income in fiscal year 2017 for forward interest rate transactions that qualify for hedge accounting amounted to €0 million. The forward interest rate contracts held for hedging purposes had a positive fair value of €0 million on December 31, 2017. The hedged cash flows will be realized within the next six years.

Information on *long-term embedded derivatives not designated as hedging instruments* and the maturity structure of derivative assets and liabilities is given in Note [36].

## 6 | Other Non-Current and Current Financial Assets

**Other Financial Assets**

| € million | Dec. 31, 2016 Non-current | Current | Total |
|---|---|---|---|
| Available-for-sale financial assets | 1 | 176 | 177 |
| Other financial receivables | 18 | 1,954 | 1,972 |
| | **19** | **2,130** | **2,149** |

**Other Financial Assets**

| € million | Dec. 31, 2017 Non-current | Current | Total |
|---|---|---|---|
| Available-for-sale financial assets | 1 | 1 | 2 |
| Other financial receivables | 19 | 6 | 25 |
| | **20** | **7** | **27** |

The other non-current financial receivables mainly comprise loans granted to site service providers. The decrease in available-for-sale financial assets and current financial receivables mainly relates to the repayment of liquidity invested in the previous year. In fiscal year 2017, this was used in particular for the acquisition of the U.S. chemicals group Chemtura. Write-downs of other financial assets amounted to €0 million, as in the previous year.

## 7 | Non-Current and Current Income Tax Receivables

The increase in non-current income tax receivables to €20 million (previous year: €7 million) mainly results from uncertain tax items relating to the acquisition of the U.S. chemicals group Chemtura.

The current income tax receivables of €47 million (previous year: €67 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 €113 million (previous year: €25 million) mainly include receivables relating to pension obligations, periodic accruals and other reimbursement claims. The year-on-year increase mainly results from the acquisition of the U.S. chemicals group Chemtura.

Other non-current assets are carried at amortized cost less any write-downs. No write-downs were made in 2016 or 2017.

## 9 | Inventories

The inventories of the LANXESS Group comprised:

**Inventories**

| € million | Dec. 31, 2016 | Dec. 31, 2017 |
|---|---|---|
| Raw materials and supplies | 275 | 382 |
| Work in process, finished goods and merchandise | 1,154 | 1,298 |
| | **1,429** | **1,680** |

The year-on-year increase in inventories mainly results from the acquisition of the U.S. chemicals group Chemtura.

Inventories of €258 million (previous year: €210 million) are reflected at net realizable value.

The changes in write-downs of inventories were as follows:

**Write-Downs of Inventories**

| € million | 2016 | 2017 |
|---|---|---|
| January 1 | (107) | (104) |
| Additions charged as expenses | (49) | (50) |
| Reversals/utilization | 53 | 53 |
| Changes in scope of consolidation | (1) | 4 |
| **December 31** | **(104)** | **(97)** |

## 10 | Trade Receivables

All trade receivables – totaling €1,316 million (previous year: €1,088 million) – are due within one year. Of the trade receivables, €3 million (previous year: €3 million) pertained to investments accounted for using the equity method and €1,313 million (previous year: €1,085 million) pertained to other customers. The year-on-year increase mainly results from the acquisition of the U.S. chemicals group Chemtura.

On the reporting date, trade receivables were stated after write-downs of €17 million (previous year: €17 million) on gross receivables of €18 million (previous year: €19 million).

The changes in write-downs of trade receivables were as follows:

**Write-Downs of Trade Receivables**

| € million | 2016 | 2017 |
|---|---|---|
| January 1 | (16) | (17) |
| Additions charged as expenses | (4) | (6) |
| Reversals/utilization | 4 | 5 |
| Exchange differences | (1) | 1 |
| **December 31** | **(17)** | **(17)** |

The maturity structure of past-due trade receivables was as follows:

**Maturity Structure of Past-Due Trade Receivables**

| € million | Dec. 31, 2016 | Dec. 31, 2017 |
|---|---|---|
| Carrying amount | 1,088 | 1,316 |
| of which neither impaired nor past due | 954 | 1,165 |
| of which unimpaired but past due by | | |
| up to 30 days | 109 | 128 |
| between 31 and 60 days | 12 | 15 |
| between 61 and 90 days | 4 | 3 |
| more than 90 days | 7 | 4 |

With regard to trade receivables that were neither impaired nor past due, there were no indications as of the closing date that the respective debtors would not meet their payment obligations.

## 11 | Near-Cash Assets

The near-cash assets of €50 million (previous year: €40 million) comprise units of money market funds that can be sold at any time and are expected to be realized within twelve months after the closing date.

## 12 | Other Current Assets

Other receivables and other assets totaling €274 million (previous year: €184 million) are stated at amortized cost less any write-downs, which amounted to €1 million in the reporting period (previous year: €1 million). They principally comprise miscellaneous claims for tax refunds amounting to €206 million (previous year: €145 million), mainly pertaining to sales taxes, and other reimbursement claims from goods and service transactions totaling €52 million (previous year: €30 million). The year-on-year increase mainly results from the acquisition of the U.S. chemicals group Chemtura.

## 13 | Equity

### *Capital stock*

The capital stock of LANXESS AG amounted to €91,522,936 as of December 31, 2017, and is composed of 91,522,936 no-par bearer shares. All shares carry the same rights and obligations. One vote is granted per share, and profit is distributed per share.

### *Authorized capital*

As of December 31, 2017, the company's authorized capital comprised the following:

Pursuant to Section 4, Paragraph 2, of LANXESS AG's articles of association, the Annual Stockholders' Meeting on May 23, 2013, authorized the Board of Management until May 22, 2018, with the approval of the Supervisory Board, to increase the capital stock on one or more occasions by issuing new no-par shares against cash or contributions in kind up to a total amount of €16,640,534 (Authorized Capital I). In addition, pursuant to Section 4, Paragraph 3, of LANXESS AG's articles of association, the Annual Stockholders' Meeting on May 13, 2015, authorized the Board of Management until May 22, 2018, with the approval of the Supervisory Board, to increase the company's capital stock on one or more occasions by issuing new no-par shares against cash or contributions in kind up to a total amount of €18,304,587 (Authorized Capital II). Finally, 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, II and III are utilized. However, these rights can be excluded in certain cases which are defined in Section 4, Paragraphs 2, 3 and 4, of the articles of association of LANXESS AG. When deciding to exclude stockholders' subscription rights for Authorized Capital II, the Board of Management will take into consideration that the authorizations granted by the Annual Stockholders' Meeting of May 13, 2015, for capital measures under exclusion of the stockholders' subscription may only be used up to a maximum amount of 20% of the capital stock that exists at the time the resolution is passed. The shares issued from Authorized Capital II under exclusion of subscription rights by way of capital increases against contributions in kind shall not exceed 10% of the capital stock that exists at the time the resolution is passed. The Board of Management remains bound by these conditions even after the creation of the new Authorized Capital III. Authorized Capital I, II and III have not yet been utilized.

### *Conditional capital*

As of December 31, 2017, the company's conditional capital comprised the following:

The Annual Stockholders' Meeting of LANXESS AG on May 13, 2015, authorized the Board of Management until May 22, 2018, with the approval of the Supervisory Board, to issue – in one or more installments – warrant bonds and/or convertible bonds, profit-participation rights and/or income bonds or a combination of these instruments (collectively referred to as "bonds") – as either registered or bearer bonds – with a total nominal value of up to €1,000,000,000, with or without limited maturity, and to grant option rights to, or impose exercise obligations on, the holders or creditors of these bonds in respect of bearer shares of the company representing a total pro rata increase of up to €18,304,587 in the company's capital stock on the terms to be defined for these bonds. Pursuant to Section 4, Paragraph 5, of the articles of association, the capital stock of LANXESS AG is thus conditionally increased by up to €18,304,587 (Conditional Capital). The Board of Management is authorized, with the approval of the Supervisory Board, to exclude subscription rights in certain cases, which are set out in further detail in the authorization. When deciding on the exclusion of stockholders' subscription rights, the Board of Management will take into consideration that the issue of shares on the basis of other authorizations granted by the Annual Stockholders' Meeting of May 13, 2015, for capital measures under exclusion of the stockholders' subscription rights may only be used up to a maximum amount of 20% of the capital stock that exists at the time the resolution is passed. The Board of Management will be bound by this condition until a future Annual Stockholders' Meeting again resolves to authorize the Board of Management to implement capital measures under exclusion of stockholders' subscription rights. The authorization to issue bonds has not yet been utilized.

### *Share buyback and retirement*

The Annual Stockholders' Meeting of LANXESS AG on May 20, 2016, authorized the Board of Management until May 19, 2021, to acquire shares in the company representing up to 10% of the capital stock 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. So far, no shares in the company have been purchased on the basis of this authorization.

### *Capital reserves*

The capital reserves of LANXESS AG are unchanged from the previous year at €1,225,652,280.

### *Other reserves*

The €124 million increase in other reserves to €1,381 million is attributable to the increase in retained earnings from €1,098 million to €1,222 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.

### *Other equity components*

The other equity components mainly comprise exchange differences from the translation of operations outside the euro-zone and remeasurements of derivatives for purposes of cash flow hedge accounting.

### *Non-controlling interests*

Since April 1, 2016, non-controlling interests mainly include the interest held by Aramco Overseas Holdings Coöperatief U.A., The Hague, Netherlands, a subsidiary of Saudi Aramco, in ARLANXEO.

This global subgroup, whose parent company is ARLANXEO Holding B.V., Maastricht, Netherlands, is presented in full in the following tables as the individual companies are not material for the LANXESS Group.

### *Data on the ARLANXEO Subgroup*

**Interest Held and Proportional Voting Rights**

| % | 2016 | 2017 |
|---|---|---|
| Interest held | 50 | 50 |
| Proportional voting rights | 50 | 50 |

**Data from Income Statement and Statement of Comprehensive Income**

| € million | 2016 | 2017 |
|---|---|---|
| Sales | 2,087 | 3,244 |
| Income after income taxes | 6 | 78 |
| Other comprehensive income, net of income tax | 105 | (193) |
| Total comprehensive income | 111 | (115) |
| Income after income taxes attributable to non-controlling interests | 3 | 39 |

**Data from Statement of Financial Position**

| € million | Dec. 31, 2016 | Dec. 31, 2017 |
|---|---|---|
| Non-current assets | 2,070 | 1,845 |
| Current assets | 1,369 | 1,392 |
| **Total assets** | **3,439** | **3,237** |
| Non-current liabilities | 347 | 365 |
| Current liabilities | 760 | 624 |
| **Total liabilities** | **1,107** | **989** |
| Equity attributable to non-controlling interests | 1,170 | 1,127 |
| Dividend attributable to non-controlling interests | – | 3 |

**Data from Statement of Cash Flows**

| € million | 2016 | 2017 |
|---|---|---|
| Net cash provided by operating activities | 204 | 375 |
| Net cash used in investing activities | (115) | (139) |
| Net cash used in financing activities | (63) | (48) |
| **Change in cash and cash equivalents from business activities** | **26** | **188** |

The other shareholder, Aramco Overseas Holding Coöperatief U.A., The Hague, Netherlands, has protective rights in respect of, among other things, decisions on changes in the business model, equity, shareholder rights and the payment of a dividend.

### *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 2017. Capital management in the LANXESS Group entails decisions by the relevant internal bodies on the capital structure shown on 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 2017 totaled €50 million (previous year: €49 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 €26 million (previous year: €26 million) to Bayer-Pensionskasse. Contributions of about the same amount are expected for the following fiscal year.

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 was unchanged from the previous year at approximately 16%. 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, Canada, Brazil, 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 Canada, 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.

In Brazil, the defined benefit obligations comprise lifelong benefits, principally in the event of death or disability or when the employee reaches retirement age. The benefits are calculated according to the total annual pension increments earned during the period of employment and also depend on individual salary, the number of years for which statutory social insurance contributions have been paid, and comparable statutory pension benefits. The principal defined benefit pension plans are closed to new members.

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 the LANXESS Pension Trust e.V. is dependent on future decisions by the company. In Canada, Brazil, the U.S. and Great Britain, it is mandatory to primarily finance pension obligations through pension funds. Allocations to pension funds in Canada, Brazil, 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. In Brazil, the investment of plan assets forms an integral part of the pension fund's overall investment strategy and is basically managed and supervised by the pension fund. On the basis of local regulations, the pension assets in Great Britain are managed by external trustees in close coordination with LANXESS.

*Minimum funding requirements* may have to be met for defined benefit obligations in both Brazil and Canada. These depend on the local regulatory framework and are reflected in additional pension provisions. 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.

In the reporting year, total expenses of €86 million (previous year: €74 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** | **2016** | **2017** | **2016** | **2017** |
| **Operating result** | | | | |
| Current service cost | 35 | 46 | 6 | 7 |
| Past service cost | 1 | 1 | 0 | – |
| Gains/losses from settlements | – | – | – | – |
| Administration expenses/taxes | 0 | 2 | 0 | 0 |
| Actuarial gains/losses from changes in financial assumptions | – | – | 0 | 0 |
| **Financial result** | | | | |
| Net interest | 28 | 25 | 4 | 5 |
| **Amounts recognized in profit or loss** | **64** | **74** | **10** | **12** |

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 minimum funding requirements, 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** | **2016** | **2017** | **2016** | **2017** |
| Return on plan assets excluding amounts included in interest | (5) | 23 | 0 | 2 |
| Actuarial gains/losses from changes in demographic assumptions | (1) | 2 | 0 | 1 |
| Actuarial gains/losses from changes in financial assumptions | (247) | (37) | (5) | (4) |
| Actuarial gains/losses from experience adjustments | (17) | (19) | 1 | 0 |
| Changes in effects of the asset ceiling | 41 | (3) | – | (2) |
| Changes in effects of minimum funding requirements | 0 | (11) | – | – |
| **Amounts recognized in other comprehensive income** | **(229)** | **(45)** | **(4)** | **(3)** |

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** | **2016** | **2017** | **2016** | **2017** |
| Net defined benefit liability, January 1 | 1,091 | 1,129 | 124 | 120 |
| Amounts recognized in profit or loss | 64 | 74 | 10 | 12 |
| Amounts recognized in other comprehensive income | 229 | 45 | 4 | 3 |
| Employer contributions | (234) | (25) | 0 | 0 |
| Benefits paid | (27) | (32) | (23) | (23) |
| Business combinations | 1 | 76 | 0 | 78 |
| Other addition | – | 1 | – | – |
| Exchange differences | 5 | (12) | 5 | (13) |
| **Net defined benefit liability, December 31** | **1,129** | **1,256** | **120** | **177** |
| **Amounts recognized in the statement of financial position** | | | | |
| Receivables from pension obligations | 0 | (57) | – | – |
| Provisions for pensions and other post-employment benefits | 1,129 | 1,313 | 120 | 177 |
| **Net defined benefit liability, December 31** | **1,129** | **1,256** | **120** | **177** |

The expected cash outflows for employer contributions and benefit payments in fiscal year 2018 are €26 million and €62 million, respectively, based on year-end 2017 exchange rates. In the previous year, the expected cash outflows for employer contributions and benefit payments in fiscal year 2017 were €26 million and €51 million, respectively, based on exchange rates at year end 2016.

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 minimum funding requirements 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** | **2016** | **2017** | **2016** | **2017** |
| **Defined benefit obligation** | | | | |
| Defined benefit obligation, January 1 | 2,017 | 2,422 | 131 | 127 |
| Current service cost | 35 | 46 | 6 | 7 |
| Interest expense | 90 | 100 | 4 | 6 |
| Actuarial gains/losses from changes in demographic assumptions | 1 | (2) | 0 | (1) |
| Actuarial gains/losses from changes in financial assumptions | 247 | 37 | 5 | 4 |
| Actuarial gains/losses from experience adjustments | 17 | 19 | (1) | 0 |
| Past service cost | 1 | 1 | 0 | – |
| Employee contributions | 2 | 2 | – | 0 |
| Benefits paid | (82) | (116) | (23) | (24) |
| Business combinations | 2 | 724 | 0 | 87 |
| Other additions | 0 | 1 | – | – |
| Administration expenses/taxes | (1) | 0 | 0 | 0 |
| Exchange differences | 93 | (130) | 5 | (14) |
| **Defined benefit obligation, December 31** | **2,422** | **3,104** | **127** | **192** |

Of the defined benefit obligation for pensions, Germany accounts for 50% (previous year: 60%), Canada for 16% (previous year: 20%), Brazil for 11% (previous year: 15%), Great Britain for 10% (previous year: 0%) and the U.S. for 8% (previous year: 1%).

The other post-employment benefit obligations comprise €142 million (previous year: €67 million) for the reimbursement of health care costs and €50 million (previous year: €60 million) for miscellaneous other benefit commitments.

Actuarial gains and losses from changes in demographic assumptions in the reporting year mainly resulted mainly in the U.S. due to the application of the newly published and adopted MP2017 mortality improvement tables, which assume lower future mortality improvement than in 2016. More up-to-date mortality tables were also used in Switzerland. The actuarial gains and losses from changes in demographic assumptions in the previous year mainly resulted from changes in the law on early retirement in Belgium.

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 reporting year, the past service cost for pension obligations related to early-retirement agreements, to improvements to existing benefit entitlements for employees taking early retirement, and to severance agreements.

The effects shown under business combinations in the reporting year result from the acquisition of the U.S. chemical company Chemtura on April 21, 2017, and include benefit obligations for employees in Germany, Canada, Italy, Japan, Mexico, Great Britain, the U.S., Switzerland and the Republic of Korea. In the previous year, the effects shown under business combinations included the acquisition of the Clean and Disinfect specialties business of the U.S. chemical company Chemours, which was closed on August 31, 2016, and benefit obligations for employees in India and Switzerland.

The exchange differences pertaining to defined benefit obligations mainly resulted from changes in the exchange rates for the Canadian dollar, the Brazilian real, 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**

| € million | Pension plans 2016 | Pension plans 2017 | Other post-employment benefit plans 2016 | Other post-employment benefit plans 2017 |
|---|---|---|---|---|
| **Plan assets at fair value** | | | | |
| Plan assets, January 1 | 970 | 1,304 | 7 | 7 |
| Interest income | 67 | 75 | 0 | 1 |
| Return on plan assets excluding amounts included in interest | (5) | 23 | 0 | 2 |
| Employer contributions | 234 | 25 | 0 | 0 |
| Employee contributions | 2 | 2 | – | 0 |
| Benefits paid | (55) | (84) | 0 | (1) |
| Business combinations | 1 | 650 | 0 | 23 |
| Costs of managing plan assets/ taxes | (1) | (2) | 0 | 0 |
| Exchange differences | 91 | (119) | 0 | (3) |
| **Plan assets, December 31** | **1,304** | **1,874** | **7** | **29** |

Of the plan assets, Canada accounts for 25% (previous year: 34%), Germany for 24% (previous year: 33%), Great Britain for 20% (previous year: 0%), Brazil for 15% (previous year: 26%) and the U.S. for 11% (previous year: 1%).

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 latter type of obligations totaled €25 million (previous year: €34 million). External funding where LANXESS can assert reimbursement claims mainly pertains to LANXESS Pension Trust e.V. No additional funding was provided to LANXESS Pension Trust e.V. in the reporting year. In the previous year, payments of €200 million were made.

The effects shown under business combinations in the reporting year result from the acquisition of the U.S. chemical company Chemtura on April 21, 2017, and include plan assets for employees in Germany, Canada, Italy, Japan, Mexico, Great Britain, the U.S., Switzerland and the Republic of Korea. In the previous year, the effects shown under business combinations included the acquisition of the Clean and Disinfect specialties business of the U.S. chemical company Chemours, which was closed on August 31, 2016, and plan assets for employees in India and Switzerland.

The exchange differences pertaining to defined benefit obligations mainly resulted from changes in the exchange rates for the Canadian dollar, the Brazilian real, the U.S. dollar and the British pound.

Changes in the effects of the asset ceiling and minimum funding requirements are shown in the following table:

**Changes in Effects of Asset Ceilings and Minimum Funding Requirements for Defined Benefit Plans**

| € million | Effects of the asset ceiling 2016 | Effects of the asset ceiling 2017 | Minimum funding requirements 2016 | Minimum funding requirements 2017 |
|---|---|---|---|---|
| January 1 | 33 | 0 | 11 | 11 |
| Additions from business combinations | – | 16 | – | – |
| Interest expense | 5 | 0 | 0 | 0 |
| Additions (deductions) | (41) | 5 | 0 | 11 |
| Exchange differences | 3 | (2) | 0 | (1) |
| **December 31** | **0** | **19** | **11** | **21** |

Changes in the effects of the asset ceiling mainly relate to the British defined benefit pension plans of €5 million and the North American defined benefit obligations for other post-employment benefits of €14 million. In the previous year, the changes in the effects of the asset ceiling related to Brazilian defined benefit plans. Changes in minimum funding requirements resulted from Canadian defined benefit pension plans.

The fair value of plan assets comprises:

**Breakdown of Plan Assets as of December 31**

| € million | 2016 | 2017 |
|---|---|---|
| Cash and cash equivalents | 17 | 10 |
| of which quoted in an active market | 17 | 10 |
| Equity instruments | 190 | 376 |
| of which quoted in an active market | 131 | 372 |
| Government bonds | 393 | 750 |
| of which quoted in an active market | 393 | 750 |
| Corporate bonds | 232 | 536 |
| of which quoted in an active market | 197 | 514 |
| Investment funds | 375 | 69 |
| of which quoted in an active market | 329 | 30 |
| Real estate | 32 | 33 |
| of which quoted in an active market | 0 | 12 |
| Insurance contracts | 68 | 81 |
| of which quoted in an active market | 1 | 6 |
| Other | 4 | 48 |
| of which quoted in an active market | 4 | 48 |
| | **1,311** | **1,903** |

The plan assets do not include any real estate used by the company. Financial instruments owned by the company account for approximately 2% (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 | |
|---|---|---|---|---|
| **in %** | **2016** | **2017** | **2016** | **2017** |
| Discount rate | 3.78 | 3.15 | 3.22 | 3.22 |
| Germany | 2.00 | 2.00 | 0.20 | 0.22 |
| Canada | 3.50 | 3.00 | 3.50 | 3.25 |
| Brazil | 12.25 | 9.50 | 12.25 | 9.50 |
| U.S. | 4.25 | 3.75 | 4.00 | 3.50 |
| Great Britain | – | 2.50 | – | – |

The following weighted valuation assumptions were used for the other parameters:

**Valuation Assumptions as of December 31**

| | Pension plans | | Other post-employment benefit plans | |
|---|---|---|---|---|
| **in %** | **2016** | **2017** | **2016** | **2017** |
| Expected salary increases | 3.3 | 2.6 | 3.5 | 2.9 |
| Expected benefit increases | 2.0 | 1.8 | – | – |
| Expected increases in medical costs | – | – | 6.6 | 6.1 |
| Expected long-term increases in medical costs | – | – | 5.2 | 4.7 |

The assumptions are weighted on the basis of the defined benefit obligation at year end. The discount rates used for Germany, Canada, the U.S. and Great Britain are derived from high-quality fixed-interest corporate bonds with the same maturities. In Brazil, however, there is no liquid market for such bonds so the discount rate is based on those for government bonds with the same maturities. This method of deriving the discount rates is unchanged from the previous year in the principal countries.

The long-term cost increase for medical care is expected to take place within 10 years (previous year: 15 years).

The Heubeck mortality tables 2005 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 | |
|---|---|---|---|---|
| **in %** | **2016** | **2017** | **2016** | **2017** |
| Discount rate | | | | |
| +0.5%-pt. | (7.9) | (7.6) | (3.5) | (4.1) |
| –0.5%-pt. | 9.0 | 8.7 | 3.8 | 4.5 |
| Expected salary increases | | | | |
| +0.25%-pt. | 0.5 | 0.4 | 0.3 | 0.2 |
| –0.25%-pt. | (0.5) | (0.3) | (0.2) | (0.2) |
| Expected benefit increases | | | | |
| +0.25%-pt. | 4.5 | 3.6 | – | – |
| –0.25%-pt. | (4.3) | (3.4) | – | – |
| Mortality | | | | |
| –10% | 2.7 | 2.1 | 0.8 | 0.6 |
| Expected increases in medical costs | | | | |
| +1%-pt. | – | – | 3.7 | 4.4 |
| –1%-pt. | – | – | (3.5) | (4.0) |

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 17 years (previous year: 17 years). This figure was based on weighted average durations of 20 years (previous year: 21 years) for Germany, 13 years (previous year: 13 years) for Canada, 10 years (previous year: 9 years) for Brazil, 10 years (previous year: 11 years) for the U.S. and 20 years (previous year: 0 years) for Great Britain. The weighted average duration of the defined benefit obligations for other post-employment benefits was 10 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**

| | Pension plans | | Other post-employment benefit plans | |
|---|---|---|---|---|
| **€ million** | **2016** | **2017** | **2016** | **2017** |
| **Funded status** | | | | |
| Defined benefit obligation for funded plans | 1,949 | 2,510 | 11 | 19 |
| External plan assets | (1,304) | (1,874) | (7) | (29) |
| **Underfunding of funded plans** | **645** | **636** | **4** | **(10)** |
| Defined benefit obligation for unfunded plans | 473 | 594 | 116 | 173 |
| **Funded status, December 31** | **1,118** | **1,230** | **120** | **163** |

## 15 | Other Non-Current and Current Provisions

As of December 31, 2017, the LANXESS Group had other current provisions of €525 million (previous year: €406 million) and other non-current provisions of €460 million (previous year: €319 million). The maturity structure of other provisions is shown in the following table:

**Other Provisions**

| | Dec. 31, 2016 | | | | Dec. 31, 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| **€ million** | Up to 1 year | 1–5 years | Over 5 years | **Total** | Up to 1 year | 1–5 years | Over 5 years | **Total** |
| Personnel | 197 | 76 | 41 | 314 | 264 | 76 | 41 | 381 |
| Environmental protection | 22 | 30 | 76 | 128 | 32 | 64 | 131 | 227 |
| Trade-related commitments | 90 | 9 | – | 99 | 80 | 6 | – | 86 |
| Restructuring | 15 | 12 | 4 | 31 | 37 | 36 | 7 | 80 |
| Miscellaneous | 82 | 35 | 36 | 153 | 112 | 40 | 59 | 211 |
| | **406** | **162** | **157** | **725** | **525** | **222** | **238** | **985** |

The total of other provisions increased from €725 million to €985 million in the reporting year. The changes in other provisions were as follows:

**Changes in Other Provisions in 2017**

| **€ million** | **Jan. 1, 2017** | **Acquisitions** | **Additions** | **Interest effect** | **Utilization** | **Reversals** | **Exchange differences** | **Dec. 31, 2017** |
|---|---|---|---|---|---|---|---|---|
| Personnel | 314 | 75 | 261 | 2 | (237) | (18) | (16) | 381 |
| Environmental protection | 128 | 117 | 19 | 3 | (16) | (9) | (15) | 227 |
| Trade-related commitments | 99 | 1 | 42 | 0 | (33) | (22) | (1) | 86 |
| Restructuring | 31 | 0 | 70 | 0 | (6) | (5) | (10) | 80 |
| Miscellaneous | 153 | 83 | 52 | 2 | (39) | (29) | (11) | 211 |
| | **725** | **276** | **444** | **7** | **(331)** | **(83)** | **(53)** | **985** |

### *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 two present Long-Term Stock Performance Plans (LTSP) were introduced in fiscal year 2010 and 2014. 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$^{SM}$ Index. The LTSP 2014–2017 program introduced in fiscal year 2014 is largely identical with 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 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.

Obligations arising from the stock-based compensation are valued on the basis of the following principal parameters:

**Principal Parameters as of December 31**

| in % | 2016 | 2017 |
|---|---|---|
| Expected share price volatility | 29.0 | 27.0 |
| Expected dividend payment | 2.0 | 2.0 |
| Expected volatility of Dow Jones STOXX 600 Chemicals$^{SM}$ | 18.0 | 18.0 |
| Correlation between LANXESS stock and Dow Jones STOXX 600 Chemicals$^{SM}$ | 65.0 | 67.0 |
| Expected volatility of MSCI World Chemicals Index | 13.0 | 13.0 |
| Correlation between LANXESS stock and MSCI World Chemicals Index | 57.0 | 60.0 |

The relevant risk-free interest rate in the reporting year was minus 0.34% (previous year: minus 0.65%).

The expected volatilities are based on the historical volatility of LANXESS stock and the Dow Jones STOXX 600 Chemicals$^{SM}$ Index or the MSCI World Chemicals Index in the past four years.

The following table provides information on the tranches outstanding as of December 31, 2017:

**Long-Term Stock Performance Plan**

| | LTSP 2010–2013 | | | LTSP 2014–2017 | | | |
|---|---|---|---|---|---|---|---|
| | **Tranche 2011** | **Tranche 2012** | **Tranche 2013** | **Tranche 2014** | **Tranche 2015** | **Tranche 2016** | **Tranche 2017** |
| Duration | 7 Years | 9 Years | 9 Years | 7 Years | 7 Years | 7 Years | 7 Years |
| Vesting period | 4 Years | 4 Years | 4 Years | 4 Years | 4 Years | 4 Years | 4 Years |
| Lock-up period for personal investment shares | Jan. 31, 2017 | Jan. 31, 2017 | Jan. 31, 2017 | Jan. 31, 2018 | Jan. 31, 2019 | Jan. 31, 2020 | Jan. 31, 2021 |
| Initial LANXESS share price | €55.60 | €44.54 | €63.25 | €47.41 | €35.04 | €38.39 | €64.84 |
| Initial Dow Jones STOXX 600 Chemicals$^{SM}$ price | 564.17 points | 533.45 points | 665.98 points | – | – | – | – |
| Initial MSCI World Chemicals Index price | – | – | – | 238.07 points | 254.06 points | 233.45 points | 276.04 points |
| Fair value per right as of December 31, 2016 | €0.10 | €0.44 | €0.30 | €1.55 | €1.86 | €1.53 | – |
| Fair value per right as of December 31, 2017 | €0.00 | €0.35 | €0.21 | €1.49 | €1.89 | €1.48 | €0.67 |
| **Change in number of outstanding rights** | | | | | | | |
| Outstanding rights as of January 1, 2017 | 5,974,245 | 7,833,164 | 8,730,804 | 9,387,806 | 10,196,102 | 11,407,872 | – |
| Rights granted | – | 528,399 | 432,652 | – | – | – | 11,720,269 |
| Rights exercised | – | – | – | – | – | – | – |
| Rights compensated | 451,412 | 413,934 | 407,549 | 391,960 | 371,696 | 429,515 | 123,145 |
| Rights forfeited | 29,122 | 32,904 | 37,103 | 74,638 | 118,316 | 140,782 | 128,985 |
| **Outstanding rights as of December 31, 2017** | **5,493,711** | **7,914,725** | **8,718,804** | **8,921,208** | **9,706,090** | **10,837,575** | **11,468,139** |

LANXESS shares were trading at €66.29 at year end 2017. The Dow Jones STOXX 600 Chemicals$^{SM}$ benchmark index stood at 949.33 points, while the MSCI World Chemicals Index was 331.74 points.

Due to the performance of the LANXESS share relative to the benchmark and to the granting, settlement and forfeiture of rights, net expense in fiscal year 2017 was €11 million (previous year: €22 million). A provision of €40 million existed as of December 31, 2017 (previous year: €30 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 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, recultivation 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 mainly relate to energy and waste disposal services that have not been billed. They also comprise provisions for impending losses and onerous contracts.

#### *Provisions for restructuring*

Provisions for restructuring totaled €80 million (previous year: €31 million) on December 31, 2017, comprising €23 million (previous year: €12 million) for human resources measures, €23 million (previous year: €14 million) for environmental protection measures and €34 million (previous year: €5 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, 2016**

| | Current | Non-current | | | | | |
|---|---|---|---|---|---|---|---|
| **€ million** | **2017** | **2018** | **2019** | **2020** | **2021** | **> 2021** | **Total** |
| Bonds | – | 499 | – | – | 496 | 1,676 | 2,671 |
| Liabilities to banks | 44 | – | – | – | – | – | 0 |
| Liabilities under finance leases | 9 | 8 | 7 | 6 | 6 | 34 | 61 |
| Other primary financial liabilities | 25 | 0 | 0 | 0 | 0 | 2 | 2 |
| | **78** | **507** | **7** | **6** | **502** | **1,712** | **2,734** |

**Other Financial Liabilities as of December 31, 2017**

| | Current | Non-current | | | | | |
|---|---|---|---|---|---|---|---|
| **€ million** | **2018** | **2019** | **2020** | **2021** | **2022** | **> 2022** | **Total** |
| Bonds | 500 | – | – | 497 | 596 | 1,081 | 2,174 |
| Liabilities to banks | 89 | – | – | – | – | – | 0 |
| Liabilities under finance leases | 9 | 8 | 7 | 6 | 6 | 25 | 52 |
| Other primary financial liabilities | 35 | 0 | 0 | 0 | 0 | 16 | 16 |
| | **633** | **8** | **7** | **503** | **602** | **1,122** | **2,242** |

In the LANXESS Group, the following bonds were outstanding on December 31, 2017:

**Bonds**

| Issuance | Nominal amount € million | Carrying amount € million | Interest rate % | Maturity |
|---|---|---|---|---|
| May 2011 | 500 | 500 | 4.125 | May 2018 |
| April 2012 | 100 | 100 | 3.500 | April 2022 |
| April 2012 | 100 | 99 | 3.950 | April 2027 |
| November 2012 | 500 | 496 | 2.625 | November 2022 |
| October 2016 | 500 | 497 | 0.250 | October 2021 |
| October 2016 | 500 | 493 | 1.000 | October 2026 |
| December 2016 | 500 | 489 | 4.500 | December 2076 |

The weighted average interest rate for the LANXESS Group's financial liabilities denominated in euros and other currencies at year end was 2.7% (previous year: 2.7%).

Liabilities under lease agreements are recognized if the leased assets are capitalized under property, plant and equipment as the economic property of the Group (finance leases). Lease payments totaling €79 million (previous year: €92 million), including €18 million (previous year: €22 million) in interest, are to be made to the respective lessors in future years.

Other primary financial liabilities include accrued interest of €35 million (previous year: €23 million) on financial liabilities, of which €34 million (previous year: €23 million) relates to bonds.

Information on the fair values of financial liabilities and the contractually agreed payments, especially interest payments, is given in Note [36].

## 17 | Non-Current and Current Income Tax Liabilities

The non-current and current income tax liabilities comprised:

**Income Tax Liabilities**

| € million | Dec. 31, 2016 | | |
|---|---|---|---|
| | Non-current | Current | Total |
| Provisions | 31 | 39 | 70 |
| Payables | – | 5 | 5 |
| | **31** | **44** | **75** |

**Income Tax Liabilities**

| € million | Dec. 31, 2017 | | |
|---|---|---|---|
| | Non-current | Current | Total |
| Provisions | 119 | 51 | 170 |
| Payables | – | 10 | 10 |
| | **119** | **61** | **180** |

The increase in provisions for income tax liabilities resulted primarily from the acquisition of the U.S. chemicals group Chemtura.

## 18 | Other Non-Current and Current Liabilities

At year end the other non-current liabilities comprised:

**Other Non-Current Liabilities**

| € million | Dec. 31, 2016 | Dec. 31, 2017 |
|---|---|---|
| Asset subsidies granted by third parties | 81 | 68 |
| Social security liabilities | 5 | 4 |
| Payroll liabilities | 1 | 0 |
| Miscellaneous liabilities | 6 | 27 |
| | **93** | **99** |

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, 2016 | Dec. 31, 2017 |
|---|---|---|
| Other tax liabilities | 38 | 70 |
| Payroll liabilities | 38 | 24 |
| Social security liabilities | 26 | 23 |
| Miscellaneous liabilities | 72 | 62 |
| | **174** | **179** |

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.

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. The liabilities to Currenta GmbH & Co. OHG, Leverkusen, Germany, were less than €1 million as of December 31, 2017, as in the previous year.

## 19 | Trade Payables

Trade accounts are payable mainly to third parties. As in the previous year, the entire amount totaling €1,048 million (previous year: €889 million) is due within one year. The year-on-year increase mainly results from the acquisition of the U.S. chemicals group Chemtura.

Trade payables of €108 million (previous year: €131 million) relate to Currenta GmbH & Co. OHG, Leverkusen, Germany, which is accounted for using the equity method, and its affiliated companies, while trade payables of €940 million (previous year: €758 million) relate to other suppliers.

## 20 | Further Information on Liabilities

Of the total liabilities, €1,132 million (previous year: €1,716 million) have maturities of more than five years.

# NOTES TO THE INCOME STATEMENT

## 21 | Sales

Sales, which amounted to €9,664 million (previous year: €7,699 million), mainly comprise goods sold less discounts and rebates. The year-on-year increase in sales mainly results from the acquisition of the U.S. chemicals group Chemtura.

A breakdown of sales and the change in sales by segment and region is given in the segment information (see Note [38]).

## 22 | Cost of Sales

**Cost of Sales**

| € million | 2016 | 2017 |
|---|---|---|
| Expenses for raw materials and merchandise | 3,325 | 4,521 |
| Direct manufacturing and other production costs | 2,620 | 2,998 |
| | **5,945** | **7,519** |

The year-on-year increase in the cost of sales mainly results from the acquisition of the U.S. chemicals group Chemtura. The manufacturing costs include, among other costs, those for personnel, depreciation, amortization, write-downs, energies, and goods and services procured. The other production costs mainly comprise inventory valuation effects and inventory discrepancies.

## 23 | Selling Expenses

**Selling Expenses**

| € million | 2016 | 2017 |
|---|---|---|
| Marketing costs | 481 | 574 |
| Outward freight charges and other selling expenses | 300 | 379 |
| | **781** | **953** |

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. The year-on-year increase in selling expenses mainly results from the acquisition of the U.S. chemicals group Chemtura and to increased freight costs.

## 24 | Research and Development Expenses

The research and development expenses of €145 million (previous year: €131 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. The increase mainly results from the acquisition of the U.S. chemicals group Chemtura.

## 25 | General Administration Expenses

The general administration expenses, amounting to €382 million (previous year: €303 million), comprise costs not directly related to operational business processes and the costs for the country organizations. The increase mainly results from the acquisition of the U.S. chemicals group Chemtura.

## 26 | Other Operating Income

**Other Operating Income**

| € million | 2016 | 2017 |
|---|---|---|
| Income from non-core business | 73 | 80 |
| Income from the reversal of provisions | 31 | 25 |
| Exceptional items | 6 | 11 |
| Income from hedging with derivative financial instruments | 0 | 5 |
| Income from reversals of write-downs of receivables and other assets | 4 | 4 |
| Gains from the disposal of non-current assets | 2 | 3 |
| Miscellaneous operating income | 31 | 51 |
| | **147** | **179** |

The exceptional items contain income from the reversal of provisions, primarily for restructuring, established as exceptional items in previous years. Based on economic relevance, they comprise €6 million (previous year: €5 million) allocated to the cost of sales and €0 million (previous year: €1 million) allocated to other operating income. They also included gains of €5 million (previous year: €0 million) from the sale of the U.S. subsidiary International Dioxcide Inc., North Kingstown (U.S.), which were allocated to other operating income.

## 27 | Other Operating Expenses

**Other Operating Expenses**

| € million | 2016 | 2017 |
|---|---|---|
| Exceptional items | 56 | 272 |
| Expenses for non-core business | 67 | 69 |
| Write-downs of trade receivables and other current assets | 4 | 6 |
| Losses from the disposal of non-current assets | 1 | 4 |
| Expenses for hedging with derivative financial instruments | 50 | 0 |
| Miscellaneous operating expenses | 44 | 59 |
| | **222** | **410** |

In fiscal year 2017, the exceptional items primarily include costs of restructuring measures of €121 million to optimize the production network. This especially affected the Ankerweg site in Amsterdam, Netherlands, of the Additives business unit (Specialty Additives segment) and the Zárate site in Argentina of the Leather business unit (Performance Chemicals segment). There were also exceptional items of €115 million for the strategic alignment. This included exceptional items in connection with the purchase price allocation and integration of Chemtura, the U.S. chemical company. There were also exceptional items of €36 million for digitalization and other measures.

Of the exceptional items of €272 million (previous year: €56 million), €219 million (previous year: €7 million) was allocable to the cost of sales in line with its economic relevance, while €6 million (previous year: €3 million) was allocable to selling expenses, €5 million (previous year: €2 million) to research and development expenses, €42 million (previous year: €10 million) to general administration expenses and €0 million (previous year: €34 million) to miscellaneous operating expenses.

## 28 | Financial Result

The financial result is comprised as follows:

**Financial Result**

| € million | 2016 | 2017 |
|---|---|---|
| **Income from investments accounted for using the equity method** | **0** | **0** |
| Interest income | 9 | 8 |
| Interest expense | (72) | (93) |
| **Net interest expense** | **(63)** | **(85)** |
| Interest expense from compounding interest-bearing provisions | (40) | (37) |
| Net exchange loss | (24) | (34) |
| Miscellaneous financial expense and income | (5) | 1 |
| Dividends and income from other affiliated companies | 7 | 46 |
| **Other financial income and expense** | **(62)** | **(24)** |
| **Financial result** | **(125)** | **(109)** |

Interest expense includes in particular payments of bond interest adjusted for capitalized borrowing costs of €3 million (previous year: €2 million). The interest portion of the lease payments under finance leases, amounting to €4 million (previous year: €4 million), is included in interest expense.

## 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 | 2016 | 2017 |
|---|---|---|
| Current taxes | (141) | (267) |
| Deferred taxes resulting from | | |
| temporary differences | 2 | 47 |
| statutory changes in tax rates | 0 | (1) |
| loss carryforwards | (5) | 20 |
| **Income taxes** | **(144)** | **(201)** |

The actual tax expense for fiscal year 2017 was €201 million (previous year: €144 million). This was €96 million (previous year: €35 million) more than the expected tax expense of €105 million (previous year: €109 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 | 2016 | 2017 |
|---|---|---|
| Income before income taxes | 339 | 325 |
| Aggregated income tax rate of LANXESS AG | 32.3% | 32.3% |
| Expected tax result | (109) | (105) |
| Tax difference due to differences between local tax rates and the hypothetical tax rate | (17) | (11) |
| Reduction in taxes due to tax-free income and reduction of tax bases | 5 | 14 |
| taxes due to | | |
| non-tax-deductible expenses | (6) | (29) |
| Unrecognized deferred taxes on tax losses | (15) | (19) |
| Other tax effects | (2) | (51) |
| **Actual tax result** | **(144)** | **(201)** |
| Effective tax rate | 42.5% | 61.8% |

The other tax effects of minus €51 million (previous year: minus €2 million) result primarily from the "one-time" taxation of the retained earnings of foreign subsidiaries held by U.S. subsidiaries as a result of the U.S. tax reform legislation passed in December 2017.

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, 2016 Deferred tax assets | Dec. 31, 2016 Deferred tax liabilities | Dec. 31, 2017 Deferred tax assets | Dec. 31, 2017 Deferred tax liabilities |
|---|---|---|---|---|
| Intangible assets | 26 | 63 | 25 | 201 |
| Property, plant and equipment | 19 | 134 | 24 | 183 |
| Inventories | 33 | 3 | 29 | 3 |
| Receivables and other assets | 15 | 20 | 34 | 25 |
| Pension provisions | 292 | 0 | 335 | 0 |
| Other provisions | 104 | 8 | 136 | 5 |
| Liabilities | 32 | 1 | 23 | 19 |
| Loss carryforwards | 67 | – | 159 | – |
| | **588** | **229** | **765** | **436** |
| of which non-current | 404 | 197 | 543 | 384 |
| Set-off | (146) | (146) | (323) | (323) |
| | **442** | **83** | **442** | **113** |

The change in deferred taxes is calculated as follows:

**Changes in Deferred Taxes**

| € million | 2016 | 2017 |
|---|---|---|
| **Deferred taxes, January 1** | **315** | **359** |
| Tax income/expense recognized in the income statement | (3) | 66 |
| Changes in scope of consolidation | (15) | (86) |
| Deferred taxes recognized in other comprehensive income | 53 | (1) |
| Exchange differences | 9 | (9) |
| **Deferred taxes, December 31** | **359** | **329** |

The deferred taxes recognized in other comprehensive income comprised €11 million (previous year: €72 million) relating to remeasurements of the net defined benefit liability for post-employment benefit plans and minus €12 million (previous year: minus €19 million) relating to financial instruments. In addition, other comprehensive income contains current taxes of €2 million (previous year: €2 million). The changes in the scope of consolidation in the reporting year resulted from the acquisition of the U.S. chemicals group Chemtura.

Deferred tax assets of €104 million (previous year: €156 million), which exceed the reversal of taxable temporary differences, relate to tax jurisdictions in which losses were recorded in fiscal year 2017 or the previous year. 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 €159 million (previous year: €67 million) were recognized on the €592 million (previous year: €237 million) in tax loss carryforwards that represent income likely to be realized in the future. This amount included deferred taxes of €22 million (previous year: €35 million) on loss carryforwards with an unlimited carryforward period.

Deferred taxes were not recognized for €534 million (previous year: €255 million) of tax loss carryforwards. Of this amount, €283 million (previous year: €130 million) can theoretically be used over more than five years. Further, deferred tax assets were not recognized in fiscal year 2017 for tax-deductible temporary differences of €139 million (previous year: €44 million). Accordingly, deferred taxes on loss carryforwards of €141 million (previous year: €67 million) and deferred tax assets on tax-deductible temporary differences of €33 million (previous year: €16 million) were not recognized.

## 30 | Earnings and Dividend per Share

The calculation of earnings per share for fiscal year 2017 includes only earnings from continuing operations and is based on the weighted average number of shares outstanding in the reporting period. As of December 31, 2017, 91,522,936 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**

| | 2016 | 2017 | Change % |
|---|---|---|---|
| Net income (€ million) | 192 | 87 | (54.7) |
| Number of shares outstanding | 91,522,936 | 91,522,936 | – |
| **Earnings per share in € (undiluted/diluted)** | **2.10** | **0.95** | **(54.7)** |

LANXESS AG reported a distributable profit of €116 million for fiscal year 2017 (previous year: €332 million). The dividend payment made to stockholders of LANXESS AG during the reporting year amounted to €0.70 per share (previous year: €0.60 per share).

## 31 | Personnel Expenses

The breakdown of personnel expenses is as follows:

**Personnel Expenses**

| € million | 2016 | 2017 |
|---|---|---|
| Wages and salaries | 1,168 | 1,302 |
| Social security contributions | 194 | 236 |
| Retirement benefit expenses | 92 | 111 |
| Social assistance benefits | 13 | 14 |
| | **1,467** | **1,663** |

Total personnel expenses rose in fiscal year 2017. This is mainly attributable to the increase in headcount in connection with the acquisition of the U.S. chemicals group Chemtura and to salary adjustments in 2017. 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 2017 was 18,527 (previous year: 16,642). The year-on-year increase in the workforce mainly results from the acquisition of the U.S. chemicals group Chemtura.

**Employees by Function**

| | 2016 | 2017 |
|---|---|---|
| Production | 12,406 | 13,787 |
| Administration | 1,809 | 2,075 |
| Marketing | 1,837 | 1.994 |
| Research | 590 | 671 |
| | **16,642** | **18,527** |

## 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.

Contingent liabilities as of December 31, 2017, amounted to €1 million (previous year: €1 million). There are no contingent liabilities relating to Currenta GmbH & Co. OHG, Leverkusen, Germany, which is accounted for using the equity method. As a personally liable partner in Currenta GmbH & Co. OHG, Leverkusen, Germany, LANXESS may be required to inject further capital into this company in the future.

In addition, other financial commitments also exist under operating leases.

As explained in the section on accounting policies and valuation principles, operating leases are those which – unlike finance leases – do not transfer substantially all risks and rewards incidental to the ownership of the leased assets to the lessee. In the LANXESS Group, operating leases are mainly used for operational reasons and not as a means of financing.

The minimum non-discounted future lease and rental payments relating to operating leases totaled €315 million (previous year: €334 million).

The respective payment obligations mature as follows:

**Maturity Structure of Lease and Rental Payments**

| € million | Dec. 31, 2016 | Dec. 31, 2017 |
|---|---|---|
| Up to 1 year | 57 | 64 |
| 1 to 2 years | 50 | 54 |
| 2 to 3 years | 43 | 44 |
| 3 to 4 years | 38 | 38 |
| 4 to 5 years | 35 | 25 |
| More than 5 years | 111 | 90 |
| | **334** | **315** |

Payments under operating leases in fiscal year 2017 amounted to €73 million (previous year: €61 million). Future lease and rental payments include agreements relating to the Group's headquarters in Cologne and to the production site in Singapore. Other significant agreements relate 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 €118 million (previous year: €110 million). All of these payments are due in fiscal year 2018.

### *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. Transactions with these companies are carried out on an arm's-length basis.

Transactions with Currenta GmbH & Co. OHG, Leverkusen, Germany, which is accounted for in the consolidated financial statements using the equity method, and its subsidiaries mainly comprised the purchase of site services in the fields of utilities, infrastructure and logistics totaling €458 million (previous year: €420 million). As of December 31, 2017, payables of €108 million (previous year: €131 million) and receivables of €3 million (previous year: €3 million) existed as a result of these transactions. There were also payment obligations to Currenta GmbH & Co. OHG amounting to €6 million (previous year: €8 million) under operating leases and obligations of €0 million (previous year: €6 million) under purchase agreements. Contingent liabilities relating to Currenta GmbH & Co. OHG are outlined in the previous section.

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 2017, total compensation of €14,581 thousand (previous year: €11,852 thousand) was paid to the members of the Board of Management of LANXESS AG, comprising €10,362 thousand (previous year: €7,545 thousand) in short-term compensation (fixed compensation, Annual Performance Payment (APP), benefits in kind and other), minus €86 thousand (previous year: minus €147 thousand) in adjustments for previous years, and other long-term compensation components totaling €2,721 thousand (previous year: €1,857 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 1,740,000 compensation rights were granted to the members of the Board of Management for 2017 in the reporting year. In the previous year, a total of 1,740,000 compensation rights were granted for 2016 and an additional 1,350,000 compensation rights each for 2012 and 2013. The fair value of these rights at the grant date was €1,584 thousand (previous year: €2,597 thousand). Personnel expenses for the stock-based compensation programs amounted to €1,558 thousand in the reporting year (previous year: €3,430 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 2017.

In addition, service costs of €1,509 thousand (previous year: €1,173 thousand) relating to defined benefit pension plans were incurred in fiscal year 2017 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, 2017, was €18,377 thousand (previous year: €16,033 thousand).

The total net expense for the compensation of the members of the Board of Management in fiscal year 2017 was €16,064 thousand (previous year: €13,858 thousand). The balances outstanding to members of the Board of Management as of December 31, 2017, totaled €17,991 thousand (previous year: €11,514 thousand), comprising provisions of €7,025 thousand (previous year: €4,575 thousand) for the APP, €3,639 thousand (previous year: €2,612 thousand) for the LTPB and €7,327 thousand (previous year: €4,327 thousand) for stock-based compensation.

Payments totaling €473 thousand were made to former members of the Board of Management in fiscal year 2017 (previous year: €1,244 thousand) and related to pension benefits. The total pension obligation toward former members of the Board of Management as of December 31, 2017, was €34,828 thousand (previous year: €34,497 thousand).

The members of the Supervisory Board received total compensation of €1,883 thousand in fiscal year 2017 (previous year: €1,879 thousand). This compensation is generally paid at the start of the following year. The provisions established for stock-based compensation for Supervisory Board members as of December 31, 2017, amounted to €950 thousand (previous year: €600 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 2017.

No loans were granted to members of the Board of Management or the Supervisory Board in fiscal year 2017 or the previous year.

## 36 | 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 €17 million (previous year: €14 million). This would mainly have affected other comprehensive income by increasing the reported gain 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 will incur only slightly higher interest costs if interest rates rise. A general change of one percentage point in interest rates as of December 31, 2017, would have altered Group net income by €5 million (previous year: €3 million). A change of one percentage point in interest rates on derivative forward interest rate contracts would also have altered the fair value of the derivatives by €10 million. This would mainly have affected other comprehensive income by increasing the reported gain correspondingly. There were no forward interest rate contracts in the previous year.

**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 table shows the contractually agreed (undiscounted) cash flows for primary financial liabilities, the interest components thereof and derivative financial instruments:

**December 31, 2016**

| € million | 2017 | 2018 | 2019 | 2020 | 2021 | >2021 |
|---|---|---|---|---|---|---|
| **Bonds** | **(47)** | **(570)** | **(49)** | **(49)** | **(549)** | **(3,003)** |
| of which interest | (47) | (70) | (49) | (49) | (49) | (1,303) |
| **Liabilities to banks** | **(44)** | **–** | **–** | **–** | **–** | **–** |
| of which interest | – | – | – | – | – | – |
| **Trade payables** | **(889)** | **–** | **–** | **–** | **–** | **–** |
| of which interest | – | – | – | – | – | – |
| **Liabilities under finance leases** | **(13)** | **(12)** | **(10)** | **(9)** | **(8)** | **(40)** |
| of which interest | (4) | (4) | (3) | (3) | (2) | (6) |
| **Other primary financial liabilities** | **(25)** | **0** | **0** | **0** | **0** | **(2)** |
| of which interest | (23) | – | – | – | – | – |
| **Derivative liabilities** | | | | | | |
| Hedging instruments that qualify for hedge accounting | | | | | | |
| Disbursements | (348) | (89) | – | – | – | – |
| Receipts | 321 | 83 | – | – | – | – |
| Other hedging instruments | | | | | | – |
| Disbursements | (964) | 0 | (14) | – | – | – |
| Receipts | 941 | 0 | 10 | – | – | – |
| **Derivative assets** | | | | | | |
| Hedging instruments that qualify for hedge accounting | | | | | | |
| Disbursements | (11) | (11) | – | – | – | – |
| Receipts | 18 | 12 | – | – | – | – |
| Other hedging instruments | | | | | | |
| Disbursements | (1,358) | – | – | – | – | – |
| Receipts | 1,420 | – | – | – | – | – |

**December 31, 2017**

| € million | 2018 | 2019 | 2020 | 2021 | 2022 | >2022 |
|---|---|---|---|---|---|---|
| **Bonds** | **(536)** | **(49)** | **(49)** | **(549)** | **(648)** | **(2,355)** |
| of which interest | (36) | (49) | (49) | (49) | (48) | (1,255) |
| **Liabilities to banks** | **(89)** | **–** | **–** | **–** | **–** | **–** |
| of which interest | 0 | – | – | – | – | – |
| **Trade payables** | **(1,048)** | **–** | **–** | **–** | **–** | **–** |
| of which interest | – | – | – | – | – | – |
| **Liabilities under finance leases** | **(13)** | **(11)** | **(10)** | **(8)** | **(8)** | **(29)** |
| of which interest | (4) | (3) | (3) | (2) | (2) | (4) |
| **Other primary financial liabilities** | **(35)** | **0** | **0** | **0** | **0** | **(16)** |
| of which interest | (35) | – | – | – | – | – |
| **Derivative liabilities** | | | | | | |
| Hedging instruments that qualify for hedge accounting | | | | | | |
| Disbursements | (20) | (4) | 0 | – | – | – |
| Receipts | 19 | 3 | – | – | – | – |
| Other hedging instruments | | | | | | |
| Disbursements | (599) | – | – | – | – | – |
| Receipts | 585 | – | – | – | – | – |
| **Derivative assets** | | | | | | |
| Hedging instruments that qualify for hedge accounting | | | | | | |
| Disbursements | (428) | (155) | (21) | (3) | (3) | (5) |
| Receipts | 446 | 152 | 19 | 3 | 4 | 9 |
| Other hedging instruments | | | | | | |
| Disbursements | (1,341) | – | – | – | – | – |
| Receipts | 1,358 | – | – | – | – | – |

The contractually agreed payments for other primary financial liabilities due within one year from the reporting date included accrued interest of €35 million (previous year: €23 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, 2016**

| € million | IAS 39 measurement category | Carrying amount Dec. 31, 2016 |
|---|---|---|
| **Financial assets** | | |
| Trade receivables | LaR | 1,088 |
| Other financial receivables | LaR | 1,972 |
| Cash and cash equivalents | LaR | 355 |
| Available-for-sale financial assets | | |
| Near-cash assets | AfS | 40 |
| Other available-for-sale financial assets | AfS | 189 |
| Derivative assets | | |
| Hedging instruments that qualify for hedge accounting | – | 8 |
| Other hedging instruments | FAHfT | 58 |
| Embedded derivatives | – | – |
| **Financial liabilities** | | |
| Bonds | FLAC | (2,671) |
| Liabilities to banks | FLAC | (44) |
| Trade payables | FLAC | (889) |
| Liabilities under finance leases | – | (70) |
| Other primary financial liabilities | FLAC | (27) |
| Derivative liabilities | | |
| Hedging instruments that qualify for hedge accounting | – | (26) |
| Other hedging instruments | FLHfT | (23) |

LaR Loans and receivables
AfS Available-for-sale financial assets
FAHfT Financial assets held for trading
FLAC Financial liabilities measured at amortized cost
FLHfT Financial liabilities held for trading

| Measurement according to IAS 39 | | | | Measurement according to IAS 17 | Fair value Dec. 31, 2016 |
|---|---|---|---|---|---|
| Amortized cost | Acquisition cost | Fair value (other comprehensive income) | Fair value (profit or loss) | | |
| | | | | | |
| 1,088 | | | | | 1,088 |
| 1,972 | | | | | 1,972 |
| 355 | | | | | 355 |
| | | | | | |
| | | 40 | | | 40 |
| | 10 | 179 | | | 189 |
| | | | | | |
| | | 8 | | | 8 |
| | | | 58 | | 58 |
| – | – | – | – | – | – |
| | | | | | |
| (2,671) | | | | | (2,827) |
| (44) | | | | | (44) |
| (889) | | | | | (889) |
| | | | | (70) | (74) |
| (27) | | | | | (27) |
| | | | | | |
| | | (26) | | | (26) |
| | | | (23) | | (23) |

**Carrying Amounts, Measurement and Fair Values of Financial Instruments as of December 31, 2017**

| € million | IAS 39 measurement category | Carrying amount Dec. 31, 2017 |
|---|---|---|
| **Financial assets** | | |
| Trade receivables | LaR | 1,316 |
| Other financial receivables | LaR | 25 |
| Cash and cash equivalents | LaR | 538 |
| Available-for-sale financial assets | | |
| Near-cash assets | AfS | 50 |
| Other available-for-sale financial assets | AfS | 10 |
| Derivative assets | | |
| Hedging instruments that qualify for hedge accounting | – | 27 |
| Other hedging instruments | FAHfT | 23 |
| Embedded derivatives | – | 2 |
| **Financial liabilities** | | |
| Bonds | FLAC | (2,674) |
| Liabilities to banks | FLAC | (89) |
| Trade payables | FLAC | (1,048) |
| Liabilities under finance leases | – | (61) |
| Other primary financial liabilities | FLAC | (51) |
| Derivative liabilities | | |
| Hedging instruments that qualify for hedge accounting | – | (3) |
| Other hedging instruments | FLHfT | (11) |

LaR Loans and receivables
AfS Available-for-sale financial assets
FAHfT Financial assets held for trading
FLAC Financial liabilities measured at amortized cost
FLHfT Financial liabilities held for trading

Fair value measurement of the bonds is allocated to Level 1 of the hierarchy outlined in the section “Fair value measurement.” However, two bonds with a fair value of €239 million (previous year: €244 million) are allocated to Level 2 of the hierarchy. The fair value of liabilities allocated to Level 2 is calculated using discounted cash flows and taking account of observed market interest rates.

**Carrying Amounts by IAS 39 Measurement Category**

| € million | Dec. 31, 2016 | Dec. 31, 2017 |
|---|---|---|
| Loans and receivables | 3,415 | 1,879 |
| Available-for-sale financial assets | 229 | 60 |
| Financial assets held for trading | 58 | 25 |
| | **3,702** | **1,964** |
| Financial liabilities measured at amortized cost | (3,631) | (3,862) |
| Financial liabilities held for trading | (23) | (11) |
| | **(3,654)** | **(3,873)** |

| | Measurement according to IAS 39 | | | | Measurement according to IAS 17 | Fair value Dec. 31, 2017 |
|---|---|---|---|---|---|---|
| | Amortized cost | Acquisition cost | Fair value (other comprehensive income) | Fair value (profit or loss) | | |
| | | | | | | |
| | 1,316 | | | | | 1,316 |
| | 25 | | | | | 25 |
| | 538 | | | | | 538 |
| | | | | | | |
| | | | 50 | | | 50 |
| | | 9 | 1 | | | 10 |
| | | | | | | |
| | | | 27 | | | 27 |
| | | | | 23 | | 23 |
| | – | – | – | 2 | – | 2 |
| | | | | | | |
| | (2,674) | | | | | (2,855) |
| | (89) | | | | | (89) |
| | (1,048) | | | | | (1,048) |
| | | | | | (61) | (67) |
| | (51) | | | | | (51) |
| | | | | | | |
| | | | (3) | | | (3) |
| | | | | (11) | | (11) |

### *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 table shows 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 year 2016 or 2017.

**Assets and Liabilities Measured at Fair Value**

| | Dec. 31, 2016 | | |
|---|---|---|---|
| **€ million** | Level 1 | Level 2 | Level 3 |
| Non-current assets | | | |
| Investments in other affiliated companies | 2 | – | – |
| Non-current derivative assets | – | 1 | – |
| Other non-current financial assets | – | 1 | – |
| Current assets | | | |
| Near-cash assets | 40 | – | – |
| Current derivative assets | – | 65 | – |
| Other current financial assets | 176 | – | – |
| Non-current liabilities | | | |
| Non-current derivative liabilities | – | 7 | – |
| Current liabilities | | | |
| Current derivative liabilities | – | 42 | – |

**Assets and Liabilities Measured at Fair Value**

| | Dec. 31, 2017 | | |
|---|---|---|---|
| **€ million** | Level 1 | Level 2 | Level 3 |
| Non-current assets | | | |
| Investments in other affiliated companies | 1 | – | – |
| Non-current derivative assets | – | 5 | 2 |
| Other non-current financial assets | – | 1 | – |
| Current assets | | | |
| Near-cash assets | 50 | – | – |
| Current derivative assets | – | 45 | – |
| Other current financial assets | 1 | – | – |
| Non-current liabilities | | | |
| Non-current derivative liabilities | – | 2 | – |
| Current liabilities | | | |
| Current derivative liabilities | – | 12 | – |

The non-current derivative asset allocated to Level 3 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. The embedded derivative had a negative fair value of €4 million on initial measurement, of which €1 million was amortized in the reporting period. Starting with a carrying amount of €0 million as of January 1, 2017, total value increases of €2 million recognized through profit or loss in production costs, so a carrying amount of €2 million is recognized as of the reporting date of December 31, 2017.

The investments in other affiliated companies measured at fair value pertain to shares in the listed company BioAmber Inc., Minneapolis, U.S. The line item "Investments in other affiliated companies" in the statement of financial position also includes €9 million (previous year: €10 million) in non-listed equity instruments, the fair values of which at the end of the reporting period could not be reliably measured and which are therefore recognized at purchase costs. There are currently no plans to dispose of these investments.

### *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 table shows 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, 2016**

| € 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 | 1,088 | (12) | 0 | 1,076 |
| Derivative assets | 66 | (13) | 0 | 53 |
| **Financial liabilities** | | | | |
| Trade payables | (889) | 12 | 0 | (877) |
| Derivative liabilities | (49) | 13 | 0 | (36) |

**Offsetting of Financial Assets and Financial Liabilities as of December 31, 2017**

| € 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 | 1,316 | (3) | 0 | 1,313 |
| Derivative assets | 52 | (11) | – | 41 |
| **Financial liabilities** | | | | |
| Trade payables | (1,048) | 3 | 0 | (1,045) |
| Derivative liabilities | (14) | 11 | – | (3) |

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 category*

The following table provides an overview of the net results based on the measurement categories defined in IAS 39:

**Net Results by IAS 39 Measurement Category**

| € million | 2016 | 2017 |
|---|---|---|
| Loans and receivables | (34) | (102) |
| Available-for-sale financial assets | 7 | 43 |
| Assets and liabilities held for trading | 27 | 127 |
| Financial liabilities measured at amortized cost | (76) | (137) |
| | **(76)** | **(69)** |

Net gains and losses principally comprise interest income and expense and realized and unrealized exchange gains and losses.

In addition, fees of €8 million were incurred in fiscal year 2017 (previous year: €13 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 2017 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].

## 37 | Notes to the Statement of Cash Flows

### *Explanation of the method used to calculate and present cash flows*

For a general explanation, please see the comments on the statement of cash flows in the section headed "Accounting policies and valuation principles."

### *Inflow from 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 €325 million (previous year: €339 million). It contains depreciation, amortization and write-downs of €638 million (previous year: €481 million). Income taxes paid in fiscal year 2017 amounted to €183 million (previous year: €184 million). The change in net working capital resulted in cash outflows of €72 million (previous year: €47 million). Taking into account the change in other assets and liabilities of €120 million (previous year: €44 million), cash inflows provided by operating activities amounted to €868 million in the reporting year (previous year: €689 million).

### *Outflow from investments/investing activities*

Purchases of intangible assets, property, plant and equipment led to cash outflows of €547 million in fiscal year 2017 (previous year: €439 million). Cash inflows from investment grants reduced cash outflows for capital expenditures by €4 million (previous year: €7 million). The cash inflows for financial assets in fiscal year 2017 mainly comprised €1,951 million (previous year: cash outflows of €1,950 million) for money market investments and inflows of €175 million (previous year: cash outflows €175 million) from investments in securities. In addition, there were outflows to money market funds of €10 million (previous year: inflows of €60 million). In the previous year, the inflows included the proceeds from the sale of shares in Elemica Inc., Exton, U.S., of €6 million. In fiscal year 2017, the acquisitions of the U.S. chemicals group Chemtura, Middlebury, U.S., and of the biotech startup IMD Natural Solutions GmbH, Dortmund, Germany, resulted in cash outflows totaling €1,803 million, of which €1,785 million was attributable to the acquisition of Chemtura less acquired cash and cash equivalents (previous year: €198 million to the acquisition of Chemours). The sale of the U.S. subsidiary International Dioxcide Inc., North Kingstown, U.S., resulted in inflows of €9 million. Cash inflows from interest and dividends received amounted to €56 million (previous year: €10 million). They primarily consisted of inflows from the profit transfer of €45 million from Currenta GmbH & Co. OHG, Leverkusen, Germany, which is accounted for using the equity method. In the previous year, they mainly comprised interest income from short-term investments in Brazil. There were no cash outflows (previous year: €200 million) for external funding of pension obligations (CTA) in fiscal year 2017. The net cash outflow for investing activities was €167 million (previous year: €2,879 million).

### *Inflow from financing activities*

The cash inflows from non-controlling interests relate to the payments from Aramco Overseas Holdings Coöperatief U.A., The Hague, Netherlands, a subsidiary of Saudi Aramco. In the reporting year, these amounted to €18 million for the acquisition of shares in ARLANXEO High Performance Elastomers (Changzhou) Co., Ltd., Changzhou, China. In the previous year, they amounted to €1,194 million for the interest in ARLANXEO.

The net repayment of borrowings of €375 million (previous year: €1,107 million net borrowing of bonds) was attributable to financial liabilities as follows:

**Reconciliation of Borrowings 2017**

| € million | Dec. 31, 2016 | Cash changes | Non-cash changes | | | | | | Dec. 31, 2017 |
|---|---|---|---|---|---|---|---|---|---|
| | | | Acquisitions | Divestments | Lease liabilities new additions | Exchange differences | Interest effect from compounding | Accrued interest and other changes | |
| Bonds | 2,671 | (390) | 390 | – | – | 0 | 3 | – | 2,674 |
| Liabilities to banks | 44 | 32 | 17 | – | – | (4) | – | – | 89 |
| Liabilities under finance leases | 70 | (15) | 0 | – | 5 | (3) | 4 | – | 61 |
| Other primary financial liabilities | 27 | (2) | 7 | – | – | 0 | – | 19 | 51 |
| | **2,812** | **(375)** | **414** | **–** | **5** | **(7)** | **7** | **19** | **2,875** |

The repayment of borrowings mainly related to the repayment of the bond acquired due to the acquisition of the U.S. chemicals company Chemtura of €390 million.

Interest payments and other financial disbursements accounted for cash outflows of €84 million (previous year: €73 million). In fiscal year 2017, cash outflows for dividend payments amounted to €67 million (previous year: €55 million), €64 million of which to the stockholders of LANXESS AG (previous year: €55 million). A net cash inflow of €508 million (previous year: net cash inflow of €2,173 million) was recorded for financing activities.

### *Cash and cash equivalents*

Cash and cash equivalents, which comprise cash, checks and bank balances, amounted to €538 million (previous year: €355 million). In accordance with IAS 7, this item also includes securities with maturities of up to three months from the date of acquisition.

## 38 | Segment Reporting

**Key Data by Segment**

| | Advanced Intermediates | | Specialty Additives | | Performance Chemicals | | Engineering Materials | | ARLANXEO | | Reconciliation | | LANXESS | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **€ million** | **2016** | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** | **2017** |
| External sales | 1,742 | 1,970 | 841 | 1,604 | 1,301 | 1,438 | 1,056 | 1,366 | 2,710 | 3,230 | 49 | 56 | 7,699 | 9,664 |
| Inter-segment sales | 57 | 53 | 9 | 12 | 1 | 1 | 1 | – | 0 | – | (68) | (66) | 0 | 0 |
| Segment/Group sales | 1,799 | 2,023 | 850 | 1,616 | 1,302 | 1,439 | 1,057 | 1,366 | 2,710 | 3,230 | (19) | (10) | 7,699 | 9,664 |
| Segment result/ EBITDA pre exceptionals | 326 | 335 | 151 | 267 | 223 | 252 | 159 | 219 | 373 | 385 | (237) | (168) | 995 | 1,290 |
| Exceptional items affecting EBITDA | 2 | (7) | – | (75) | (3) | (62) | – | (12) | 2 | 1 | (51) | (63) | (50) | (218) |
| Segment assets | 1,149 | 1,437 | 522 | 2,516 | 1,230 | 1,216 | 710 | 1,164 | 3,016 | 2,744 | 124 | 143 | 6,751 | 9,220 |
| Segment acquisitions | – | 64 | – | 1,616 | 200 | 30 | – | 334 | – | – | – | – | 200 | 2,044 |
| Segment capital expenditures | 136 | 156 | 44 | 84 | 80 | 75 | 47 | 68 | 138 | 150 | 17 | 27 | 462 | 560 |
| Depreciation and amortization | 102 | 116 | 28 | 99 | 64 | 75 | 45 | 54 | 216 | 224 | 17 | 20 | 472 | 588 |
| Write-downs | 3 | 2 | – | 37 | 2 | 7 | – | 2 | 4 | 3 | – | 0 | 9 | 51 |
| Reversals of impairment charges | – | 1 | – | 0 | – | – | – | – | – | – | – | – | – | 1 |
| Segment liabilities | 741 | 852 | 291 | 577 | 536 | 552 | 274 | 332 | 712 | 803 | 576 | 685 | 3,130 | 3,801 |
| Employees (December 31) | 3,335 | 3,661 | 1,507 | 2,936 | 4,074 | 3,880 | 1,583 | 1,976 | 3,463 | 3,447 | 2,759 | 3,129 | 16,721 | 19,029 |
| Employees (average for the year) | 3,349 | 3,590 | 1,497 | 2,575 | 3,993 | 4,006 | 1,574 | 1,870 | 3,521 | 3,444 | 2,708 | 3,042 | 16,642 | 18,527 |

2017 figures restated.

**Key Data by Region**

| | EMEA (excluding Germany) | | Germany | | North America | | Latin America | | Asia-Pacific | | LANXESS | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **€ million** | **2016** | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** | **2017** |
| External sales by market | 2,254 | 2,720 | 1,292 | 1,489 | 1,326 | 1,859 | 788 | 898 | 2,039 | 2,698 | 7,699 | 9,664 |
| Non-current region assets | 783 | 971 | 1,067 | 1,238 | 572 | 2,191 | 304 | 277 | 1,313 | 1,208 | 4,039 | 5,885 |
| Acquisitions | 102 | 393 | 2 | 80 | 95 | 1,391 | – | 14 | 1 | 166 | 200 | 2,044 |
| Capital expenditures | 96 | 138 | 212 | 235 | 74 | 97 | 31 | 39 | 49 | 51 | 462 | 560 |
| Employees (December 31) | 3,251 | 3,730 | 7,600 | 8,036 | 1,418 | 2,642 | 1,435 | 1,419 | 3,017 | 3,202 | 16,721 | 19,029 |

### *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.

Group structures were changed in fiscal year 2017 in connection with the acquisition of the U.S. chemicals group Chemtura. The business with additives previously contained in the Performance Chemicals segment is now reported together with the additives business newly acquired from Chemtura in the Specialty Additives segment. The urethane systems business, likewise acquired from Chemtura, was integrated into the former High Performance Materials segment, which has been renamed Engineering Materials. In addition, the acquired business with organometallics was incorporated into the Advanced Intermediates segment. The previous year's figures have been restated accordingly.

On December 31, 2017, 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 tire 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, 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; finishing agents for the leather industry; 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. |
| ARLANXEO | The ARLANXEO segment comprises operational business units that manufacture synthetic rubbers primarily in continuous production processes. The product portfolio includes specialty rubbers for high-quality rubber products for use in automotive engineering, tires and construction. |

The reconciliation eliminates inter-segment items and reflects assets and liabilities not allocable to the core segments including, in particular, those pertaining to the Corporate Center. The reconciliation also includes Currenta GmbH & Co. OHG, Leverkusen, Germany, which is accounted for using the equity method (see Note [3]).

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 2017, 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 2017). 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 connection, and reductions in earnings resulting from portfolio adjustments or purchase price allocations.

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.

The negative exceptional items that affected EBITDA in fiscal year 2017 are mainly connected with the acquisition of the U.S. chemicals group Chemtura, the bundling of the Group's international chromium value chain in South Africa and the associated ending of production at the Zárate site in Argentina as well as expenses relating to the consolidation of production of lubricant precursors and the intended discontinuation of production at the Ankerweg site in Amsterdam, Netherlands. They are offset by positive exceptional items of €5 million related to the sale of the U.S. subsidiary International Dioxcide Inc. at the North Kingstown site in Rhode Island, U.S., of the Material Protection Products business unit. The exceptional items in the previous year mainly related to the strategic realignment of the Group.

The segment acquisitions include 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 in fiscal year 2016 and 2017 were recognized directly in profit or loss.

**Reconciliation of Segment Sales**

| € million | 2016 | 2017 |
|---|---|---|
| **Total segment sales** | **7,718** | **9,674** |
| Other/Consolidation | (19) | (10) |
| **Group sales** | **7,699** | **9,664** |

**Reconciliation of Segment Results**

| € million | 2016 | 2017 |
|---|---|---|
| **Total segment results** | **1,232** | **1,458** |
| Depreciation and amortization | (481) | (639) |
| Reversals of impairment charges | – | 1 |
| Exceptional items affecting EBITDA | (50) | (218) |
| Other financial income and expense | (62) | (24) |
| Net interest expense | (63) | (85) |
| Income from investments accounted for using the equity method | 0 | 0 |
| Other/Consolidation | (237) | (168) |
| **Income before income taxes** | **339** | **325** |

The reconciliation of segment results to income before income taxes contains total exceptional items comprising net charges of €261 million (previous year: €50 million) (see Notes [26] and [27]). These include exceptional items of minus €218 million (previous year: minus €50 million) that affect EBITDA, write-downs of minus €43 million (previous year: €0 million), and reversals of impairment charges of €0 million (previous year: €0 million).

The change in segment results in the reconciliation is mainly due to lower expenses for currency hedges.

Information on equity-method income is contained in Note [3]. This mainly arises from 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, 2016 | Dec. 31, 2017 |
|---|---|---|
| **Total segment assets** | **6,627** | **9,077** |
| Cash and cash equivalents | 355 | 538 |
| Deferred tax assets | 442 | 442 |
| Near-cash assets | 40 | 50 |
| Income tax receivables | 74 | 67 |
| Derivative assets | 66 | 52 |
| Other financial assets | 2,149 | 27 |
| Other/Consolidation | 124 | 143 |
| **Group assets** | **9,877** | **10,396** |

The segment assets mainly comprise intangible assets, property, plant and equipment, 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, 2016 | Dec. 31, 2017 |
|---|---|---|
| **Total segment liabilities** | **2,554** | **3,116** |
| Other financial liabilities | 2,812 | 2,875 |
| Derivative liabilities | 49 | 14 |
| Income tax liabilities | 75 | 180 |
| Deferred tax liabilities | 83 | 113 |
| Other/Consolidation | 576 | 685 |
| **Group liabilities** | **6,149** | **6,983** |

The segment liabilities mainly comprise provisions, trade payables and other liabilities. They do not include income tax liabilities in particular, as well as derivative and other financial liabilities.

## 39 | Audit Fees

In fiscal year 2017, total audit fees of €3,121 thousand (previous year: €4,110 thousand) for the auditor of the consolidated financial statements of the LANXESS Group were recognized as expenses. The total amount includes €2,436 thousand (previous year: €2,969 thousand) relating to the auditing of financial statements. The previous year was influenced by audit services in connection with the establishment of the ARLANXEO strategic alliance. 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. €215 thousand (previous year: €245 thousand) related to other services related to other audit-related services, primarily services in connection with sustainability reporting and other services for audit certificates. €470 thousand (previous year: €896 thousand) related to other services. They largely include services from IT service provider PwC Cundus AG, a company affiliated with the auditor, totaling €200 thousand (previous year: €735 thousand). 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.

## 40 | 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.

## 41 | Utilization of Disclosure Exemptions

In fiscal year 2017, 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
- IAB Ionenaustauscher GmbH Bitterfeld, Greppin
- IMD Natural Solutions GmbH, Dortmund
- LANXESS Accounting GmbH, Cologne
- LANXESS Buna GmbH, Marl
- LANXESS Deutschland GmbH, Cologne
- LANXESS Digital GmbH, Cologne
- LANXESS Distribution GmbH, Leverkusen
- LANXESS Organometallics GmbH, Bergkamen
- LANXESS OMS Holding GmbH, Bergkamen
- Saltigo GmbH, 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, 2017, with respect to Section 479C of the Companies Act 2006.

## 42 | Events after the Reporting Period

On February 7, 2018, LANXESS acquired a production site in Charleston, U.S., from the Belgian chemicals group Solvay. The new site manufactures phosphorous chemicals and numerous derived products such as flame retardant additives and intermediates for agrochemicals. The six production lines augment the global production network for phosphorous- and bromine-based flame retardants, especially on the U.S. market. The preliminary purchase price of around €55 million was paid out of existing liquidity. The business with phosphorous additives generates annual sales of €65 million and employs around 90 people.

No other events of particular significance took place after December 31, 2017, 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 28, 2018
LANXESS Aktiengesellschaft

The Board of Management

Matthias Zachert — Michael Pontzen

Dr. Rainier van Roessel — Dr. Hubert Fink

Stephen C. Forsyth

# Independent Auditor's Report

"To LANXESS Aktiengesellschaft, Cologne

## REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE COMBINED GROUP MANAGEMENT REPORT

### *Audit Opinions*

We have audited the consolidated financial statements of LANXESS Aktiengesellschaft, Cologne, and its subsidiaries (the Group), which comprise the statement of financial position as at December 31, 2017, and the statement of comprehensive income, statement of profit or loss, statement of changes in equity and statement of cash flows for the financial year from January 1 to December 31, 2017, and notes to the 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, 2017. We have not audited the content of the statement on corporate governance pursuant to § [Article] 289f HGB [Handelsgesetzbuch: German Commercial Code] and § 315d HGB in accordance with the German legal requirements.

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

› the accompanying 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, 2017, and of its financial performance for the financial year from January 1 to December 31, 2017, and
› the accompanying combined Group management report as a whole provides an appropriate view of the Group's position. In all material respects, this combined 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 combined 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 combined Group management report.

### *Basis for the Audit Opinions*

We conducted our audit of the consolidated financial statements and of the combined Group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined 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 combined 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, 2017. 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
3. Acquisition of Chemtura

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 €855 million (8% of consolidated total assets or 25% 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 dis-counted 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.

**2 Pension provisions**

① Pension provisions amounting to €1,313 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 and 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.

**❸ Acquisition of Chemtura**

① On April 21, 2017, LANXESS AG acquired the U.S. company Chemtura. The total purchase price for the acquisition was €2,014 million. The company financed the purchase price through corporate bonds issued in advance and through liquid assets available.

The acquisition was accounted for as a business combination using the acquisition method in accordance with IFRS 3. During the purchase price allocation, the identified assets and assumed liabilities of the company acquired were recognized at their fair values. The purchase price allocation was performed on the basis of the information currently available. Taking into account the acquired net assets of €1,331 million that are to be allocated to the company, the acquired goodwill amounted to €683 million.

In view of the material total impact that the acquisition had on the amounts of net assets, financial position, and results of operations of the LANXESS Group and given the complexity of measuring the acquisition, this matter was of particular importance in the context of our audit.

② As part of our audit, we closely examined the contractual arrangements for the acquisition, among other things.

Based on that, we reviewed the opening balance sheet underlying the acquisition. A valuation report was available to us for the purchase price allocation performed in accordance with IFRS 3, and we assessed this report accordingly. Given the specific measurement peculiarities, we received assistance from our valuation specialists. They assessed the appropriateness of, among other things, the valuation methods on which the valuations were based as well as the valuation parameters used. We also verified the accounting treatment of the acquisition and assessed the disclosures in the notes to the financial statements required under IFRS 3.

Based on our audit procedures, we satisfied ourselves that, considering the information available, the acquisition has been correctly presented overall.

③ The company's disclosures relating to the accounting treatment of the acquisition are contained in the section entitled "Acquisitions" 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 combined 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 combined 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 Combined 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 combined 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 combined 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 combined 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 combined Group management report.

### *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined 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 combined 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 combined 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 combined 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 combined 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 combined 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 combined 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 combined 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 combined 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 combined 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 26, 2017. We were engaged by the Supervisory Board on November 14, 2017. 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, March 2, 2018

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

| | |
|---|---|
| Bernd Boritzki | Jörg Sechser |
| 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. In addition, the report complies with the GRI G4 guidelines and is produced in accordance with the 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 section Corporate Responsibility under Commitment to human rights.

Reporting is performed annually. The last report for fiscal year 2016 was published in March 2017.

## NON-FINANCIAL REPORTING

The Supervisory Board examined and approved the non-financial consolidated report of the LANXESS Group prescribed according to Sections 289c and 315c of the German Commercial Code (CSR Directive Implementation Act). The Non-financial Report can be found on the LANXESS website in section Investor Relations under Corporate Governance. The non-financial consolidated report was audited by PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft with limited assurance. The corresponding content is identified with a dashed line in the CR chapter of this annual report.

## DATA COLLECTION

The reporting period is 2017. In compiling the data, we applied the principles of balance, comparability, accuracy, timeliness, clarity and reliability. The report covers the Group companies that are included in the consolidated financial statements.

For disclosure of HR data, LANXESS uses a global reporting system that contains the key employee data for the entire Group (including former Chemtura employees).

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%. As LANXESS has an interest of 50% in ARLANXEO, the latter continues to be reflected in the LANXESS consolidated financial statements and will be consolidated from fiscal year 2016 to 2018; the environmental data pertaining to the ARLANXEO sites will continue to be included in our key data for this period. 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 the data, PricewaterhouseCoopers has audited selected indicators with limited assurance. These are identified accordingly in the report.

In the case of other indicators which do not refer to the LANXESS Group, the areas of scope are explicitly defined in the report.

# KEY REPORT CONTENT

The content of the report for fiscal year 2017 is based on a materiality analysis performed in the 4th quarter of 2017. All key issues identified are described in detail in this report.

The following table identifies the boundaries between the key issues and the GRI aspects they cover.

**Boundaries**

| Key Issues | Within the Organization | Outside the Organization | | | GRI Aspects |
|---|---|---|---|---|---|
| | Advanced Intermediates/Specialty Additives/Performance Chemicals/Engineering Materials/ARLANXEO | Suppliers | Customers | Society | |
| **Good Corporate Governance** | X | X | X | X | Compliance in the categories Environmental, Society and Product Responsibility; Grievance Mechanisms in Respect of Labor Practices, Human Rights, Impacts on Society and the Environment; Customer Health and Safety; Product and Service Labeling; Marketing Communications; Customer Privacy; Anti-competitive Behavior; Anti-corruption; Investment; Non-discrimination; Child Labor; Forced or Compulsory Labor; Security Practices; Indigenous Rights; Assessment; Human Rights Grievance Mechanisms |
| **Energized Employees and Performing Teams** | X | | | X | Employment, Labor/Management Relations; Occupational Health and Safety; Training and Education, Diversity and Equal Opportunity; Equal Remuneration for Women and Men; Freedom of Association and Collective Bargaining |
| **Resilient Sourcing** | X | X | | | Procurement, Supplier Environmental Assessment, Supplier Assessment for Labor Practices, Supplier Human Rights Assessment, Supplier Assessment for Impacts on Society |
| **Safe and Sustainable Sites** | X | | | X | Water; Effluents and Waste |
| **Climate Action and Energy Efficiency** | X | X | X | X | Energy, Emissions; Transport |
| **Sustainable Product Portfolio** | X | | X | X | Products and Services; Customer Health and Safety; Product and Service Labeling |
| **Valuing Customer Relations** | X | | X | | |
| **Business-Driven Innovation** | X | | X | | Products and Services |

# Non-financial Group Report: Independent Assurance Report

## INDEPENDENT PRACTITIONER'S REPORT ON A LIMITED ASSURANCE ENGAGEMENT ON NON-FINANCIAL REPORTING[1)]

LANXESS AG, Cologne, prepared a separate non-financial group report pursuant to § (Article) 315b Abs. (paragraph) 3 HGB ("Handelsgesetzbuch": "German Commercial Code") for the period from 1 January 2017 to 31 December 2017 (hereinafter the "Non-financial Report") and published it pursuant to § 315 Abs. 3 Nr. (number) 2 Buchstabe (letter) b) HGB on the LANXESS Website, in section Investor Relations under Corporate Governance. For the purpose of the publication in the present Annual Report, the Non-financial Report is separated into 48 sections with a dashed line in the "Corporate Responsibility" chapter. PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft has performed a limited assurance engagement on the German version of the Non-financial Report published on the LANXESS Website, in section Investor Relations under Corporate Governance and issued an independent practitioner`s report, authoritative in German language, which has been translated as follows:

"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 2017 to 31 December 2017 (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 §§ 315b and 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 necessary 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 in-formation 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

1) PricewaterhouseCoopers GmbH has performed a limited assurance engagement on the German version of the separate non-financial report and issued an independent assurance report in German language, which is authoritative. The following text is a translation of the independent assurance report.

the Company's Non-financial Report for the period from 1 January 2017 to 31 December 2017 has not been prepared, in all material aspects, in accordance with §§ 315b and 315c in conjunction with 289c to 289e HGB.

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 management and 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 2017 to 31 December 2017 has not been prepared, in all material aspects, in accordance with §§ 315b and 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.

Munich, 2 March 2018

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Hendrik Fink
Wirtschaftsprüfer
German public auditor

ppa. Juliane v. Clausbruch"

# GRI Content Index

| G4 Indicators and Description | | Location | Comments and Online Annexes | UNGC |
|---|---|---|---|---|
| **Strategy and Analysis** | | | | |
| G4-1 | Foreword by the Chairman of the Board of Management | p. 3 | | |
| G4-2 | Key impacts, risks and opportunities | p. 5–10, 12, 44–45, 104–116 | | |
| **Organizational Profile** | | | | |
| G4-3 | Name of the organization | | LANXESS AG | |
| G4-4 | Primary brands, products or services | p. 64–67 | lanxess.com/corporate/products-solutions/products-solutions/ | |
| G4-5 | Location of the organization's headquarters | | Cologne, Germany | |
| G4-6 | Countries where the organization operates | p. 66–67 | lanxess.com/corporate/about-lanxess/sites-worldwide/ | |
| G4-7 | Nature of ownership and legal form | p. 49-50, 64 | | |
| G4-8 | Markets | p. 71, 73, 79–80 | | |
| G4-9 | Scale of the organization | Key data table cover, p. 38, 84 | | |
| G4-10 | Total workforce | p. 23, 28 | | 6 |
| G4-11 | Employees covered by collective bargaining agreements | p. 33 | | 3 |
| G4-12 | Description of supply chain | p. 34 | | |
| G4-13 | Significant changes in the organization's size, structure or ownership | p. 64–65, 138–141 | | |
| G4-14 | Explanation of how the precautionary principle is addressed | p. 44–45, 71–72, 106–107 | | |
| G4-15 | Participation in and endorsement of externally developed charters, principles and initiatives | p. 19–20, 41, 43, 47, 204 | | |
| G4-16 | Important memberships | p. 34, 204 | | |
| **Material Aspects and Boundaries** | | | | |
| G4-17 | All entities included in the organization's consolidated financial statements | p. 142–143 | | |
| G4-18 | Process for defining the report content | p. 12–14 | | |
| G4-19 | Material aspects identified | p. 14, 189 | | |
| G4-20 | Material aspects within the organization | p. 189 | | |
| G4-21 | Material aspects outside the organization | p. 189 | | |
| G4-22 | Effects of any re-statements of information | p. 188 | | |
| G4-23 | Changes in the scope, boundary or measurement methods | p. 138–141, 188 | | |
| **Stakeholder Engagement** | | | | |
| G4-24 | Overview of stakeholder groups | p. 13 | lanxess.com/corporate/corporate-responsibility/stakeholders-relations/ | |
| G4-25 | Basis for identification of stakeholder groups | p. 13 | lanxess.com/corporate/corporate-responsibility/stakeholders-relations/ | |
| G4-26 | Engagement of stakeholder groups | p. 13, 31, 44-45 | lanxess.com/corporate/corporate-responsibility/stakeholders-relations/ | |
| G4-27 | Consideration of key concerns raised by stakeholder groups | p. 13, 31, 43–45 | lanxess.com/corporate/corporate-responsibility/stakeholders-relations/ | |

| G4 Indicators and Description | | Location | Comments and Online Annexes | UNGC |
|---|---|---|---|---|
| **Report Profile** | | | | |
| G4-28 | Reporting period | p. 188 | | |
| G4-29 | Date of most recent previous report | p. 188 | 2017 | |
| G4-30 | Reporting cycle | p. 188 | | |
| G4-31 | Contact point | Masthead | | |
| G4-32 | GRI Content Index | p. 192–198 | | |
| G4-33 | External assurance for the report | p. 190–191 | | |
| **Governance** | | | | |
| G4-34 | Governance structure of the organization | p. 52–55 | | |
| **Ethics and Integrity** | | | | |
| G4-56 | Values, principles and code of conduct | p. 17, 19–21 | | 1–10 |
| **Economic** | | | | |
| | Management approach | p. 6–10, 17, 44–45 | | |
| **Economic Performance Indicators** | | | | |
| G4-EC1 | Direct economic value generated and distributed | p. 46, 92–93, 119 | | |
| G4-EC3 | Coverage of the organization's defined benefit plan obligations | p. 151–157 | | |
| **Market Presence** | | | | |
| G4-EC5 | Wages | | 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. | 6 |
| G4-EC6 | Local hiring | p. 27 | | 6 |
| **Indirect Economic Impacts** | | | | |
| G4-EC7 | Infrastructure investments and services provided primarily for public benefit | p. 46–47 | | |
| **Procurement** | | | | |
| G4-EC9 | Selection of locally based suppliers | p. 70 | | |
| **Environmental** | | | | |
| | Management approach | p. 13–18, 34–42 | | |
| **Materials** | | | | |
| G4-EN1 | Materials used by weight or volume | p. 34, 70 | | 7, 8 |
| G4-EN2 | Percentage of materials used that are recycled input materials | | Not relevant as LANXESS cannot use any significant quantities of recycled input materials in the manufacture of its products | 8 |
| **Energy** | | | | |
| G4-EN3 | Energy consumption within the organization | p. 38–39 | | 7, 8 |
| G4-EN4 | Energy consumption outside the organization | p. 38–39 | | 8 |
| G4-EN5 | Energy intensity | p. 41–42 | | 8 |
| G4-EN6 | Reduction of energy consumption | p. 41–42 | | 8, 9 |
| G4-EN7 | Reduction in energy requirements of products and services | p. 41–42, 44–45 | webmagazine.lanxess.com/tomorrows-mobility-is-green/ | 8, 9 |

| G4 Indicators and Description | | Location | Comments and Online Annexes | UNGC |
|---|---|---|---|---|
| **Water** | | | | |
| G4-EN8 | Total water withdrawal | p. 36–37, 38–39 | | 7, 8 |
| **Emissions** | | | | |
| G4-EN15 | Direct greenhouse gas emissions – Scope 1 | p. 38–39, 40–41 | | 7, 8 |
| G4-EN16 | Indirect greenhouse gas emissions – Scope 2 | p. 38–39, 40–41 | | 7, 8 |
| G4-EN17 | Other indirect greenhouse gas emissions – Scope 3 | p. 41 | | 7, 8 |
| G4-EN18 | Greenhouse gas emissions intensity | p. 40 | | 8 |
| G4-EN19 | Reduction of greenhouse gas emissions | p. 40–42 | lanxess.com/en/corporate/corporate-responsibility/sustainability/ | 8, 9 |
| G4-EN20 | Emissions of ozone-depleting substances | p. 38–39 | | 7, 8 |
| G4-EN21 | NOx, SOx and other significant air emissions | p. 38–39, 41 | | 7, 8 |
| **Effluents and Waste** | | | | |
| G4-EN22 | Total water discharge | p. 36–37, 39 | | 8 |
| G4-EN23 | Quantity of waste | p. 37, 39 | | 8 |
| G4-EN24 | Total number and volume of significant spills | | On March 3, a fire occurred at the Mapleton site in the U.S. during draining of a separator. The fire was quickly extinguished.<br>On July 28, a huge amount of water flowed into our chromium mine in Rustenberg, South Africa, as a result of a controlled explosion.<br>After official inspections on July 31 and September 15 and 26 at our facility in Liyang, China, we decreased production. In addition, we implemented measures to reduce emissions and further improvements.<br>On August 15, a fire broke out in the production hall of our plant in Pyeongtaek, Republic of Korea, causing production to be temporarily suspended. The fire was quickly extinguished.<br>On September 28, 1,000 barrels of saline solution containing oil leaked from a pipeline in El Dorado, U.S. The authorities were called in and rehabilitation work was started. At the same plant, a system malfunction occurred on November 23, resulting in 4 metric tons of sulfur dioxide being released into the atmosphere. The authorities were informed immediately.<br>Due to uncontrollable heating of container content, there was a pressure build-up and release of 2 metric tons of a mixture of substances that ignited at a site in Amsterdam, the Netherlands, on December 18. The plant and neighboring premises were evacuated before the product was released. | 8 |
| **Products and Services** | | | | |
| G4-EN27 | Initiatives to mitigate environmental impacts | p. 44–45 | lanxess.com/en/corporate/corporate-responsibility/sustainability/<br>lanxess.com/en/corporate/corporate-responsibility/products-and-innovations/ | 7, 8, 9 |
| **Compliance** | | | | |
| G4-EN29 | Fines for non-compliance with environmental laws and regulations | | Should material cases occur, these would have to be reported in the audited financial statements. | 8 |
| **Transport** | | | | |
| G4-EN30 | Significant environmental impacts of transporting products and other goods and materials, and transporting members of the workforce | p. 42 | | 8 |
| **Supplier Environmental Assessment** | | | | |
| G4-EN32 | New suppliers screened using environmental criteria | p. 34 | | 8 |
| G4-EN33 | Significant actual and potential negative environmental impacts in the supply chain | S. 34 | | 8 |

| G4 Indicators and Description | | Location | Comments and Online Annexes | UNGC |
|---|---|---|---|---|
| **Environmental Grievance Mechanisms** | | | | |
| G4-EN34 | Formal grievances about environmental impacts | | Our employees and external third parties can use the Integrity Line to report environmental grievances. No corresponding grievances were filed for fiscal year 2017. | 8 |
| **Labor Practices and Decent Work** | | | | |
| | Management approach | p. 13–18, 23–33 | | |
| **Employment** | | | | |
| G4-LA1 | Employee turnover | p. 23, 25–26 | | 6 |
| G4-LA2 | Benefits provided to full-time employees | p. 28–30 | | |
| G4-LA3 | Parental leave | p. 30 | | 6 |
| **Labor/Management Relations** | | | | |
| G4-LA4 | Minimum notice periods regarding significant 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. Notification periods are defined in the collective agreements in Germany and other countries. In Germany, for instance, it is four weeks. Similar periods in other countries are also always complied with. | 3 |
| **Occupational Health and Safety** | | | | |
| G4-LA5 | Workforce representation in 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, our occupational health management and workplace reintegration programs are based on agreements with employee representatives. The operational teams are managed by steering committees made up equally of employer and employee representatives. | |
| G4-LA6 | Injuries, occupational diseases and work-related accidents | p. 30–32, 38-39 | | |
| G4-LA8 | 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, our occupational health management and workplace reintegration programs are based on agreements with employee representatives. The operational teams are managed by steering committees made up equally of employer and employee representatives. | |
| **(Vocational) Training** | | | | |
| G4-LA9 | (Vocational) training | p. 24–25 | | 6 |
| G4-LA10 | Programs for skills management and lifelong learning | p. 24–25, 27, 29, 33 | | |
| G4-LA11 | Regular performance and career development reviews | p. 24–25, 32 | | 6 |
| **Diversity and Equal Opportunity** | | | | |
| G4-LA12 | Composition of governance bodies | p. 27–29, 56–58 | | 6 |
| **Equal Remuneration for Women and Men** | | | | |
| G4-LA13 | Pay differentials by gender | | 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 |

| G4 Indicators and Description | | Location | Comments and Online Annexes | UNGC |
|---|---|---|---|---|
| **Supplier Assessment for Labor Practices** | | | | |
| G4-LA14 | New suppliers screened using labor practices criteria | p. 34 | | |
| G4-LA15 | Significant actual and potential negative impacts for labor practices in the supply chain | p. 34 | | |
| **Labor Practices Grievance Mechanisms** | | | | |
| G4-LA16 | Formal grievances about labor practices | | Our employees and external third parties can use the Integrity Line to report grievances concerning labor practices. No material grievances concerning labor practices were filed in fiscal year 2016. | |
| **Human Rights** | | | | |
| | Management approach | p. 13–21 | | |
| **Capital Expenditures** | | | | |
| G4-HR1 | Investment agreements and contracts that have undergone human rights screening | p. 21 | | 2 |
| G4-HR2 | Training on human rights aspects | p. 21–22 | | 1 |
| **Non-discrimination** | | | | |
| G4-HR3 | Incidents of discrimination and actions taken | p. 21 | | 6 |
| **Freedom of Association and Collective Bargaining** | | | | |
| G4-HR4 | Violation of the right to exercise freedom of association or collective bargaining | p. 33 | | 3 |
| **Child Labor** | | | | |
| G4-HR5 | Principles and measures to eliminate child labor | p. 19–21 | | 5 |
| **Forced or Compulsory Labor** | | | | |
| G4-HR6 | Principles and measures to eliminate forced or compulsory labor | p. 19–21 | | 4 |
| **Security Practices** | | | | |
| G4-HR7 | Security personnel training | | 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 |
| **Indigenous Rights** | | | | |
| G4-HR8 | Violations involving rights of indigenous people | | Our employees and external third parties can use the Integrity Line to report grievances concerning the violation of indigenous rights. In fiscal year 2017, we received no reports or other indications of cases involving the violation of indigenous rights. | 1 |
| **Assessment** | | | | |
| G4-HR9 | Operations that have been subject to human rights reviews and/or impact assessments | p. 21 | | 1 |

| G4 Indicators and Description | | Location | Comments and Online Annexes | UNGC |
|---|---|---|---|---|
| **Supplier Human Rights Assessment** | | | | |
| G4-HR10 | New suppliers and contractors that have undergone human rights screening | p. 34 | | 2 |
| G4-HR11 | Significant actual and potential negative human rights impacts in the supply chain | p. 34 | | 2 |
| **Human Rights Grievance Mechanisms** | | | | |
| G4-HR12 | Formal grievances related to human rights | p. 21 | | 1 |
| **Society** | | | | |
| | Management approach | p. 13–22, 46–47 | | |
| **Local Communities** | | | | |
| G4-SO1 | Operations with implemented local community engagement, impact assessments and development programs | p. 46–47 | | 1 |
| G4-SO2 | Operations with significant potential or actual negative impacts on local communities | p. 35–37, 40–44 | | 1 |
| **Anti-Corruption** | | | | |
| G4-SO3 | Business units analyzed for risks related to corruption | p. 22 | | 10 |
| G4-SO4 | Percentage of employees trained in anti-corruption policies and procedures | p. 22 | | 10 |
| G4-SO5 | Incidents of corruption and actions taken | p. 22 | | 10 |
| **Anticompetitive Behavior** | | | | |
| G4-SO7 | Legal actions for anticompetitive behavior, antitrust and monopoly practices | | The company was not involved in any legal actions regarding anticompetitive behavior or violations of antitrust law in 2017. | |
| **Compliance** | | | | |
| G4-SO8 | Penalties for non-compliance with laws and regulations | | Should material cases occur, these would have to be reported in the audited financial statements. | |
| **Supplier Assessment for Impacts on Society** | | | | |
| G4-SO9 | New suppliers screened using criteria for impacts on society | p. 34 | | |
| G4-SO10 | Significant actual and potential negative impacts on society in the supply chain | p. 34 | | |
| **Grievance Mechanisms for Impacts on Society** | | | | |
| G4-SO11 | Formal grievances about impacts on society | | Our employees and external third parties can use the Integrity Line to report grievances concerning impacts on society. No formal grievances concerning material impacts on society were filed in fiscal year 2017. | |

| G4 Indicators and Description | | Location | Comments and Online Annexes | UNGC |
|---|---|---|---|---|
| **Product Responsibility** | | | | |
| | Management approach | p. 12–20, 43–45 | | |
| **Customer Health and Safety** | | | | |
| G4-PR1 | Significant product and service categories for which health and safety impacts are assessed | p. 34, 43–44 | | |
| G4-PR2 | Incidents of non-compliance with regulations and voluntary codes concerning health and safety | | Our employees and external third parties can use the Integrity Line to report grievances concerning non-compliance with regulations concerning health and safety. In fiscal year 2017, we received no indications of non-compliance with pertinent regulations. | |
| **Product and Service Labeling** | | | | |
| G4-PR3 | Type of product and service information required by legislation | p. 43 | | |
| G4-PR4 | Incidents of non-compliance with regulations and voluntary codes concerning product and service information | | Our employees and external third parties can use the Integrity Line to report grievances concerning non-compliance with regulations and voluntary concerning product and service information. We received no indications of corresponding non-compliance for fiscal year 2017. | |
| G4-PR5 | Customer satisfaction including results of surveys measuring customer satisfaction | p. 45 | | |
| **Marketing Communications** | | | | |
| G4-PR6 | Sale of banned or disputed products | p. 37 | | |
| **Customer Privacy** | | | | |
| G4-PR8 | Complaints regarding customer data privacy | | Our employees and external third parties can use the Integrity Line to report complaints regarding customer data privacy. In fiscal year 2017, we received no reports or other indications of complaints regarding breaches of customer privacy and losses of customer data. | |
| **Compliance** | | | | |
| G4-PR9 | Fines for non-compliance with laws and regulations concerning the provision and use of products and services | | Should material cases occur, these would have to be reported in the audited financial statements. | |

# Glossary

## INDUSTRY-SPECIFIC TERMS

### *Additives*

Additive are substances that are added in small quantities to products in order to improve or actually create certain properties. The positive effects aimed for may relate to manufacturing, storage and processing, or they may be product characteristics that exist during and after a product's service life. In contrast to fillers, additives are very highly dispersed in the material and almost always comprise just a few percent of the overall volume.

### *CLP and GHS*

CLP is the abbreviation for classification, labeling and packaging. The E.U. CLP Regulation contains provisions for the classification, labeling and packaging of substances and mixtures.

It is based on the Globally Harmonized System of Classification and Labeling of Chemicals – or GHS for short – which ensures that hazards are labeled in the same way all over the world. The use of classification criteria and labeling elements that have been agreed upon internationally is aimed at making things easier for distributors and at protecting people and the environment worldwide from the hazards that may be caused by chemicals.

### *Compounding facility*

A facility for processing and finishing engineering plastics to enhance their functional properties.

### *COSO*

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) is a voluntary private-sector organization that has compiled and published guidelines on enterprise risk management in an internationally recognized framework.

### *ISO 14001*

International standard that supports organizations in introducing an environmental policy, formulating environmental targets and implementing these with the aid of an environmental management system.

### *ISO 50001*

International standard that defines requirements for systematic energy management to help organizations reduce energy costs, greenhouse gas emissions and other environmental impacts.

### *ISO 9001*

International standard that defines minimum requirements for quality management systems.

### *Networked site*

Production site where many different production processes and value chains are integrated as a highly efficient network; for example, the by-products from one production plant are used by another facility at the same site to manufacture another product. The network principle results in lower energy and raw material consumption while ensuring high production output. It is thus resource-friendly and reduces logistics costs at the same time.

### *OSHA*

Occupational Safety and Health Administration: an agency of the United States Department of Labor that is authorized to adopt occupational safety standards. OSHA also enforces these standards with the aim of reducing the number of work-related accidents and their consequences.

### *REACH*

Abbreviation for the Registration, Evaluation, Authorization and Restriction of Chemicals; the E.U. REACH Regulation stipulates the registration, assessment and approval of chemicals before marketing. It imposes a duty on manufacturers and importers to determine the hazardous characteristics of substances and estimate their impact on health and the environment.

### *Synthesis*

In chemistry, a synthesis is a process used to manufacture a compound from several elements or a complex new substance from a number of simple compounds. A synthesis therefore goes beyond the purely physical mixing of two or more substances. A synthesized compound cannot be split back into its base products by physical means.

### *VOC emissions*

Volatile organic compounds is the collective term for organic carbon compounds that evaporate easily or already become gaseous at low temperatures.

# FINANCIAL GLOSSARY

***Capital employed***

This is defined as total assets less deferred tax assets and interest-free liabilities.

***Cash flow***

Inflows and outflows of cash and cash equivalents.

***Corporate governance***

Responsible corporate management and oversight aligned with long-term value creation; it comprises the observance of laws, regulations, recognized standards and recommendations as well as the implementation and application of company guidelines and management and control structures.

***Deferred taxes***

Tax expense or tax income that is likely to arise in the future from temporary differences between the carrying amount used in the annual financial statements and the taxable value of assets and liabilities and tax income that is likely to arise in the future from unused loss carryforwards or tax credits.

***Due diligence***

The careful investigation and analysis of a company, particularly in respect of its economic, legal, tax and financial condition and its performance in the areas of technology and the environment; it is undertaken especially by potential purchasers involved in acquisition projects.

***EBIT***

Earnings before interest and taxes: the operating result before deduction of interest and income taxes.

***EBITDA***

Earnings before interest, taxes, depreciation and amortization: the operating result before deduction of interest and income taxes plus depreciation and impairment losses on property, plant and equipment and amortization and impairment losses on intangible assets.

***EMEA***

Europe, Middle East, Africa region.

***Equity method***

Accounting method that sets the interests in affiliated companies against the acquisition costs, with the result that any changes in the stakeholder's interest lead to an adjustment in the net assets of the affiliated company.

***Financial covenants***

Clauses or (side) agreements in loan agreements and term sheets; these are contractually binding promises by the borrower or the obligor during the term of the loan agreement, for example that net financial liabilities will not exceed a defined multiple of an earnings indicator such as EBITDA pre exceptionals.

***GDP***

Gross domestic product: the sum of all goods and services produced by an economy over the period of one year and destined for consumption.

***Goodwill***

Intangible assets from the acquisition of a company; it is measured as the excess of the cost of acquisition over the fair value of the net assets acquired.

***Hedging***

An investment position intended to limit or offset certain clearly identified risks such as exchange rate fluctuations or interest rate changes.

***Hybrid bond***

A hybrid bond is a corporate bond with a very long or unlimited term. The issuing company may terminate a bond after a previously defined date. Moreover, the interest payments agreed upon may be canceled or suspended under certain conditions.

Hybrid bonds are subordinated financial instruments. In the event of an insolvency or liquidation, they will only be serviced after the company has fulfilled all other obligations toward third parties. This higher risk borne by investors is compensated by higher interest rates compared with conventional corporate bonds. Depending on the bond conditions, at least part of a hybrid bond is treated as equity by rating agencies and banks.

***IAS/IFRS***

International Accounting Standards/International Financial Reporting Standards; these are uniform international accounting regulations issued by the International Accounting Standards Board with the aim of ensuring the global comparability of financial statements and the publication of information of relevance to decisions.

***NAFTA***

The North American Free Trade Agreement is an economic alliance between the United States, Canada and Mexico that makes the North American continent a free trade zone.

***Net financial liabilities***

Calculated as the sum of current and non-current financial liabilities (adjusted for liabilities for accrued interest) less cash, cash equivalents and near-cash assets.

***Purchase price allocation***

Distribution of the cost of an acquisition to the acquired assets, liabilities and contingent liabilities.

***Rating***

Assessment of a debtor's credit standing; ratings are issued by, for example, the world's leading rating agencies such as Standard & Poor's, Moody's Investors Service and Fitch Ratings, but also by banks applying their own criteria.

***ROCE***

Return on capital employed: ROCE is the ratio of EBIT pre exceptionals to capital employed and a measure of profitability.

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# FINANCIAL CALENDAR 2018

JAN FEB MAR APR **MAY** JUN

**May**

4 — **Quarterly Statement**
Q1 2018
Conference Call

15 — **Annual Stockholders' Meeting,**
Cologne

JUL **AUG** SEP OCT **NOV** DEC

**August**

2 — **Half-Year Financial Report**
H1 2018
Conference Call

**November**

12 — **Quarterly Statement**
Q3 2018
Conference Call

# CONTACTS & MASTHEAD

## MASTHEAD


LANXESS AG
Kennedyplatz 1
50569 Cologne, Germany
Tel. +49 (0) 221 8885 0
www.lanxess.com

Consultancy:
Kirchhoff Consult AG, Hamburg, Germany

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## CONTACTS


Corporate Communications
Christiane Dörr
Tel. +49 (0) 221 8885 2674
mediarelations@lanxess.com

Investor Relations
André Simon
Tel. +49 (0) 221 8885 3494
ir@lanxess.com



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www.lanxess.com