

# 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.

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## 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 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
<b>Matthias Zachert</b> Chairman of the Board of Management	<ul style="list-style-type: none"> <li>Member of the Supervisory Board of Siemens AG</li> </ul>	<ul style="list-style-type: none"> <li>Chairman of the Executive Board of LANXESS Deutschland GmbH</li> <li>Chairman of the Shareholders' Committee of ARLANXEO Holding B.V.</li> </ul>
<b>Dr. Hubert Fink</b> Member of the Board of Management		<ul style="list-style-type: none"> <li>Member of the Executive Board of LANXESS Deutschland GmbH</li> <li>Chairman of the Supervisory Board of Saltigo GmbH</li> </ul>
<b>Michael Pontzen</b> Chief Financial Officer		<ul style="list-style-type: none"> <li>Member of the Executive Board of LANXESS Deutschland GmbH</li> <li>Member of the Board of Directors of LANXESS Corp.</li> <li>Member of the Shareholders' Committee of ARLANXEO Holding B.V.</li> <li>Member of the Board of Directors of LANXESS Solutions Korea Inc.</li> <li>Member of the Board of Directors of LANXESS Solutions US Inc.</li> </ul>
<b>Dr. Rainier van Roessel</b> Member of the Board of Management and Labor Relations Director	<ul style="list-style-type: none"> <li>Member of the Supervisory Board of CURRENTA Geschäftsführungs-GmbH, Leverkusen</li> </ul>	<ul style="list-style-type: none"> <li>Member of the Executive Board of LANXESS Deutschland GmbH</li> <li>Chairman of the Board of Directors of LANXESS S.A. de C.V.</li> <li>Executive member of the Board of Administration of LANXESS N.V.</li> <li>Chairman of the Board of Directors of LANXESS Hong Kong Ltd.</li> <li>Chairman of the Board of Directors of LANXESS Corp.</li> <li>Chairman of the Board of Directors of LANXESS Chemical (China) Co. Ltd.</li> <li>Chairman of the Board of Directors of LANXESS India Private Ltd.</li> <li>Chairman of the Board of Directors of LANXESS K.K.</li> <li>Chairman of the Board of Directors of LANXESS Pte. Ltd.</li> <li>Member of the Board of Directors of LANXESS Thai Co., Ltd.</li> <li>Member of the Board of Directors of LANXESS Solutions Japan K.K.</li> <li>Member of the Board of Directors of LANXESS Solutions Korea Inc.</li> <li>Member of the Board of Directors of LANXESS Solutions US Inc.</li> </ul>
<b>Stephen C. Forsyth</b> Member of the Board of Management		<ul style="list-style-type: none"> <li>Member of the Board of Directors of LANXESS Solutions US Inc.</li> <li>Member of the Board of Directors of LANXESS Canada Co./Cie</li> <li>Member of Board of Directors of LANXESS Laurel de Mexico, S.A. de C.V.</li> <li>Member of the Board of Directors of Chemtura Corporation Mexico, S. de R.L. de C.V.</li> <li>Member of the Board of Directors of Crompton Servicios, S.A. de C.V.</li> <li>Member of the Board of Directors of Great Lakes Chemical Corporation</li> <li>Member of the Board of Directors of Assured Insurance Company</li> <li>Member of the Board of Directors of LANXESS Holding Company US Inc.</li> <li>Member of the Board of Directors of LANXESS Sybron Chemicals Inc.</li> <li>Member of the Board of Directors of Sybron Chemical Holdings Inc.</li> <li>Member of the Board of Directors of The LANXESS Foundation Inc.</li> </ul>

## 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\* (Chairman)
- Biesterfeld AG, Hamburg\*
- HOYER GmbH, Hamburg

#### Werner Czaplík

- 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\*

#### 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\*

#### Dr. Heike Hanagarth

- Management consultant
- Former member of the Board of Management of Deutsche Bahn AG, Berlin

#### Further offices:

- LANXESS Deutschland GmbH, Cologne\*
- 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\*
- National-Bank AG, Essen\*
- 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\*
- INEOS Deutschland Holding GmbH, Cologne\*
- INEOS Köln GmbH, Cologne\*

#### Lawrence A. Rosen

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

#### Further offices:

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

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**Serving members**


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**Ralf Sikorski**

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

**Further offices:**

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

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**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\*

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

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**Theo H. Walthie**

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

**Further offices:**

- LANXESS Deutschland GmbH, Cologne\*
- NBE Therapeutics AG, Basel, Switzerland (President of the Board of Administration)

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**Dr. Matthias L. Wolfgruber**

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

**Further offices:**

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

\* Statutory supervisory boards

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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).