Annual Report **2016**

QUALITY WORKS.

2016

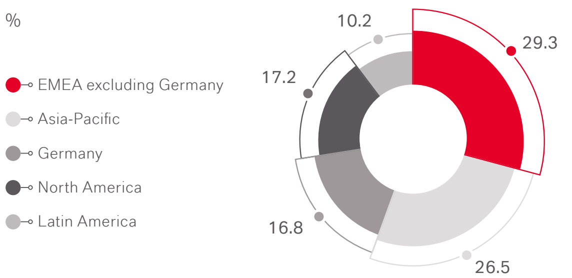
LANXESS
Energizing Chemistry

LANXESS Group Key Data

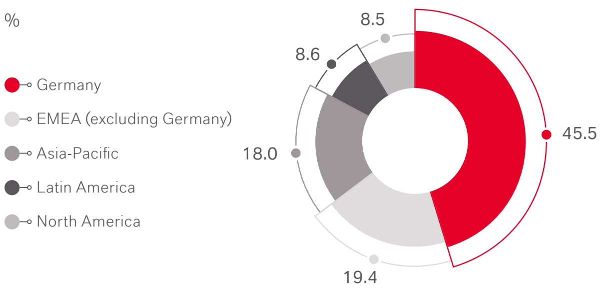
€ million	Q4 2015	Q4 2016	Change %	2015	2016	Change %
Sales	1,806	1,915	6.0	7,902	7,699	(2.6)
Gross profit	365	370	1.4	1,748	1,754	0.3
Gross profit margin	20.2 %	19.3 %		22.1 %	22.8 %	
EBITDA pre exceptionals[1])	151	183	21.2	885	995	12.4
EBITDA margin pre exceptionals[1])	8.4 %	9.6 %		11.2 %	12.9 %	
EBITDA[1])	141	162	14.9	833	945	13.4
Operating result (EBIT) pre exceptionals[1])	25	56	> 100	422	514	21.8
EBIT[1])	71	35	(50.7)	415	464	11.8
EBIT margin[1])	3.9 %	1.8 %		5.3 %	6.0 %	
Net income (loss)	15	2	(86.7)	165	192	16.4
Earnings per share (€)	0.16	0.02	(86.7)	1.80	2.10	16.4
Earnings per share adjusted for exceptional items and amortization of intangible assets (€)[2])	(0.11)	0.24	> 100	2.03	2.69	32.5
Dividend per share (€)				0.60	0.70[7])	16.7
ROCE[3])				8.4 %	6.9 %	
Cash flow from operating activities	350	157	(55.1)	692	689	(0.4)
Depreciation and amortization	70	127	81.4	418	481	15.1
Cash outflows for capital expenditures	205	211	2.9	434	439	1.2
Total assets				7,219	9,877	36.8
Equity (including non-controlling interests)				2,323	3,728	60.5
Equity ratio[4])				32.2 %	37.7 %	
Net financial liabilities[5])				1,211	2,394	97.7
Net financial liabilities after deduction of time deposits and securities available for sale[6])				1,211	269	(77.8)
Employees				16,225	16,721	3.1
Personnel expenses (€ million)				1,432	1,467	2.4
Work-related injuries resulting in at least 1 day's absence (per million hours worked)				2.2	2.0	
Energy consumption (petajoules)				48.3	48.4	0.2
Total water consumption (in million cubic meters)				278.3	264.6	(4.9)
Emissions of greenhouse gases (CO_2 equivalents in thousand tons)				1,643	1,741	6.0
Emissions of volatile organic compounds (in thousand tons)				5.4	4.7	(13.0)
Total waste (in thousand tons)				292.4	298.9	2.2
Production wastewater (in million cubic meters)				31.8	32.4	1.9

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
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 adjusted for exceptional items and amortization of intangible assets: earnings per share disregarding exceptional charges and income, amortization of intangible assets and attributable tax effects
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.
4) Equity ratio: equity in relation to total assets
5) Net financial liabilities: total 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 26, 2017

Sales by Region



Employees by Region



QUALITY
FIGURES, DATA AND FACTS

SUSTAINABILITY

We consider corporate responsibility a prerequisite to being able to operate successfully in the future and create value for all stakeholders.

- 49 ISO-certified companies with 79 sites in 23 countries
- In the Dow Jones Sustainability Index World for the sixth time in succession
- First systematic analysis of our product portfolio on the basis of sustainability aspects
- Reduction in energy consumption per ton of product
- 43 HSE (health, safety, environment) checks of production facilities
- Around 200,000 people reached by way of not-for-profit projects
- Occupational safety improved further: LTIFR and RIR decrease again
- Assessed suppliers account for 60 % of relevant procurement spend

INNOVATION

We are increasing our competitiveness through the development of innovative products and processes as well as the ongoing optimization of existing production processes.

- Patent portfolio with around 6,820 property rights
- 270 ongoing research and development projects
- 2,442 suggestions for improvement from employees in Germany
- 144 major research and development alliances

IMPLEMENTATION OF CORPORATE STRATEGY

We are pursuing a strategy that actively shapes change, creates stability in an increasingly uncertain environment and optimally balances the interests of all stakeholders.

- Acquisition improves diversification
- Realignment progressing faster than planned

Capital expenditures of up to €400 million in the years ahead to increase capacities and flexibility

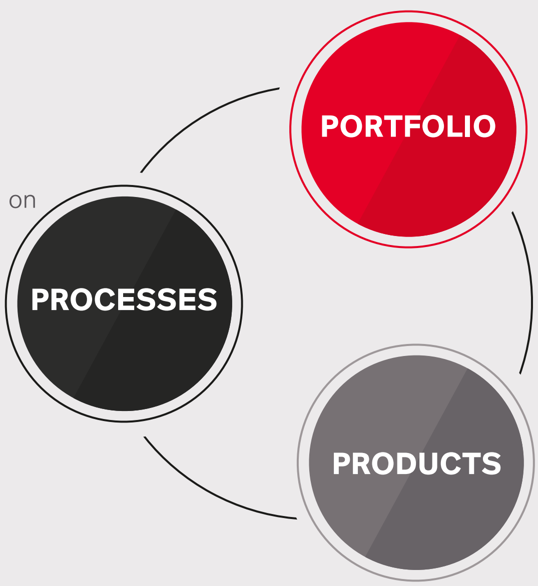
FINANCIAL STABILITY

We take strategic decisions subject to the strict application of a conservative financing policy guided by clear criteria.

- Investment-grade ratings confirmed
- Equity ratio increased to 37.7 %
- EBITDA margin pre exceptionals substantially improved to 12.9 %

AT LANXESS WE LIVE QUALITY

It is at the core of our work. It is our commitment to our customers, employees, stockholders and partners. Quality shapes our philosophy and our performance. It's what we call "Energizing Chemistry."



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The front section of our Annual Report describes key examples of our processes and products from our portfolio.

"We have consistently implemented our strategy to create a more stable and profitable chemical company."

Matthias Zachert, Chairman of the Board of Management

LETTER FROM THE CEO

PREFACE

REPORT OF THE SUPERVISORY BOARD

Matthias Zachert
Chairman of the Board of Management

Letter from the CEO

Ladies and Gentlemen,

In the past year, we have decisively and successfully realigned LANXESS. Through the extensive optimization of our organizational, business and administrative structures, we have sustainably improved not only our market and customer proximity but also our cost situation. We have benefited from savings earlier than we anticipated. At the same time, we have been faster than we had planned at implementing optimizations at our production sites. However, our most important step was the establishment of the ARLANXEO joint venture with Saudi Aramco. As a result, LANXESS already began growing again in 2016.

We are being as systematic in our approach to expansion as we were in realigning the company in 2014 and 2015. At the end of August, we closed our acquisition of the Clean and Disinfect business of U.S. chemicals group Chemours. We have since successfully integrated these activities. In September, we announced our intention to purchase U.S. company Chemtura in what is the largest planned acquisition in our company's history. Prior to that, we had signed a corresponding agreement with that company's management. Chemtura's shareholders have since approved the acquisition by LANXESS. If the relevant government agencies also give their approval, we will be able to establish a leading global supplier of flame retardants and lubricant additives. Chemtura's products ideally complement and extend our own portfolio. And we can significantly strengthen our presence in the growing U.S. market.

With the acquisition of Chemtura, we will also be gaining some 2,500 highly qualified new colleagues. They will provide further important impulses for the development of our value-based performance culture – a culture centered on quality and sustainability that is increasingly evident in the way we think and work. In order to outwardly communicate quality and all its many facets at LANXESS, we initiated the “Quality Works” campaign, which has been positively received.

The same applies to our commitment to sustainability, for which we again received a number of significant awards in 2016. For the sixth time in succession, we were included in the Dow Jones Sustainability Index World. The Carbon Disclosure Project honored us as the “Best Improver Germany,” proving that our claim “Good for business, good for society” is not just a nice-sounding slogan but represents the daily aspiration and motivation of each and every one of us at LANXESS. This approach is reflected in our reaffirmation in 2016 of our commitment to the U.N. Global Compact.

On behalf of my colleagues on the Board of Management, I would like to thank all our employees for their tremendous efforts that made LANXESS so successful in 2016. I would also like to thank our customers, business partners and you, our esteemed shareholders, for the trust and constructive criticism you have shown us. Together, we can focus on tackling the challenges that lie ahead with confidence, at a fast pace and with a clear objective in sight.

Yours,

Matthias Zachert

Matthias Zachert
Chairman of the Board of Management

Dr. Rainier van Roessel
Member of the Board
and Labor Relations Director

Performance Chemicals ·
Human Resources

Michael Pontzen
Chief Financial Officer

Accounting · Corporate Controlling ·
Mergers & Acquisitions · Tax &
Trade Compliance · Information Technology ·
Treasury & Investor Relations

Matthias Zachert
Chairman of the Board of Management

ARLANXEO ·
Corporate Communications ·
Corporate Development · Legal &
Compliance

Dr. Hubert Fink
Member of the Board

Advanced Intermediates ·
High Performance Materials · Global
Procurement & Logistics · Production,
Technology, Safety & Environment

Dr. Rolf Stomberg
Chairman of the Supervisory Board

Report of the Supervisory Board

Dear Stockholders,

We can once again look back on an extremely successful fiscal year. LANXESS not only substantially improved its operating business, but impressively continued its strategic transformation and optimization.

EBITDA pre exceptionals amounted to €995 million, marking the third consecutive year of growth. The businesses of the "New LANXESS," comprising the Advanced Intermediates, Performance Chemicals and High Performance Materials segments, more than compensated the ongoing weakness in the rubber business.

The establishment of the joint venture ARLANXEO on April 1, 2016, marked a strategically important step. LANXESS operates the joint venture, to which it transferred its entire rubber business, together with its strategic partner Saudi Aramco. The liquidity acquired in establishing the joint venture was used to pay down debt and support strategic development. LANXESS was thus able to already close the acquisition of the Chemours Clean and Disinfect business in fall 2016. Furthermore, the acquisition of publicly traded U.S. company Chemtura Corporation was announced in September 2016.

Despite the ongoing challenges in the rubber business, 2017 again proved to be a year of growth. We plan to close the acquisition of Chemtura in mid-2017 and subsequently focus our efforts on integrating the new business into our operations.

The Supervisory Board has supported the company in these developments. During 2016, as in earlier years, 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, 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, strategic 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 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 regularly discussed the present state of the company, matters of strategy, planning, business performance, risks, risk management, management development, compliance and material events.

PRINCIPAL TOPICS DISCUSSED BY THE SUPERVISORY BOARD

The Supervisory Board met a total of seven times in 2016. It passed one resolution outside of a meeting, voting by way of a written procedure.

We regularly discussed the sales and earnings performance of the company 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, and investment and acquisition plans. Other important issues addressed by the Supervisory Board are presented below.

The focus of the Supervisory Board meeting held on March 15, 2016, was the review of the annual financial statements and consolidated financial statements for fiscal 2015 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. In addition, the Board of Management outlined the key aspects relating to an acquisition of the Chemours Clean and Disinfect business. After careful deliberation, the Supervisory Board approved LANXESS's acquisition of this business. Moreover, we resolved to expand the framework for the company's bond program. Lastly, the Supervisory Board defined the variable compensation for the members of the Board of Management on the basis of target attainment in fiscal 2015.

At the meeting held on May 10, 2016, we discussed with the Board of Management the company's pension obligations, the development of raw material costs and the economic environment in the rubber sector. 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. Subject to the election of the auditor by the Annual Stockholders' Meeting, we also resolved on awarding the audit contracts for the audit of the consolidated financial statements for fiscal 2016 and for the review of the condensed consolidated financial statements included in the half-year financial report. Lastly, we received an update on the business units and on the economic performance of Currenta, a joint venture between LANXESS and Bayer AG.

The meeting that took place immediately prior to the Annual Stockholders' Meeting on May 20, 2016, served to prepare that meeting.

At the meeting held on August 9, 2016, the Board of Management reported on occupational safety measures and results. Due to personnel changes on the Supervisory Board, we also elected new committee members. We discussed the findings of the efficiency review conducted with support from an external HR consultancy, which confirmed the very good and constructive cooperation within the Supervisory Board and with the Board of Management. Suggestions were addressed. Lastly, the Supervisory Board reviewed the compensation of the members of the Board of Management on the basis of updated benchmarks.

At an extraordinary meeting on September 25, 2016, the Board of Management reported on the advanced status of negotiations in connection with the acquisition of Chemtura. The opportunities and risks relating to the acquisition were discussed in detail. As a result, we resolved to approve the acquisition of Chemtura, as proposed by the Board of Management, while making use of a bridge loan and the issuance of bonds.

At the meeting held on November 9, 2016, the Board of Management gave us an initial report on the acquisition of Chemtura. We also reviewed the corporate audit and compliance management at the company.

At its meeting on December 9, 2016, the Supervisory Board reviewed in full and approved the budget for 2017 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 Corporate Governance Code, we resolved to issue a declaration of compliance. We also addressed the tender procedure for appointing the auditor for fiscal 2017, a process carried out under the leadership of the Audit Committee. Lastly, the Supervisory Board defined the conditions for the Board of Management's variable compensation components for fiscal 2017.

In a document circulation procedure at the end of December 2016, the Supervisory Board approved a two-year extension of the exercise periods for the 2012 and 2013 tranches of the Long-Term Stock Performance Plan for the members of the Board of Management, alongside granting additional rights, in a move designed to increase the incentive effect. The declaration of compliance was amended in accordance with Section 161 of the German Stock Corporation Act.

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 93%. 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. 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 for fiscal 2015, the consolidated financial statements and combined management report for fiscal 2015, the quarterly statements issued during fiscal 2016, and the condensed consolidated financial statements and interim management report included in the 2016 half-year financial report. It also reviewed the company's risk management and internal control systems. Another focus of the committee's work was conducting a tender and selection procedure for the audit of the 2017 consolidated financial statements pursuant to Article 16, Paragraph 3 of Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 (Audit Regulation). 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 2016 financial statements. In addition, the committee reviewed the development of international accounting standards, the situation concerning the company's 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 2016 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 Nominations Committee convened twice in 2016. 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 German Corporate Governance Code (the Code). 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 Code'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 289a of the German Commercial Code.

FINANCIAL STATEMENTS OF LANXESS AG AND CONSOLIDATED FINANCIAL STATEMENTS OF THE LANXESS GROUP

The Board of Management of LANXESS AG prepared the financial statements for the 2016 fiscal year in accordance with the rules of the German Commercial Code, the consolidated financial statements for fiscal 2016 in accordance with the International Financial Reporting Standards (IFRS) and the combined management report for 2016. These were all audited by Pricewaterhouse-Coopers GmbH Wirtschaftsprüfungsgesellschaft, the auditor appointed by the Annual Stockholders' Meeting and engaged by the Supervisory Board. The auditor issued an unqualified opinion in each case.

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 13, 2017. 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 14, 2017. 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 material results of the audits. 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.

COMPOSITION OF THE SUPERVISORY BOARD

The composition of the Supervisory Board changed in fiscal 2016. At midnight on May 31, 2016, Gisela Seidel resigned as a representative of the LANXESS workforce prior to her retirement. She was succeeded as a member of the Supervisory Board by Ifraim Tairi, who was her elected substitute member. In addition, Claudia Nemat resigned as a stockholder representative on the Supervisory Board at midnight on June 30, 2016. The Local Court of Cologne appointed Dr. Heike Hanagarth to replace her as a stockholder representative and member of the Supervisory Board of LANXESS AG effective July 1, 2016. Dr Hanagarth will be standing for election by the stockholders at the 2017 Annual Stockholders' Meeting.

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 2016.

Cologne, March 14, 2017
The Supervisory Board

Dr. Rolf Stomberg
Chairman

THANKS

THE SUPERVISORY BOARD thanks the Board of Management, all of the Group's employees and the employee representatives.

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LANXESS ANNUAL REPORT 2016

READY FOR THE NEXT LEVEL

With the biggest acquisition in company history, LANXESS will more than double its additives business in one go.

€100 million

THE ANTICIPATED synergy effects should be realized by 2020.

They are the unsung stars of the industry. Though often used in negligible amounts, additives play a major part in determining the properties – and ultimately the quality – of chemical products. They increase the efficiency of fuels, extend the shelf life of foods and reliably suppress unwanted product properties, such as combustibility. From a development perspective, additives are the most demanding discipline; from a sales perspective, they deliver guaranteed growth. Expected annual market growth in the mid-term is between 3 % and 4 %. Under these circumstances, it is easy to understand why LANXESS began in 2014 to lay the organizational groundwork for the value-adding advancement of this segment, by pooling all additives activities in the Rhein Chemie Additives business unit. Two years would then go by in relative calm, until the night of September 26, 2016.

A complete surprise

To everyone's surprise, the message, "LANXESS planning to acquire Chemtura," scrolled across news agency screens shortly after 12.30 a.m. Unnoticed by usually well-informed market participants, the LANXESS and Chemtura management teams had spent months negotiating an acceptable takeover agreement that was beneficial to both parties. Under the agreement, shareholders of the publicly traded Chemtura Corporation will receive US$ 33.50 per share in cash for each outstanding share of common stock held, which represents a 18.9 % premium to the stock's closing share price on September 23, 2016. The transaction thus has an enterprise value of around €2.4 billion, making it the largest acquisition in the history of LANXESS.

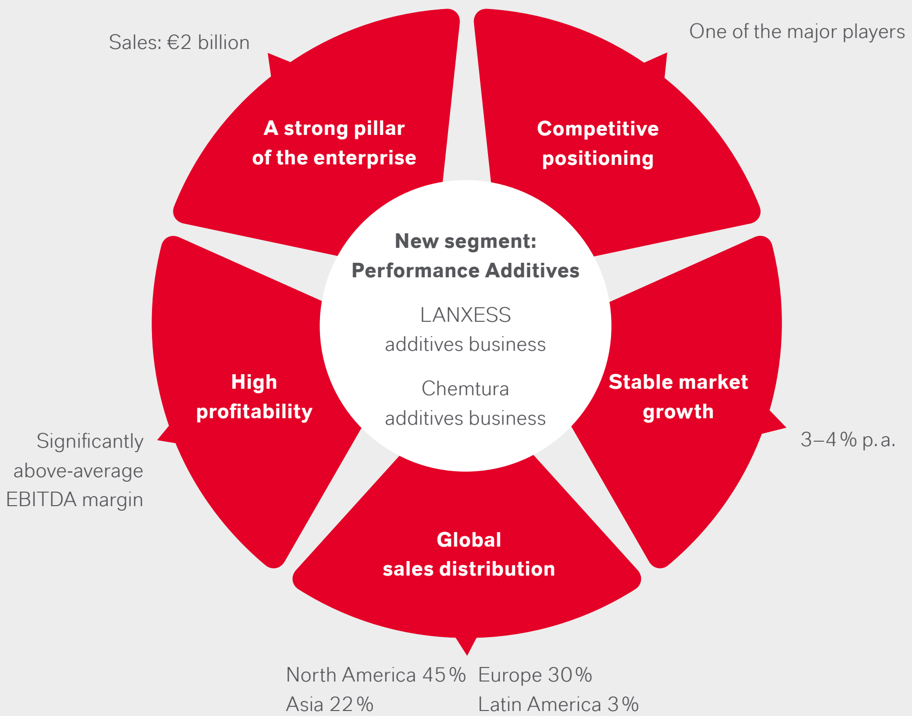
But what is this company, for which LANXESS is prepared to pay billions? With headquarters in Philadelphia and administrative offices in Middlebury, U.S.A., Chemtura is one of the largest global suppliers of flame retardant and lubricant additives. Thanks to their high-level effectiveness, brominated flame retardants like those marketed by Chemtura are primarily used in insulation materials for buildings and in the electronics industry. Lubricant additives and synthetic lubricants are used in industrial applications, for instance in power generation and aviation. Although Chemtura generates half of its sales in North America, the company can legitimately be called a global player: 2,500 employees at 20 locations in 11 countries generated sales of around €1.5 billion in 2016.

A perfect match

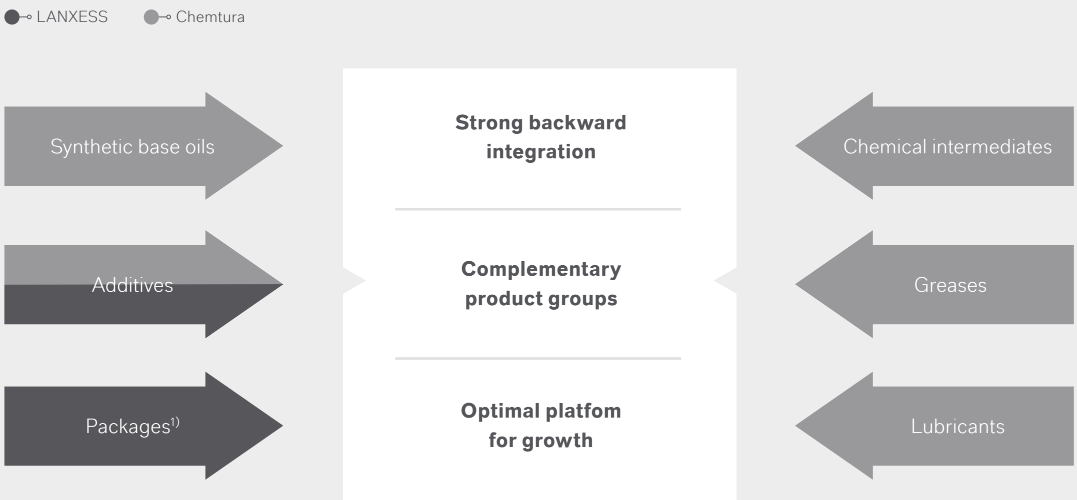
The question as to what makes the move a "strategic fit" is consistently answered with the term: "integrated value chain." "Chemtura has a competitive global position in industrial lubricant additives and additionally manufactures the associated precursors and intermediates. By combining its products with our own additives, we would advance to become one of the largest suppliers in the industrial ↘

A Further Milestone on our Growth Path

LANXESS's new additives business – a true champion



Highly integrated lubricants value chain



1) Packages: technical term for formulations/mixtures of different additive components

"With this acquisition, we are creating a champion in the additives segment and strengthening our profitable portfolio."

Anno Borkowsky,
head of Rhein Chemie Additives

lubricants segment, and further strengthen our competitiveness with an integrated value chain," explains Anno Borkowsky, head of Rhein Chemie Additives. The same applies to the flame retardant additives segment: "With the acquisition, we would also become one of the world's largest suppliers of high-performance flame retardant additives. In the future, we could offer our customers both bromine- and phosphorus-based products from a single supplier." Rhein Chemie Additives already has a competitive position in the phosphorus-based flame retardants business and a backward-integrated value chain.

After completion of the transaction, Chemtura's two additives divisions will be combined with Rhein Chemie Additives to form the new Performance Additives segment – LANXESS's additives business will have more than doubled in size.

Attractive dowry

The additives business makes up around 75 % of sales, meaning it contributes greatly to shaping the face of Chemtura. But a closer examination of the remaining 25 % is important, because behind this seemingly marginal business are other activities that would be a meaningful addition to the LANXESS portfolio.

The Urethanes business unit is a major supplier of hot-cast prepolymers, specialty aqueous urethane dispersions and polyester polyols. These are components of specialty polyurethanes, used primarily in the construction, mining, oil, gas, athletic equipment and electronics industries. For example, rollers for conveyor belts or inline skates are manufactured from these polyurethanes. The Urethanes business is to be integrated into the High Performance Materials segment, which is home to LANXESS's performance plastics business.

Furthermore, Chemtura is among the world's major suppliers of organome- ↘

An interview with Matthias Zachert

"The acquisition of Chemtura represents a major strategic step."

Matthias Zachert,
CEO

Mr. Zachert, hundreds of potential acquisition targets exist in the chemical industry for a company like LANXESS. Why did you choose Chemtura?
Very simply: Chemtura meets all the criteria we had defined for an acquisition candidate in the context of our new strategy. The company is very well positioned in a high-growth, mid-sized market. Moreover, it has a strong presence in North America, a region in which we want to grow, as you know. Our product portfolios and value chains ideally complement one another and offer significant synergy effects. And not least, with Chemtura we could acquire a very profitable company at reasonable terms – remember we are talking here about a current EBITDA margin of over 17 %.

What exactly are "reasonable terms"?
In view of the anticipated synergies, we would expect an EV/EBITDA multiple of about seven, which is very good in an international comparison.

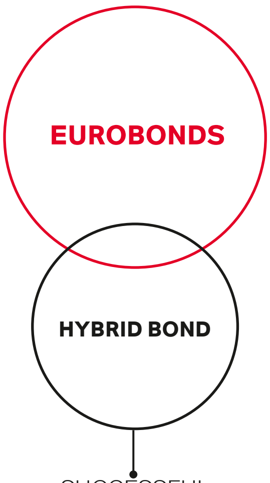
LANXESS has never undertaken an integration process of this magnitude before. Where do you begin?
We are moving forward very rapidly with planning the integration process. Shortly after the intended acquisition was announced, my colleagues on the Board of Management and I traveled around the world to the major Chemtura sites to personally inform employees there of the purpose and added value of the merger. In mid-October, about 25 members of Chemtura's top management came to visit us in Cologne to plan the next steps leading up to closing. During these discussions, we defined 16 work streams, in which LANXESS and Chemtura employees are working together on the integration project. A Steering Committee, comprising my esteemed colleague Craig A. Rogerson of Chemtura, our Board member Rainier van Roessel and myself, is keeping an eye on the overall process and has the final say in any strategic decisions.

Aren't you taking the second step before the first, so to speak? After all, various approvals from government agencies, such as the antitrust authorities, are still pending.
From our own experience, we know that successful integration has to be done rapidly to avoid uncertainty. This was the guiding principle for our actions. And with regard to the antitrust authorities: It isn't as if we ignore antitrust issues in our considerations prior to such transactions. The U.S. antitrust authorities have already signaled that they have no objections to the acquisition. Antitrust approval is still pending in a few other markets, including the European Union and China. But we are optimistic of receiving all the necessary approvals by mid-year.

Where will LANXESS's additives business be in five years?
The Performance Additives segment should be one of the world's leading suppliers in its markets, generating strong margins and thrilling customers every day with intelligent solutions tailored to individual needs.

Chemtura employs some 2,500 people worldwide and has business operations at 20 locations in 11 countries. The company is headquartered in Philadelphia, U.S.A.

> ***"Our corporate bonds and our hybrid bond were very well received by the capital market."***
>
> Michael Pontzen, CFO



SUCCESSFUL bond issues secure financing for the transaction.

tallics, which are chemical compounds used as catalysts in polymer production or in the synthesis of fine chemicals and pharmaceuticals. This segment will be integrated into the Advanced Industrial Intermediates business unit after the closing.

What counts is the bottom line

Leading market positions, integrated value chains, years of combined know-how: Viewed strategically, the logic of this acquisition is not at issue. But wherever shareholders are involved – in this case on both sides – the question of the financial consequences must not be left unanswered. It is time now to talk about the numbers.

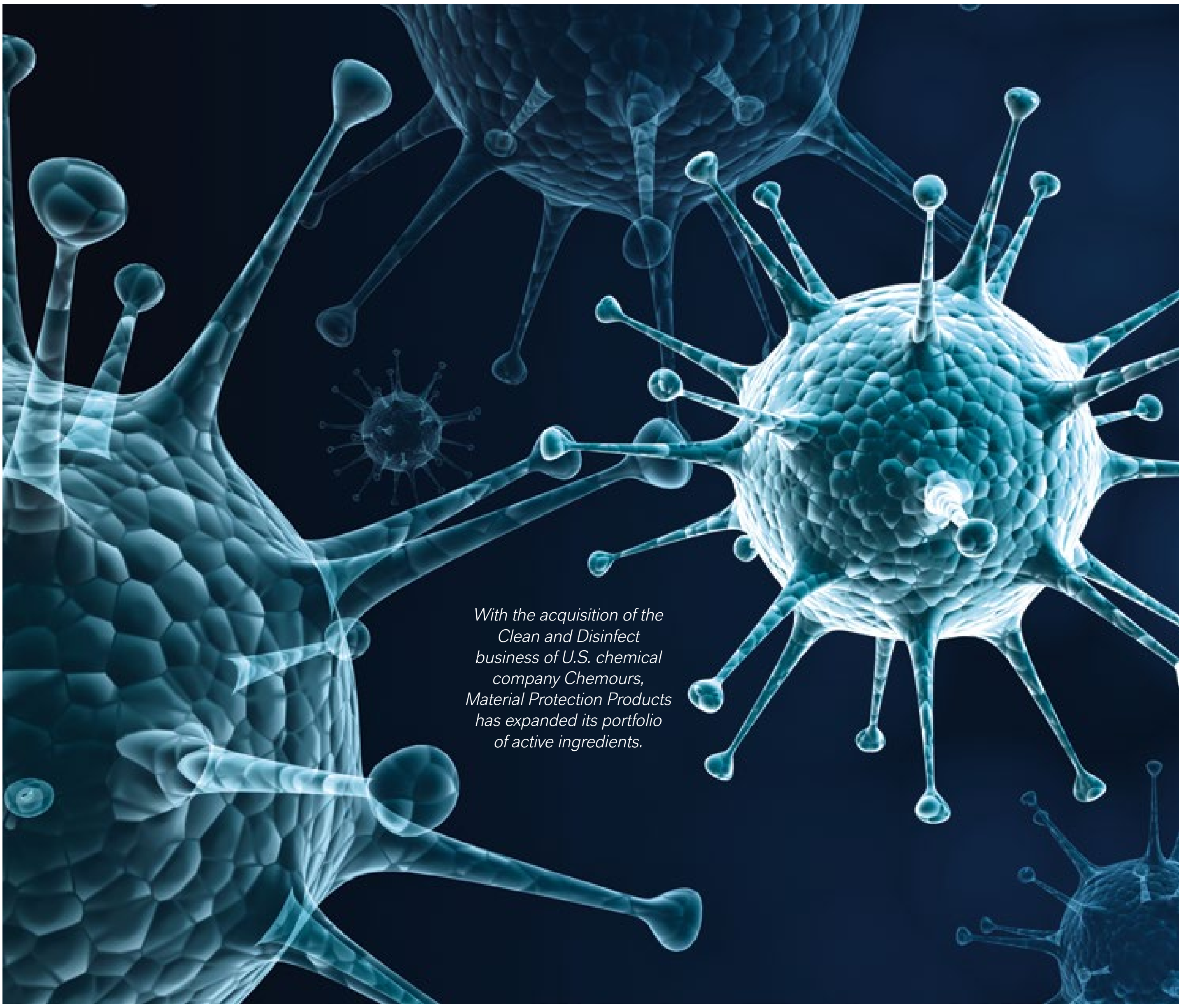
The acquisition of Chemtura, which generated an EBITDA margin of 17 % in fiscal year 2016, is already expected to be accretive to LANXESS's earnings per share in 2018, the first full fiscal year after closing. Annual synergies from the transaction of approximately €100 million can be expected by 2020. The financing of the acquisition has also been secured for some time now thanks to the successful issuing of two eurobonds with a total volume of €1 billion and the first LANXESS hybrid bond with a volume of €500 million.

Alongside September 26, 2016, the date February 1, 2017, is a milestone in the history of this acquisition. On that day, Chemtura shareholders voted by a large majority to allow LANXESS to acquire their company. With that, undoubtedly the most important hurdle had been cleared, but not the last. The transaction is now subject to approval by individual antitrust authorities. The official closing of the transaction is expected in mid-2017. If everything goes according to plan, LANXESS's additives business will advance to a new level from then on – on par with the heavyweights in the industry.

A SURE THING

The LANXESS Material Protection Products business unit is dedicated to providing protection against microorganisms.

Whether they're for wood coatings, emulsion paints, other coatings or plasters, preservatives from Material Protection Products are used worldwide to shield a variety of materials from microbial attack. Since the end of August, the business unit's portfolio has been expanded to include a number of new and highly efficient active ingredients and specialty chemicals primarily for disinfection and hygiene solutions. They make up the former Clean and Disinfect business ↘



With the acquisition of the Clean and Disinfect business of U.S. chemical company Chemours, Material Protection Products has expanded its portfolio of active ingredients.

of U.S. chemical company Chemours. One of the core products is the disinfectant Virkon® S, used in the growing veterinary disinfectants segment. Studies show that Virkon® S is effective against 65 strains from over 19 virus families, 400 bacteria strains and over 100 yeast strains, including leading diseases on the A-list of the World Organisation for Animal Health (OIE), such as avian influenza (H5N1), swine influenza (H1N1), Newcastle disease, classical swine fever and foot-and-mouth disease.

Effective protection

International testing laboratories have found that Virkon® S is effective against strains of the highly contagious influenza virus in birds. This is true even under difficult conditions, such as high organic load, dilution by rainwater, low temperatures or exposure to other pathogens that can exist on farms. Virkon® S is effective even when diluted 1:100, and is recommended as a preventive and continuous biosafety measure.

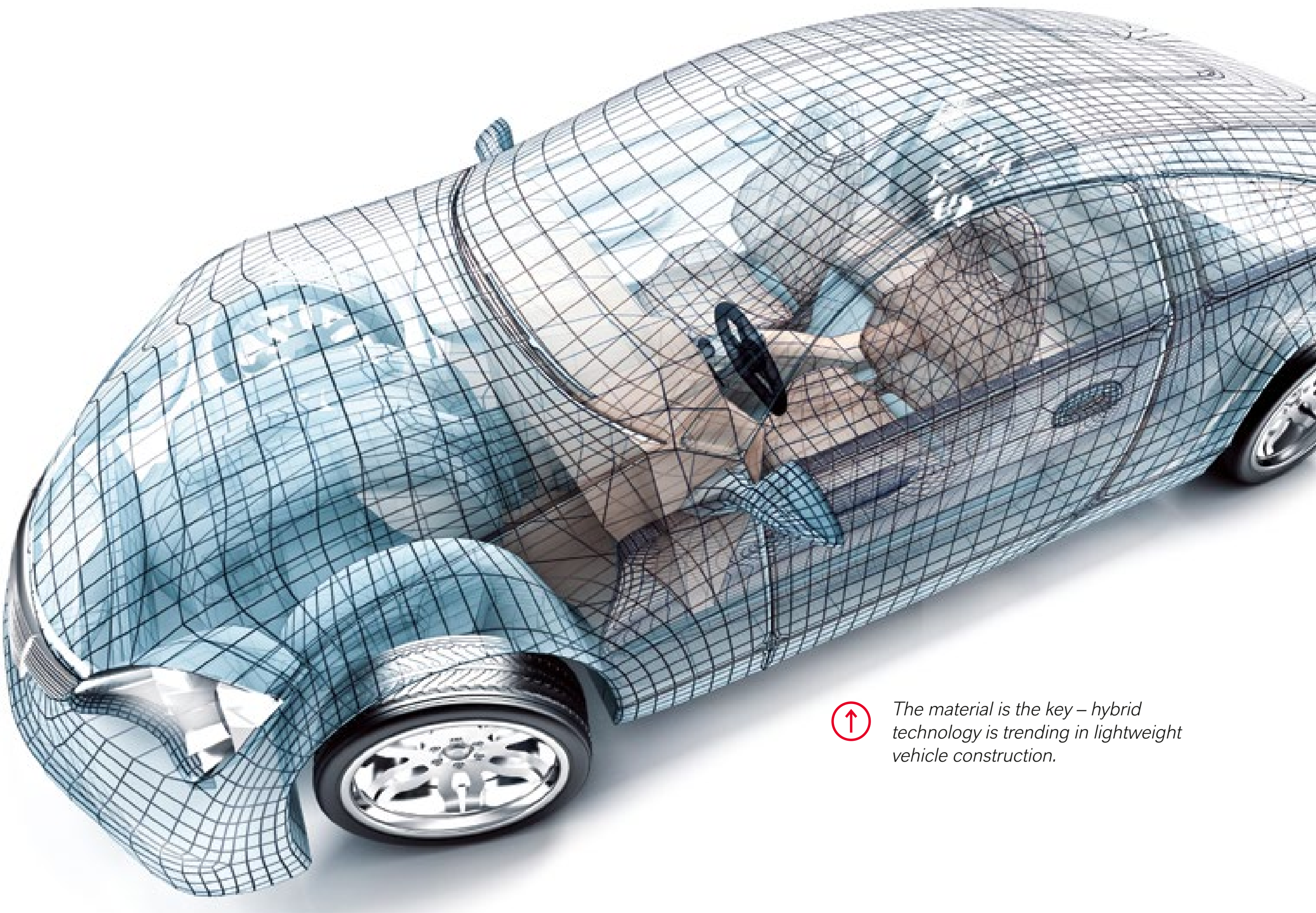
Prompted by the occurrence of avian influenza H5N8, which is spreading across many European and Asian countries, European veterinary experts are advising poultry farmers to increase their biosafety programs so as to minimize the risk of infection of millions of European poultry by diseased, wild migratory birds. Even if poultry flocks are housed and believed to be safe, the virulent virus can still be introduced to farms by adhering to motor vehicles. Workers can then spread the virus further through contact with their clothing or shoes.

Unlike many other disinfectants, Virkon® S remains effective even at low winter temperatures and in the presence of organic loads across the entire pH spectrum, without having to increase the concentration or contact time.

What helps against avian flu?

Bettina Blottko, head of the Actives & Disinfection business line in the Material Protection Products business unit

The effectiveness of Virkon® S against members of the orthomyxoviruses, including the H5N1 subtype of the avian influenza, has already been verified in numerous tests. We therefore expect that the disinfectant will also deactivate the H5N8 subtype. The most important factor in emergency control of the virus is heightened awareness among all stakeholders, and by that I mean continuous biosafety measures, such as disinfecting shoes, tires, water supply systems and entire stalls with a disinfectant that has a reliable effect on the highly contagious avian influenza virus.



The material is the key – hybrid technology is trending in lightweight vehicle construction.

A LIGHTWEIGHT SOLUTION

With high-performance plastics like Durethan®, Pocan® and Tepex® and innovative solutions, LANXESS is paving the way for the mobility of tomorrow.

Worldwide, growing demands are being made of motor vehicles. They are expected to be as light as possible and environmentally friendly. The reasons for this are diverse. Resources are dwindling, while mobilization is rapidly increasing, particularly in emerging economies. At the same time, there is a greater need to reduce climate-damaging carbon dioxide emissions per vehicle. Furthermore, consumers increasingly want more fuel-efficient cars that are also safe, comfortable and easy on the environment.

Lightweight construction is the key to sustainable mobility

Meeting all of these needs presents major challenges for motor vehicle manufacturers and their suppliers. Lightweight construction is one key technology for successfully mastering these challenges. No matter how efficient a modern combustion engine is, auto makers can most effectively reduce fuel consumption in both gasoline and diesel cars by cutting the vehicle's overall weight. High-performance plastics from LANXESS, such as Durethan®, Pocan® and Tepex®, can replace many of the metal parts in cars to help reduce weight and fuel consumption, without compromising on vehicle safety. These modern materials are already used to make both body and interior components, including parts for engines and seating, spoilers and door handles.

Three questions for

Dr. Tim Arping, head of Marketing in the High Performance Materials business unit

As of 2020, all newly registered passenger vehicles in the E.U. will be subject to a CO_2 limit of 95 grams per kilometer. How can this goal be achieved?
Automotive manufacturers are putting their cars on a diet. Reducing their weight by 100 kilograms can save up to 0.5 liters of fuel over 100 kilometers. Depending on the engine and fuel type, that means between 8.8 and 12.5 grams less carbon dioxide per kilometer.

Vehicle weight can be reduced using hybrid components. What are their main characteristics?
A frontend system is a hybrid component made of plastic and metal that is up to 40 percent lighter than an all-metal design. Yet when it comes to safety and stability, it is a good match for its steel counterpart. And even more weight can be saved using our Tepex® technology, which incorporates continuous glass or carbon fibers in the plastic.

How important will the use of plastic components be in connection with electromobility?
Plastics will make a very decisive contribution to achieving a breakthrough in electromobility as a mass-market technology. A mid-range vehicle today comprises only about 15 percent plastic. This share can and will increase significantly. As a result, cars will become lighter and the range of electric cars – currently perceived as inadequate by many consumers – will increase significantly.

Plastics in the body

Yet Durethan®, Pocan® and Tepex® are not only lighter than steel and aluminum; they can also be combined with many other materials, such as metal. Thanks to LANXESS's innovative hybrid technology, it is possible to manufacture high-strength, load-bearing components. Furthermore, when using LANXESS plastics in industrial injection molding processes, numerous functions can be integrated into hybrid components to reduce assembly costs. Another advantage that opens up new application options: High-performance plastics from LANXESS are resistant to aggressive biofuels.

But today's hybrid or plastic components are not just functional; they also offer optical features, as illustrated by an all-plastic brake pedal with an insert made of LANXESS's Tepex® dynalite. It was recently awarded first place in the "Body Interior" category of the Society of Plastics Engineers (SPE) Automotive Awards, which are among the most prestigious innovation awards for the automotive industry and its suppliers. The safety component is used in the Porsche Panamera NF and the Bentley Continental GT. It was developed by BOGE Elastmetall GmbH, a global specialist in vibration control technology and lightweight components for the automotive industry, in collaboration with LANXESS's High Performance Materials business unit.

"Special recognition was given to the fact that the brake pedal weighs about half as much as a comparable steel design. It can also be manufactured in large-series production using a cost-effective one-shot process, and meets the high load requirements thanks to the Tepex® insert," explains Ulrich Jecmeniza, a lightweight construction expert at Bond-Laminates GmbH, the LANXESS subsidiary that develops and manufactures Tepex® continuous fiber-reinforced thermoplastic composites.

QUALITY YOU CAN DRINK

With its Lewabrane® membrane elements, the Liquid Purification Technologies business unit offers a high-performance solution for ensuring a reliable supply of drinking and purified water.

Water is becoming increasingly valuable. Less than 1 % of global water resources are available for human consumption.

Fresh, clean water is scarce in many regions of the world, even though 72 % of the earth's surface is covered by water. Population growth, pollution and climate change frequently exacerbate the water shortage, especially in already disadvantaged countries. For example, people in some developing countries have to make do with just five liters of water a day, while the average European consumes 200 liters a day. The steady rise in per capita consumption is becoming problematic, particularly in regions where potable water is scarce to begin with, such as the Arabian peninsula, northern Africa, Spain and parts of the United States and Australia. It must be kept in mind that not only the population, but also farming and other industries are dependent on a reliable water supply.

Making seawater useful

An energy-efficient solution for securing this water supply is seawater desalination by means of reverse osmosis. Lewabrane® membrane elements from LANXESS have proven effective in this application. They can be used to desalinate seawater centrally for an entire region, or locally for smaller units, such as hotel complexes. One example can be found in Lazorde Bay, west of Alexandria, Egypt. A water treatment plant there produces 900 cubic meters of drinking water each day for a hotel complex. "48 Lewabrane® reverse osmosis membrane elements turn water from the Mediterranean into drinking water," explains Alexander Scheffler, head of the membrane business in the Liquid Purification Technologies business unit.

The process is as follows: The water is forced under high pressure through a semipermeable membrane which acts as a filter, holding back specific ions. In this way, salt and other unwanted substances are removed from the water. "Our system guarantees a steady supply of high-quality, purified water even under conditions of fluctuating water temperatures or pH values," adds Scheffler. "And, depending on the intensity of use, it keeps up this performance for years on end."

LANXESS manufactures membrane filters for water treatment applications at its site in Bitterfeld, Germany.

Lewabrane® elements consist of spirally wound thin-film composite membranes that were developed specifically for water treatment applications.

For people, the environment and industry

Yet reverse osmosis membrane elements from LANXESS have many more uses than just seawater desalination. They are also used, for instance, to treat municipal wastewater. In industry, they help to produce boiler feed water in power plants, or the ultra-pure water required in microchip manufacturing.

Today, thousands of Lewabrane® reverse osmosis membrane elements from LANXESS are used around the world to generate clean water. "Our technology has already proven effective in a wide variety of projects in 25 countries," says Scheffler. "In this way, we at LANXESS are helping to preserve one of the most important foundations of life on earth: clean water."

Water recycling

Alexander Scheffler, head of the membrane business in the Liquid Purification Technologies business unit

The chemical industry utilizes a great deal of water. What solutions does it provide to facilitate resource-saving water consumption?
Thanks to many changes in industrial production processes and the continuous optimization of water treatment, consumption has been steadily reduced over the years. Innovative products from the chemical industry itself have made a major contribution to this progress. In a state-of-the-art production plant, water is now recycled an average of 28 times before being discharged into a downstream treatment process, purified and returned to the general water cycle.

The trend increasingly is moving toward zero liquid discharge, which means that absolutely no waste water from production should be discharged into the environment. To achieve this goal, we must carefully determine which levels of water quality can be reused in which process step, and how highly contaminated water can be treated and returned to the process. We currently are working on a similar concept for our own production facilities.

GENTLE PROTECTION AGAINST BITES

Mosquitoes, ticks and similar insects can be a real nuisance. When the weather turns warm, they often spoil people's enjoyment of the outdoors; they can also transmit the pathogens that cause dangerous diseases.

On vacation at the beach, at a party in the park, on a hike in the woods or even in your own backyard, the great outdoors is a recreational paradise for many people – unless, of course, there are too many insects around. Given the right weather, hungry mosquitoes, stable flies, ticks and horse flies can seem to be everywhere. Worse than the non-stop itching, however, is the risk of contracting malaria, dengue fever, Zika virus, borreliosis or encephalitis.

Reliable protection is provided by Saltidin, an active ingredient that is manufactured by LANXESS subsidiary Saltigo in Dormagen, Germany, and used in many popular insect repellents. "Saltidin forms a film-like layer on the skin that stops mosquitoes from smelling anything," explains Beate Tombeux, who helps

LANXESS subsidiary Saltigo supplies a product that provides effective protection against these tiny bloodsuckers: Saltidin.

Demand is growing

Beate Tombeux, product manager for Saltidin at Saltigo

We have conducted extensive toxicological studies and dermatological tests to meet the most exacting demands of regulatory agencies. Development cost some €10 million, but the investment has paid off. Saltidin has convinced government institutions and consumer organizations worldwide.

In 2016, demand for Saltidin increased by a massive 50% year on year. To ensure our global supply capability in the long term, we are planning to make additional investments in expanding our capacities in Dormagen.

Saltigo's Saltidin customers worldwide to formulate their products. However, the insect repellent must be applied all over because only those areas of skin covered with Saltidin are actually protected against blood-thirsty insects and ticks. Tombeux knows this from her own experience: "I always test new products on myself," she says with a grin. "I mix my own formulations in my lab."

Saltidin offers great versatility

Over 170 different products containing various Saltidin concentrations are sold worldwide in supermarkets, drug stores and pharmacies. They are available in the form of sprays, gels, lotions, moist towelettes, sticks and creams. Products for horses and dogs are also on the market. The retail products are sold as "repellents" because, in contrast to insecticides, they don't actually kill the attackers, but simply prevent them from biting or stinging. In addition, repellents result in the much slower development of resistance than insecticides. Saltidin-based formulations have a pleasant odor and do not damage plastics or textiles as badly as other products. Moreover, Saltidin is considered to be very skin-friendly and environmentally compatible. Products containing this active ingredient can be used without reservation for small children and expectant mothers, an aspect which is of particular importance given the rapid spread of the Zika virus since 2015, especially in Brazil.

In view of these many advantages, the use of Saltidin is recommended by health protection agencies around the world including the U.S. Centers for Disease Control and Prevention (CDC), the European Center for Disease Prevention and Control (ECDC) and Queensland Health in Australia. Germany's respected Stiftung Warentest, a consumer testing company, also gave good ratings to insect repellents containing LANXESS's active ingredient. The World Health Organization (WHO) even recommends Saltidin to prevent the diseases transmitted by mosquitoes, such as malaria, yellow fever, dengue fever and West Nile fever.

FROM A TRADE TO A RECYCLING INDUSTRY

With the Sustainable Leather Management initiative, LANXESS has created a platform for developing new processes with a stronger focus on environmental protection and preserving resources.

As a driver of innovation, LANXESS is helping to move leather production into the future by combining technology with sustainability.

Leather is a popular material: Lovers of expensive cars swear by it, as do fashion and furniture designers. For over 1,000 years, the tanning industry has been producing versatile leather products from what is essentially a byproduct of the meat industry. But even a traditional trade has to keep up with the times, for example by using sustainable process chemicals that are easy on the environment, preserve resources and protect people.

Eco-friendly leather production

LANXESS launched the Sustainable Leather Management initiative with the aim of transforming global leather production to meet these requirements. With this platform of sustainable and ecological processes and products, LANXESS helps tanners worldwide to produce leather that meets both legal regulations and the individual quality demands of brand manufacturers of everything from footwear and motor vehicles to furniture.

Waste product to raw material

Levotan X-Biomer technology is just one example of the intensive research work LANXESS is investing in the development of sustainable solutions for leather production. Retanning agents traditionally are used to modify the softness, color, structure or elasticity of leather. The special feature of the X-Biomer product line: The products not only reduce waste water contamination, they are also biodegradable and made from renewable raw materials. Dr. Thomas Brackemeyer, head of the Organic Leather Chemicals business line in the LANXESS Leather business unit: "We use the leather shavings produced when hides are adjusted to a uniform thickness. We recycle this waste product of the tanning industry, returning it to the production cycle as a raw material for retanning chemicals." Some 600,000 tons of leather shavings are generated each year around the world, which have to be sent to landfill if they cannot be put to further use.

Our innovation hub: the Technical Center

Each step in leather production has been recreated in LANXESS's Leather Technical Center in Leverkusen. Fifty employees test new processes and products in this "miniature tannery" and research and development laboratory. LANXESS markets different system solutions for all leather processing steps – from innovative process chemicals, mineral and synthetic tanning agents and preservatives, to premium finishing products for all types of leather. Formulations are developed and tested at the Technical Center in Leverkusen. The business unit operates a second Technical Center at its ↘

Changzhou site in China, which is the world's leading leather producer and offers unique growth opportunities.

Thanks to this intensive research work, LANXESS today is one of the leading manufacturers of leather chemicals in the world and the global market leader for tanning agents. "Our combination of novel product solutions and applications expertise means we can offer our customers innovative and sustainable technologies," says Brackemeyer. "In technical terms, the existing chemistry is outstanding. But it's sometimes hard to optimize and ensure sustainability. We therefore keep rethinking the possibilities and are determined to go in new directions."

Modern chemical products today make up around 25 % of the weight of finished leather.

Measurable benefits for customers

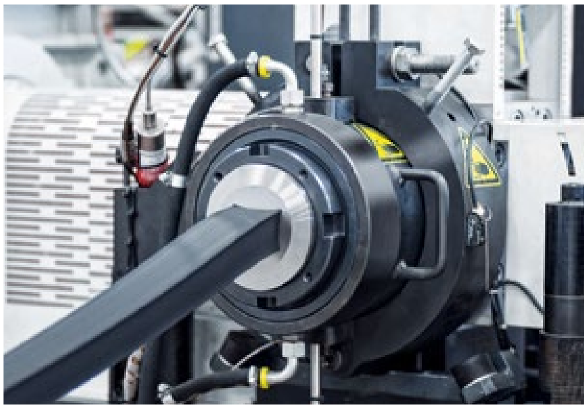
Dr. Kai-Silke Koeppen, head of Strategy & Business Development for the Leather business unit

Leather production involves about 20 steps, such as unhairing of the hides, tanning and leather finishing to achieve optical or functional features. Some 50 to 60 leather chemicals are used in the process. We aim to achieve measurable advantages in leather processing – reduced emissions, manageable health risks, a reduced CO_2 footprint – without losing sight of our customers' cost-efficiency.

Providing our customers with applications advice is increasingly important in this connection. This year, for example, we collaborated with CADS – a cooperative venture of the German Footwear Institute that is committed to reducing hazardous substances in footwear – to host a two-day seminar at which we updated 50 leading companies in the leather industry about the responsible use and scientific risk assessment of LANXESS's phenolic preservatives in leather production.

TAKING PROCESS CONTROL TO A NEW LEVEL

From tires to technical rubber goods: demands on the quality of industrially manufactured rubber products are on the rise. Representative analysis of rubber compounds can bring a real competitive advantage.



Rhenowave® is installed on the head of the existing extruder. Measurement is volumetric, non-destructive and representative.

With its new Rhenowave® inline process control system, the Rhein Chemie Additives business unit (ADD) heralded a new era of process control at the K 2016 trade fair. For the first time, a technology is now available that ensures the consistently high quality of rubber compounds in industrial processing, minimizes scrap rates and can therefore tangibly reduce production costs. "With Rhenowave®, we help rubber processors to achieve an entirely new level of quality in the extrusion process, because our technology enables them to test rubber compounds for possible defects while they are being produced," says Philipp Junge, head of the Rubber Additives business line in ADD.

The Rhenowave® system can evaluate the quality of a compound in less than a second after it exits the extruder. Moreover, it is possible to analyze the homogeneity and composition of the entire compound. Any areas where compound quality is insufficient are recognized immediately rather than later in the product, as was previously the case.

Ultrasound analysis

Rhenowave® is installed on the head of the existing extruder. The measuring unit consists of two ultrasound transducers, a transmitter and a receiver, which the rubber compound flows between. At least ten times per second, the transmitter emits a consistent ultrasound signal which travels through the rubber compound to the receiver. The components in a rubber compound muffle the ultrasound signal to differing degrees. Different formulations

At a glance

Dr. Benjamin Bechem, Global Marketing Manager New Technologies for the Rubber Additives business line in the Rhein Chemie Additives business unit

What are the main advantages of Rhenowave® compared with other analytical methods?
The data collected are representative of the whole compound. Up to now, it has been usual to test only a small sample of the compound – about 100 grams per 100 kilograms – in the laboratory. The results are then applied to the entire compound. This means, however, that defective areas may go undetected. At the same time, there is also a risk of drawing false conclusions about the entire compound based on one randomly defective sample. By utilizing the non-destructive Rhenowave® technology, customers receive information about several kilograms or even the entire compound. And this information is available on the spot, not in ten minutes or even days after manufacturing, which means that customers can immediately correct the compound and reduce scrap rates if defects are detected.

Dr. Dirk Kaempfer, head of Application Technology for the Rubber Additives business line in the Rhein Chemie Additives business unit

Looking ahead to the future: how important is Rhenowave® for the rubber industry?
The rubber industry has been trying to manufacture its compounds continuously and more cost-efficiently for the last 30 years or so. The problem is that these continuous processes are often a lot more more prone to failure than conventional, discontinuous compounding. This is where Rhenowave® comes in, because these defective factors can now be identified right away and eliminated immediately with inline control. This means we can guarantee that the product has the right composition at the end of the process. To put it another way, we are providing a tool that producers can use to actually benefit from the theoretical advantages of continuous compounding.

therefore display different ultrasound intensities. For this reason, a reference compound is needed for every new application to calibrate Rhenowave® and define a standard.

In principle, the system can analyze any rubber compound over 100 °C. Moreover, it can also analyze black compounds. That might seem trivial, but it is important because most black compounds get their color from the addition of carbon black. This makes it impossible to use optical inline methods, such as infrared and UV/VIS spectroscopy.

Customers can review the data measured by Rhenowave® on the system's screen and intervene in the process if necessary and without any significant delay.

UNSURPASSED COLOR SPACES

LANXESS's Inorganic Pigments business unit is setting the industry benchmark with a new sustainable process for manufacturing yellowish red Bayferrox® pigments.

LANXESS is manufacturing a new generation of iron oxide red pigments for high-quality paints and coatings.

Worldwide, a growing number of people are migrating to cities where, faced with a sea of gray, they seek to make their environment more attractive. Color is a versatile design element that plays an important role here. Inorganic pigments from LANXESS's Bayferrox® and Colortherm® product lines have been used worldwide for decades to produce paints and coatings. Applications range from emulsion

With the Bayferrox® New Red pigments, LANXESS is the only company worldwide to cover the full spectrum of yellowish red iron oxide pigments.

paints for interior and exterior walls, to trade paints and universal industrial coatings.

These color pigments are based on iron and chrome oxides, substances which also occur in nature. However, the synthetic products manufactured by LANXESS's Inorganic Pigments business unit are far superior to their natural counterparts. "They offer maximum lightfastness and weather stability, high tinting strength and chemical resistance, and excellent opacity," explains Stephan Spiegelhauer, head of the Global Competence Center Paints & Coatings in the Inorganic Pigments business unit. As a result, colors remain virtually unchanged for years.

The extensive portfolio of Bayferrox® and Colortherm® iron oxide and chrome oxide pigments ranges from yellow to red, black, brown and green. Within these color ranges, customers can choose between more than 100 color gradations. Since 1926, LANXESS has manufactured over 13 million tons of iron oxide pigments in the world's largest iron oxide production facility at its Krefeld-Uerdingen site in Germany.

Energy-efficient facility sets new environmental standards

The LANXESS product portfolio was recently extended by the addition of bright, yellowish red pigments known as the "New Reds." They are produced using a new manufacturing method: the Ningbo Process. This unique technology has been deployed for the first time at the new LANXESS site in Ningbo, China, where the world's most modern iron oxide pigment production facility was built specifically to implement the Ningbo Process and came on stream in the first quarter of 2016.

A new dimension

Stephan Spiegelhauer, head of the Global Competence Center Paints & Coatings, Inorganic Pigments business unit

What is unique about the Bayferrox® New Reds?
They represent an entirely new generation of iron oxide pigments. The Ningbo Process developed to manufacture them represents a quantum leap in innovation, as it delivers special advantages in terms of sustainability and pigment quality. With the New Red pigments extending our portfolio, we are the only company worldwide that covers the full spectrum of yellowish reds for high-quality paints and coatings. At the same time, the new process produces red pigments in color spaces that were previously not available on the market – and that makes us unique.

"LANXESS is using the new Ningbo Process at its site of the same name in China."

Traditionally, the Penniman process has been used in China to produce iron oxide red pigments. However, this process has been demonstrated to harm the environment. LANXESS therefore developed the new Ningbo Process for the safe and environmentally friendly production of high-quality iron oxide pigments. The process combines an innovative management system with virtually total treatment of nitrogen oxides, including nitrous oxide, which is very harmful to the environment. Thanks to the state-of-the-art process management system, plant technology and heat integration concept, the energy requirement of the facility has also been reduced significantly.

REVIEW 2016

01 07 | CAPACITY EXPANSION FOR HIGH-PERFORMANCE PLASTICS COMPLETED

LANXESS brings on stream a second production line for compounding high-tech plastics at its Gastonia facility in North Carolina, United States. The expansion represents a capital expenditure of around US$15 million and has doubled the facility's annual production capacity from 20,000 to 40,000 tons.

04 01 | LAUNCH OF ARLANXEO

LANXESS and Saudi Aramco complete the establishment of ARLANXEO, their 50:50 joint venture for synthetic rubber. On completion of the transaction, 50 % of ARLANXEO is transferred to Saudi Aramco's Dutch subsidiary Aramco Overseas Holdings Coöperatief U.A. In return, LANXESS receives a payment of around €1.2 billion.

04 25 | ACQUISITION OF CHEMOURS SPECIALTIES BUSINESS ANNOUNCED

The portfolio of the Material Protection Products business unit is expanded through the acquisition of the Clean and Disinfect business of U.S. chemical company Chemours. This comprises active ingredients and specialty chemicals used especially in disinfectant and hygiene solutions. LANXESS pays the purchase price of around €200 million from existing liquidity. The transaction is closed at the end of August 2016.

05 10 | PENSION ASSETS INCREASED

LANXESS increases its pension plan assets in Germany by €200 million, thereby reducing its pension provisions. The funds come from the proceeds of the transaction with Saudi Aramco. Among the reasons for the high pension provisions is the low-interest environment. Pension provisions amount to €1,375 million at the close of the first quarter of 2016. The funding status of Group pension obligations rises from 45 % to 51 %.

05 11 | FOLLOWING A STRONG START TO THE YEAR, LANXESS RAISES EARNINGS FORECAST FOR 2016

Following a good first quarter, LANXESS raises its earnings forecast for fiscal 2016. The company is now expecting EBITDA pre exceptionals between €900 million and €950 million. LANXESS was previously assuming an operating result of between €880 million and €930 million.

08 10 | LANXESS AGAIN RAISES EARNINGS FORECAST FOR 2016

LANXESS sees good business performance in the first half of the year and raises its earnings forecast for fiscal 2016. The company is now expecting EBITDA pre exceptionals between €930 million and €970 million. In a strong second quarter, EBITDA pre exceptionals rose by 8.5 % to €293 million from €270 million in the prior-year quarter.

09 19 RENEWED LISTING IN DOW JONES SUSTAINABILITY INDEX WORLD

LANXESS is included in the Dow Jones Sustainability Index (DJSI) World for the sixth time in a row. The composition of this sustainability index, which is recognized throughout the world, is determined once a year on the basis of financially relevant environmental, social and governance factors. The index applies the best-in-class principle and includes only the top 10% of the companies assessed in each sector. This year, among other things, its performance in the management of innovation processes and its climate strategy are highlighted. The group had set itself new climate protection targets at the beginning of the year, having achieved the climate goals for 2015. LANXESS's target for 2025 is to reduce greenhouse gas emissions by 25%.

10 26 RECOGNITION FROM CARBON DISCLOSURE PROJECT

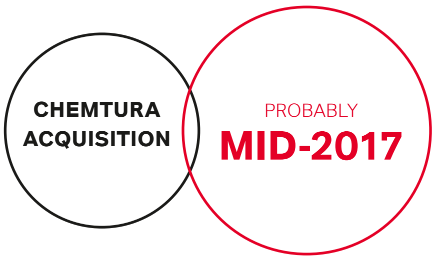
LANXESS receives several accolades from the Carbon Disclosure Project (CDP), an international investors' initiative. It is among 193 companies worldwide to be included in the CDP Climate A List and thus ranks in the top 9% of the 2,100 companies which participate in the initiative. LANXESS is also named "Sector Leader" in the Energy & Materials industry and is among the top 11% of companies in the Germany, Austria and Switzerland region. In an index comparison, the specialty chemicals company places among the top 4% of MDAX companies and is rated an "Index Leader."

09 26 RETURN TO A COURSE OF GROWTH

LANXESS plans to acquire U.S. company Chemtura, one of the major global providers of high-quality flame retardant and lubricant additives. With the largest acquisition in its history, LANXESS is building on its own additives portfolio and will become one of the world's major actors in this growing market.

Both companies sign an acquisition agreement. At an extraordinary meeting in Philadelphia, USA, in early February 2017, Chemtura's shareholders approve the company's acquisition by LANXESS. 99.88% of the votes cast – representing 81.77% of the shares outstanding in Chemtura – are in favor of the acquisition. Under the agreement between the two companies, Chemtura shareholders will receive US$33.50 in cash for each outstanding share on the day the transaction is closed – probably in mid-2017.

The transaction has an enterprise value of approximately €2.4 billion that will be financed by LANXESS mainly through corporate and hybrid bonds, as well as from existing liquidity. The transaction is still subject to the approval of individual antitrust authorities and to the customary conditions applying to such transactions.



11 10 FOLLOWING A STRONG THIRD QUARTER, LANXESS RAISES ITS FULL-YEAR FORECAST FOR THE THIRD TIME

LANXESS posts strong third-quarter performance and again raises its earnings forecast for fiscal 2016. The company is now expecting EBITDA pre exceptionals between €960 million and €1 billion. In the third quarter of 2016, EBITDA pre exceptionals rose by 9.4% to €257 million from €235 million in the prior-year quarter.

STRATEGY

Improved structures

Our three-phase realignment program has progressed significantly. We aim to achieve additional annual savings of €150 million from 2019.

Sharper profile

As a specialty chemicals company, we aim to achieve a strong cash flow and balanced portfolio – building on our strengths in mid-sized markets.

Further growth

The planned acquisition of U.S. company Chemtura would substantially broaden our additives portfolio.

A Clear Course in Times of Change

Against a backdrop of challenging conditions, we have taken LANXESS forward significantly in 2016. More quickly than was to be expected, the contours of a stable, profitable and in many respects sustainable specialty chemicals group are taking shape. The course is set for reliably creating value in an ever more complex market environment.

CHEMICAL INDUSTRY FACES MAJOR CHALLENGES

With its consistent ability and readiness to change, the chemical industry has been helping to achieve technological and social progress for over a century. The chemical industry remains a growing sector despite its comparative maturity. Worldwide it is achieving growth rates which are in part well above overall global economic expansion. To share in this growth, the ability and readiness to change are more necessary than ever, particularly for companies with European roots, because the chemical industry is undergoing a far-reaching and multi-layered process of change.

1. The challenges in the chemical industry are changing.

In the past, the main task of the chemical industry was to discover or invent new compounds which, time and again, have opened the door to completely new, marketable products. However, in view of the enormous scientific advances that have been made and the high cost of registering new substances, there are now significantly fewer opportunities for bringing commercially viable new chemical compounds to market. The challenge today for large parts of our industry is to provide sustainable products based on known compounds for existing and new areas of application and to ensure that our global processes and supply chains are sustainable, efficient, safe and fair.

Sustainability has become the driving force for the entire industry in general. The focus of innovation is on products that will help overcome major societal challenges such as climate change and the ability to feed a growing world population. Now, more than ever, the chemical industry is expected to take responsibility for its products and production processes – from the acquisition of raw materials to disposal. Until now, sustainability has been a competitive advantage in certain markets and value chains. In the future, however, it will be a fundamental requirement for global chemical companies. LANXESS has always viewed sustainability as an aspect of its license to operate. Renewed inclusion in the Dow Jones Sustainability Index World and first-time inclusion in the Carbon Disclosure Project's Climate A List provided emphatic confirmation in 2016 that we are living up to our claim of "Good for business, good for society."

2. The competitive environment in the chemical industry is changing.

On the supplier side, particularly in the commodity segment, the balance of power is shifting. Manufacturers in the emerging markets, the Middle East and the United States, with good access to low-cost raw materials and energy, are extending their value chains and entering the global markets with products that are competitive in terms of both price and quality.

On the sales side, formerly traditional importers such as China – likely to account for around 40% of global demand for chemicals in 2030, according to estimates from market research company IHS – are becoming self-sufficient. In recent years, China has built its own modern production infrastructure that is also capable of manufacturing higher-quality products.

In addition to these shifts, increasing political instability in important growth markets is generating considerable uncertainty and risks in terms of both procurement and sales. Moreover, digitalization will bring major change to processes, working environments and value chains in the chemical industry and other sectors in the years ahead. In this connection, companies that establish a futureproof basis at an early stage will have good prospects for improving their competitive position.

Given these challenging conditions, a company's quality is demonstrated by its readiness to formulate and consistently implement a forward-looking strategy which

› actively shapes change;
› creates stability in an increasingly uncertain environment;
› optimally balances the interests and needs of all stakeholders.

GREAT PROGRESS WITH REALIGNMENT

We created the foundation for such a strategy with our three-phase global realignment program "Let's LANXESS again," which we initiated in 2014. A new and more efficient organizational structure and comprehensive optimization of business and administrative structures in our business units and Group functions have not only brought us closer to our markets and customers

Three-Phase Realignment Program

01
Competitiveness of the business and administrative structure

Restructuring of Group and administrative structures

Elimination of 1,000 positions

Savings realized earlier than originally anticipated

Annual savings of approx. €150 million from the end of 2015

02
Operational competitiveness

Site-by-site analysis of production and supply chain to identify and leverage efficiency potential

Capacity adjustments announced for various types of rubber

Additional efficiency gains of approx. €150 million from the end of 2019

03
Competitiveness of the business portfolio and alliances

Strategic alliances to address lack of backward integration

Saudi Aramco and LANXESS establish a strategic joint venture for synthetic rubber

Start on April 1

Joint venture for synthetic rubber business resulting in cash inflow of approx. €1.2 billion

but have also sustainably improved our cost position by around €150 million. In Saudi Aramco we have found a strong partner for our synthetic rubbers business and together we successfully launched the new joint venture ARLANXEO in April 2016. Within the context of our program to optimize our production, sales and supply chains, we initiated and in some cases have already completed a number of measures aimed at achieving further cost savings of €150 million by the end of 2019. As in the optimization of our business and administrative structures, we are making faster progress than planned and have already realized many cost savings earlier than anticipated.

Successful change always has both a cultural and an organizational component. Therefore, as part of "Let's LANXESS again," we have also reviewed and optimized our corporate values and our mission. Each and every employee at LANXESS is expected to display an entrepreneurial mindset, to quickly take solution-oriented decisions and to be open to new approaches. We seek to promote diversity and equality of opportunity in all their forms. And at all times we aim to live quality and sustainability in all their dimensions. These aspirations have been translated into organizational reality through a number of measures and form the strong foundation for moving forward with our realigned company.

GREATER STABILITY AND STRONGER CASH FLOW

By 2020 we aim to make LANXESS a more stable specialty chemicals group with a stronger cash flow and a more balanced portfolio. 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 chemicals 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.

In 2016, we made significant progress in our key areas of activity.

Achieving a more balanced portfolio

An important element of our strategy is to reduce financial dependence on individual industries or closely correlated markets. In regional terms, too, we aim to achieve an even better balance in our portfolio by increasing the share of our business accounted for by the growth markets of China, North America and Southeast Asia.

Since the launch of ARLANXEO we have significantly restricted the influence of the tire industry on our business. In addition, the partnership with Saudi Aramco will provide us with much better access in the long term to vital strategic raw materials for rubber. In common with all our main rivals in this market we will then have a largely backward-integrated value chain.

The acquisition of the Clean and Disinfect specialties business of U.S. company Chemours, completed at the end of August, strengthens the regional position of our Material Protection Products business unit, particularly in North America. At the same time, the acquisition expands the business unit's active ingredient portfolio and extends the veterinary disinfection value chain through to the end market. We have already successfully completed the integration process.

We aim to significantly sharpen our profile as a specialty chemicals provider through our planned acquisition of U.S. company Chemtura, one of the major global suppliers of flame retardant and lubricant additives. With the largest acquisition in our history, we are building significantly on our own additives portfolio and will become one of the world's major actors in this growing market. In addition to additives, Chemtura's portfolio includes polyurethanes – a component of many high-tech plastics – and organometallics, used as catalysts in polymer production and in the synthesis of fine chemicals, for example. The products will be integrated into LANXESS's High Performance Materials and Advanced Industrial Intermediates business units.

Strategic Guidelines

We are confident of completing the acquisition of Chemtura by mid-2017. During the subsequent integration phase, lasting about a year, we will not be seeking any further acquisitions of this magnitude. Nonetheless, we do not rule out taking advantage of other smaller opportunities to strengthen our business, provided they meet our strict criteria for acquisitions – such as a positive effect on our earnings per share after no more than three years and clear purchase price limits in terms of multiples.

Utilizing organic growth potential

In order to further improve the alignment of our existing businesses and leverage future growth potential, we aim to invest up to €400 million in our organic growth. As planned, we began with the largest single project, involving a capital investment of around €60 million. Our Saltigo business unit is constructing two new agrochemicals production lines at our networked site in Leverkusen, Germany. Production is due to start at the end of 2017.

The lion's share of our investment budget, however, will be allocated to a number of smaller measures, which taken together will unlock considerable potential and strengthen our core sites in Germany and Belgium on a lasting basis. An excellent example of such "smart" investments is the new tank storage facility for the phosphoric acid ester plant operated by the Rhein Chemie Additives business unit in Leverkusen. The much larger capacity enables us to respond flexibly to volatile raw material markets, thus considerably improving our strategic room for maneuver in procurement. Other measures will also enable us to meet rising demand from our customers from a competitive position. These include: optimizing and expanding plants at the networked aromatics production site in Leverkusen; expanding the capacity of the phthalic anhydride plant operated by our Advanced Industrial Intermediates business unit in Krefeld-Uerdingen, Germany; increasing membrane element capacities for our Liquid Purification Technologies business unit; and adding production capacities for our Saltidin repellent in the Saltigo business unit, which we initiated after the emergence of the Zika virus in South America.

Safeguarding financial solidity

These capital investments, as well as future strategic measures, are subject to the strict application of a conservative financing policy that is guided by clear criteria and focused on maintaining our investment-grade rating.

We issued two eurobonds with a combined volume of €1 billion and our first hybrid bond of €500 million to finance the planned acquisition of Chemtura. In our view, their swift placement – which was several times oversubscribed – is confirmation of our high level of creditworthiness and our good access to the capital markets. Never before have we raised such a high level of funding on attractive terms on the bond markets in a short space of time.

CREATING RELIABLE VALUE

Portfolio Optimization

Continuously adapting and upgrading the portfolio is the key to future success

Criteria for external growth

- Strategic fit
- Synergy potential
- Clear financial criteria (EPS increase, EV/EBITDA multiple and ROCE)
- Retention of investment-grade rating

*Closing expected mid-2017

Through our courage to implement profound change, our down-to-earth mindset and a lot of hard work, we have established a new position of strength in less than three years. LANXESS is set to be a leading specialty chemicals company, operating independently with efficient and agile business units in promising mid-sized markets. Carried by a strong team and a value-based corporate culture built on quality and sustainability, we have set the course for reliably creating value – for our stockholders, our customers, our employees and society.

CORPORATE RESPONSIBILITY

Assuming responsibility
Our commitment to sustainability is aimed at achieving the best possible balance between the demands of the economy, ecology and society.

Product portfolio analyzed
For the first time, we have assessed the impact and benefits of our products on the basis of sustainability criteria that are relevant to our company and our stakeholders.

Increased transparency
Also for the first time, we have published our Scope 3 emissions, thus taking a further important step toward achieving maximum transparency in respect of our greenhouse gas emissions.

GRI
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G4–27

Good for Business, Good for Society

Through its performance capability and innovative strength, the chemical industry is improving the quality of life of people across the world. It is also making an important contribution to solving societal challenges. 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. The only way to futureproof our company is if our strategy balances the demands of the economy, ecology and society. This is summed up in one short sentence: "Good for business, good for society."

The chemical industry expressly committed itself to sustainable development decades ago, one of the first industry sectors to do so. Since then, awareness of both the necessity to act sustainably in the broader sense and of the opportunities this presents has steadily grown and matured across industry and national borders.

Through the Sustainable Development Goals (SDGs) agreed in September 2015, the international community is seeking to foster global economic progress and social justice while recognizing the ecological limits of our planet. The 17 SDGs represent the first time that equal consideration has been given to all three dimensions of sustainability – society, ecology and the economy. LANXESS, too, is committed to the SDGs. In 2016, against this backdrop, we initiated a review of our current sustainability position and analyzed where our business activities already make a positive contribution to achieving the SDGs. We see opportunities for LANXESS to make a positive difference in areas such as addressing climate change, developing sustainable cities, securing the supply of food and clean water for a steadily growing world population, and giving people around the world access to high-quality education.

However, the SDGs make equally clear what strategic challenges the chemical industry faces: achieving consistent growth while making responsible use of resources, avoiding harmful emissions into the air, soil and water, and ensuring the safe handling of chemical products along the value chain. This is also reflected in more stringent regulation – in the form of national climate protection goals, for instance – and growing public awareness.

Our portfolio includes substances that are classified as dangerous and are therefore subject to very particular requirements in terms of product stewardship. The production processes for some of our products are energy-intensive; they generate greenhouse gas emissions and create wastewater and solid waste. Many of our key strategic raw materials are petroleum-based so their availability is finite. In addition, we are required to ensure maximum possible safety and environmental compatibility in the distribution of our products worldwide, which sometimes involves large volumes. Lastly, we are responsible for almost 17,000 employees around the world who are committed to our company's success. In this context, corporate responsibility is a prerequisite to being able to operate successfully in the future and create value for all stakeholders. Given this awareness, sustainability is a key success factor that is at the heart of LANXESS's corporate culture. For us, actively demonstrating corporate responsibility involves knowing and evaluating the impact of our actions – whether positive or negative – and maintaining a dialogue with stakeholders that enables us to satisfy their expectations to the best of our ability.

ACTIVE STAKEHOLDER DIALOGUE

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 conduct an intensive dialogue with all these groups with the aim of constantly identifying the issues that they consider to be significant in terms of our corporate responsibility. At the same time, we seek to encourage mutual understanding and build trust through an open and constructive exchange of views.

We participate in powerful global networks, such as the U.N. Global Compact, where we combine our competence in sustainable development with the expertise of other partners. As well as state institutions, NGOs in particular have a crucial role here. Trade shows and congresses are important forums for discussion with potential and existing business partners, competitors, scientists and opinion leaders. In addition, we often contribute to studies concerning socially relevant issues such as an environmentally friendly approach to mobility.

We also conduct an open dialogue with government representatives and authorities. The focus is on an active exchange of ideas on issues such as environmentally friendly product and process innovations, developments on raw material and energy markets, and issues relating to the labor market and education policy. Another important element of our stakeholder communication is structured dialogue with residents in the immediate vicinity of our sites. For example, our affiliate Currenta operates Chempunkt neighborship offices in Leverkusen, Dormagen and Krefeld-Uerdingen to serve as a point of contact for local residents interested in discussing issues concerning the Chempark sites.

Stakeholder	Key issues	Dialogue forums
Customers	• Product quality • Compliance • Human rights • Environmental standards • Product safety information	• Trade shows • Customer visits • Customer events • Customer surveys • Customer audits
Politicians	• Education and training • Energy and resource efficiency • Occupational safety • Sustainable procurement (supply chain) • Responsible handling of chemicals	• Collaboration in industry associations • Site visits • Discussions • Workshops
NGOs	• Climate protection and resource efficiency • Environmental standards • Occupational safety • Anti-corruption	• Round table events • Consultation processes • Projects at our sites
Media	• Investment in sustainability • Development of sustainable production processes • Plant, process and occupational safety • Emissions reduction • Research and development	• News conferences and briefings • Editorial visits • Media days • Annual Stockholders' Meeting
Suppliers	• Responsible handling of chemicals • Anti-corruption • Environmental management • Product quality • Training	• Supplier meetings and audits • Together for Sustainability initiative • Collaboration in industry associations • Conferences and symposiums
Capital market representatives	• Sustainability of the business model • Board of Management compensation model • Targets and target attainment • Anti-corruption • Risk management • Toxicity • Occupational safety	• Roadshows • Conferences • Capital market days • Conference calls • Annual Stockholders' Meeting

Most external stakeholders regard LANXESS as a company that acts sustainably and they rate us highly – in our latest stakeholder survey, for instance – for fulfilling our corporate responsibility. They see room for improving sustainability communications through face-to-face discussions – customers in particular would welcome a more active information policy from LANXESS regarding the sustainability characteristics of our products. One way in which we aim to do more to meet this expectation is through our extensive quality campaign launched in the fall of 2016, in which sustainability is centrally positioned as an important aspect of product quality. In our future communication with stakeholders, we also intend to make targeted use of the findings from the portfolio analysis based on sustainability aspects that we performed for the first time in 2016 (see page 77).

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Furthermore, we are consistently working to give the best possible consideration to our stakeholders' interests in our combined financial and sustainability reporting. In this Annual Report, for example, we have expanded the information about preventing corruption (see page 67). We have also enlarged our reporting on the issues of health and safety, starting on page 74. In the future, we will be integrating details about compliance management into the Corporate Governance Report starting on page 96. We have also again expanded the information we provide about our work to achieve sustainability in the supply chain.

SYSTEMATICALLY PRIORITIZING SUSTAINABILITY

Alongside our own evaluation, our stakeholders' main interests and concerns form the second dimension of our materiality analysis based on the requirements of the Global Reporting Initiative (GRI). This is an important tool that enables us to systematically prioritize the various areas of activity and thus deploy resources as effectively as possible. The materiality analysis is based on four principles: sustainability context, materiality, completeness and stakeholder inclusiveness.

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LANXESS Materiality Matrix

- Corporate governance
- Environmental responsibility
- Responsibility in the supply chain
- Responsibility toward employees
- Product and process stewardship
- Social responsibility

Level of interest to stakeholders: high → very high
Importance for LANXESS: high → very high

Anti-corruption	Occupational safety	Risk management
Human rights	Compliance	Quality
Emissions reduction	Environmental standards	Plant & process safety
Responsible resource use	Responsible handling of chemicals	Research & development
Toxicity	Resource efficiency	
	Environmental management	
	Energy efficiency	
	Product safety information	
Business ethics	Occupational health	Globalization
Sustainable procurement	Education & training	
Water management	Stakeholder relations	
Climate protection	Transparency	
	Talent management	
	Fair remuneration	
Transportation	Demographic change	
Work-life balance		

GRI
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We and our stakeholders consider four issues – risk management, quality, plant and process safety, and research and development – to be very important.

We view efficient and effective *opportunity and risk management* as indispensable to successfully operating in the long term in markets that are complex and increasingly difficult to predict. The impact of risk management is reflected, for example, in our decisions to enter into a strategic partnership for our rubber business and to improve our diversification by means of acquisitions (see “Strategy” section on page 50 and the “Opportunity and risk report” on page 155).

Quality is an important element of our corporate culture, which requires all our employees to display an entrepreneurial mindset, to quickly take solution-oriented decisions and to be open to new approaches. Our goal is for quality to be reflected not only in our products but also in our processes – for example, in high levels of *plant and process safety*. We see clear evidence for our comprehensive understanding of quality in the positive feedback we receive from our customers, our industry-leading matrix certification for quality and environmental management (see page 64) and the constant reduction of our MAQ figures since 2012 (see page 76).

In the area of *research and development*, our efforts are systematically aligned to making our products and processes as sustainable as possible and thereby securing the foundation for our long-term entrepreneurial success. Examples of our successful research and development work are presented starting on page 116 of this Annual Report.

The dialogue with our stakeholders has revealed a shift in the importance of certain issues, primarily due to the significant changes at our company in the past two years. Societal developments and challenges have without doubt also had a role here. Starting in 2017, therefore, we will be performing a new materiality analysis to review and if necessary adjust our priorities in a systematic process of dialogue with our stakeholder groups.

Customer satisfaction as a measure of success

In connection with quality, customer satisfaction and loyalty are among the main measures of success. Our central inquiry management system provides customers with information about our products, their applications and potential risks, and with 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 using recognized opinion research methods 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 2015/2016 cycle that has just been completed, a total of 787 customers used the opportunity to give us feedback. The customer satisfaction index measured for the Lanxess Group is 76 %. Positive ratings were received for our technical expertise, process efficiency and delivery reliability in particular. On the other hand, the customers surveyed still saw room for improvement in terms of pricing and delivery flexibility.

Our daily commitment to high quality and customer satisfaction is regularly recognized and honored with awards and prizes. For example, our subsidiary Bond-Laminates GmbH, in conjunction with the Fraunhofer Institute for Production Technology and HBW-Gubesch Thermoforming GmbH, received the JEC Innovation Award in the process category for the combination of our Tepex continuous-fiber-reinforced thermoplastic composite with local tape reinforcements, which optimizes mechanical performance, material thickness and weight. In addition, an all-plastic brake pedal with an insert made from our Tepex dynalite high-tech plastic was awarded first place in the “Body Interior” category of the Society of Plastics Engineers (SPE) Automotive Awards, which are among the most prestigious innovation awards for the automotive industry and its suppliers.

SUSTAINABILITY TARGETS

As part of our strategy and aligned to the areas of activity in our materiality matrix, we have formulated specific targets for sustainable development at LANXESS. Their common aim is to generate added value for our stakeholders and, at the same time, to improve the quality of life for present and future generations. One element of the variable compensation for senior management is the extent to which certain sustainability targets are attained.

LANXESS Sustainability Targets

Clusters and Subject Areas in the Materiality Matrix	Target	Target Date	Status 2016 and Target Attainment	Page
Responsibility for the Environment				
Resource management	Improved eco-efficiency within the LANXESS Group by consolidating existing efficiency measures in a global resource efficiency program with the following goals: • Development of an integrated business strategy/operational eco-efficiency • Further development of the LANXESS Climate Strategy (see climate protection targets) • Establishment of a water management system at all sites in water-scarce areas	2016	The Operational Eco Efficiency project is dedicated to the issues of resources and eco-efficiency and focused in the first phase solely on energy efficiency. It will be continued in 2017. In 2016, a comprehensive risk analysis was performed for each of our sites on the basis of the WWF Water Risk Filter and the WBCSD Global Water Tool.	81
Climate protection	Reduction in specific Scope 1 CO_2e emissions by 25 % for the LANXESS Group (base date: December 31, 2015)	End of 2025	Despite higher absolute values, specific Scope 1 emissions were kept at roughly the prior-year level.	79
	Reduction in specific Scope 2 CO_2e emissions by 25 % for the LANXESS Group (base date: December 31, 2015)	End of 2025	Despite higher absolute values, specific Scope 2 emissions were slightly below the prior-year level.	79
	Reduction in specific energy consumption by 25 % for the LANXESS Group (base date: December 31, 2015)	End of 2025	Despite an increase in absolute values, specific energy consumption was reduced in 2016.	80
	Reduction in emissions of volatile organic compounds (NMVOC) by 25 % (base date: December 31, 2015)	End of 2025	Emissions were further substantially reduced in 2016.	80
Responsibility in the supply chain				
Development and establishment of a new sustainability standard for our suppliers	Work on advancing the development of the sustainability standard for our suppliers in tandem with relevant industry initiatives, with the aim of further expanding a sustainable supply chain Support for the Together for Sustainability initiative, which aims to standardize and share sustainability assessments of suppliers in the same industry	2020	A standardized on-site third-party audit process for partners and suppliers was developed and rolled out under the auspices of TfS. Significant progress was made: Suppliers assessed by TfS account for 60 % (2015: 57 %) of LANXESS's relevant procurement spend.	114
Sustainability of LANXESS as a supplier	Neutral assessment of LANXESS's sustainability performance by the EcoVadis rating agency and possibly audits	Continuous	In the online assessment by the EcoVadis rating agency, LANXESS achieved an improved CSR Performance Score of 72 % worldwide and thus again attained Advanced Level in 2016/2017. As a result, the company's Gold Status – first obtained in 2013 – was confirmed. In November 2016, LANXESS itself underwent a TfS audit at its Leverkusen site to assess its CSR practices as a supplier. The site received the best possible assessment.	115
Responsibility toward employees				
Development and introduction of a global HSEQ risk identification and evaluation process	Strengthen awareness of occupational safety Foster continuous improvements in support of LANXESS's "Xact" global safety program	2020	Up to and including 2016, a total of 13 global HSE standards were rolled out. They describe technical activities with increased risk potential and culture elements such as accident investigations as binding elements of our conduct and daily workflows. Also, three "Xact" focus projects were established in 2016. The LTIFR and RIR were reduced to 2.0 and 0.7, respectively.	74
Diversity	Increase proportion of women in senior and middle management to 20 %	2020	The proportion of women as of December 31, 2016, was 16.29 %.	70
Training	Fulfill social responsibility through the provision of training Hire rate of at least 80 % on completion of vocational training	Continuous	The number of people in vocational training increased by 23 % in 2016. 81 % of those who completed their vocational training were hired.	69

Clusters and Subject Areas in the Materiality Matrix	Target	Target Date	Status 2016 and Target Attainment	Page
Responsibility toward employees				
Demography initiative	Flexibilize worktime models Make life easier for employees with families and for older employees	Continuous	The "Flexi 95" pilot project for managerial employees was launched. 50 demography positions were created.	72
Product and process stewardship				
Product stewardship	Sustainability assessment of the LANXESS product portfolio	2016	In 2016, the entire product portfolio was systematically analyzed on the basis of sustainability aspects.	77
Development and introduction of a global HSEQ risk identification and evaluation process	Reduction and prevention of • Incidents relating to plant and process safety • Environmental incidents and their impact • Transport incidents	2020	In the course of preparations for the upcoming standard revision (ISO 9001/14001 Revision 2015), risk-related requirements were identified and transfered to HSEQ-related areas of activity. Transportation safety: In 2016, LANXESS India focused on transportation safety and held a large number of workshops and training sessions for transport service providers and their drivers. The technical requirements for trucks were greatly tightened.	238
Corporate responsibility				
Social activities	Global support for science education Enhancing awareness of climate change and water scarcity – for drinking and industrial use Cultural commitment	Continuous	87 projects worldwide were implemented, benefiting around 200,000 mainly young people. A total of €1.5 million was made available.	86
§ Corporate governance				
Anti-corruption	Avoidance of all cases of active and passive corruption	Continuous	Special corruption training was carried out for exposed professional groups and countries. The number of cases of passive corruption is in the single-digit range.	67
Human rights	No human rights violations	Continuous	A risk assessment that specifically addressed human rights issues was performed in five countries (Brazil, China, Germany, South Africa and the United States). Individual cases of misconduct were reported by employees in respect of colleagues or third parties. There were no reports or other indications of human rights violations by suppliers.	66

WELL STRUCTURED

We regard acting and thinking sustainably as the responsibility of each and every employee at LANXESS. However, appropriate organizational structures, strategies, operational guidelines and goals are needed to enable our employees to act sustainably in their day-to-day work and to translate the abstract concept of corporate responsibility into a specific factor of entrepreneurial success.

LANXESS combines corporate governance, sustainability and corporate citizenship under the umbrella of corporate responsibility (CR).

Committees and functions

We have established various committees and functions to ensure compliance with and the ongoing optimization of our CR strategy and our rules and standards.

CR Committee

Representatives from selected group functions develop our CR strategy and ensure that all LANXESS's CR activities are in line with this 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. The Board of Management is represented on the CR Committee by Dr. van Roessel.

HSEQ Committee

LANXESS's senior executives, under the direction of Board of Management member Dr. Hubert Fink, ensure worldwide compliance with uniformly high quality management, safety, environmental, energy and climate protection standards. The committee 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.

Compliance organization

The global compliance organization – which is made up of the Group Compliance Officer and a network of local compliance officers – is the central point of contact for all employees on compliance-related issues. It also works with the relevant 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 96 of this Annual Report.

In addition, in 2016, an interdisciplinary team headed by Board of Management member Dr. Hubert Fink examined certain aspects of sustainability management and corporate responsibility at LANXESS, focusing on product stewardship, climate protection and environmental efficiency. The results have been included in the relevant sections of this Annual Report. For example, the methodology used in our portfolio analysis based on sustainability aspects is described on page 77, while we give a first-time report of our Scope 3 emissions on page 80.

Integrated management system creates transparency

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. In 2016, we successfully completed a follow-up audit and obtained global certification for new company ARLANXEO. The certificate now covers Bond-Laminates GmbH as well. In 2017, we intend to integrate our production sites at Neville Island, United States, and Joo Koon, Singapore, into the certificate. As of August 31, 2016, we gained three production sites – in Memphis and Kingstown, United States, and Sudbury, United Kingdom – through the acquisition of the Clean and Disinfect business of U.S. chemical company Chemours. All these sites already have ISO 9001 and/or ISO 14001 certification. Inclusion in the LANXESS management system and thus in our matrix certificate is part of the integration process. 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.

As of December 31, 2016, 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 79 sites in 23 countries. In relation to employee headcount, this equates to coverage of 98%. Despite many changes in our company's portfolio, we have consistently maintained coverage at above 90% since 2011, thanks to what has become a highly efficient integration process.

In addition, since 2012, we have successively obtained certification to ISO 50001 for energy management for LANXESS AG and all its subsidiaries (companies in which it has a holding of more than 50%, as well as ARLANXEO companies) in Germany. As of December 31, 2016, our certification coverage for energy management in Germany stood at 100% in relation to employee headcount. Outside Germany, the energy management system of ARLANXEO Belgium N.V. was certified according to ISO 50001. At the distribution site in Bratislava, Slovakia, an energy audit was successfully completed by the national authority.

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.

Alignment 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 2016 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.

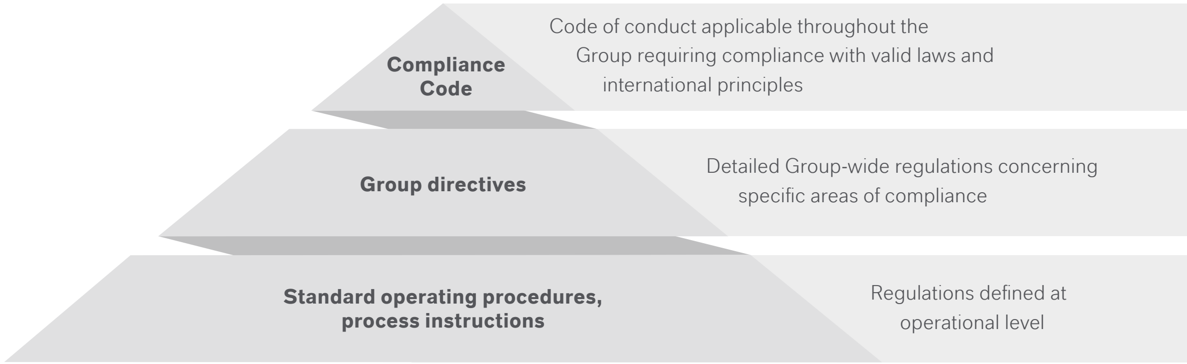
We also believe that the *Sustainable Development Goals* explained earlier in this section provide important impetus for corporate responsibility which will guide us in the future.

The Ten Principles of the U.N. Global Compact

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

Company Guidelines and Regulations

Clear Rules Provide Guidance



The "Code of conduct – Code for integrity and compliance at LANXESS," which is applicable throughout the Group, is the binding framework for our corporate culture and 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 anti-competitive behavior, anti-corruption, data protection, occupational, product and plant safety, and environmental protection.

It can be found on our website at www.lanxess.com under Corporate Responsibility/Corporate Governance/Compliance at LANXESS.

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 LANXESS employees. All globally applicable LANXESS directives and guidelines are contained in a system that is accessible to all employees. On the basis of these directives, more detailed regulations that also take account of local requirements are defined at the operational level in standard operating procedures and process instructions.

We expect our suppliers to commit to our values and rules, especially the Global Compact, 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. Reviewing compliance with these requirements is a key aspect of our collaboration in the Together for Sustainability initiative we operate jointly with 18 other international chemical companies (see page 115).

Human rights

Respectful and fair treatment of all stakeholders is a key pillar of our corporate culture that is reflected in our core values of respect, ownership, trust, professionalism and integrity. As a global enterprise, 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. At LANXESS, human rights and ethical principles apply without restriction, even if they are not stipulated in the legislation of individual countries.

The respective site management, supported by 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. At the beginning of 2016, we performed a risk assessment that specifically addressed human rights in five countries (Brazil, China, Germany, South Africa and the United States). This confirmed that there is a high level of awareness for the subject and that suitable 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 2016, audits were performed at 17 country units, which equates to around 60% of our sites worldwide.

Human rights principles are so firmly anchored in LANXESS's corporate culture that we do not consider further training to be necessary. 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.

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. Such incidents are processed decentrally at LANXESS and there is no central reporting system.

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 that include aspects such as compliance with our Supplier Code of Conduct. As well as a duty to respect human rights, this code includes the obligation not to use child labor or forced labor. In fiscal 2016, we received no reports or other indications of human rights violations by our suppliers. The same applies to child labor and forced labor.

Anti-corruption

By signing the U.N. Global Compact, we have undertaken to actively counter all forms of corruption. A Group-wide directive provides our employees with clear guidance regarding incentives. 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, LANXESS does not provide financial support to political associations and parties. All donations must be approved by the Board of Management. Also in fiscal 2016, LANXESS made no donations to political parties. 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.

To enhance our employees' awareness of these rules of conduct, the issue of corruption is regularly covered by compliance training. Specific corruption training targets exposed professional groups and countries. The proportion of employees trained in anti-corruption practices is over 15% of the total workforce.

The analysis and monitoring of risks related to corruption is the responsibility of our Corporate Audit function. Various analytical approaches and scopes are applied:

1. Assessment of the risk of exposure to corruption and general monitoring of the internal control system: all business units
2. 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
3. Dedicated corruption scans in seven countries which Transparency International deems to be particularly at risk: approximately 20% of all transactions

In fiscal 2016, we received no reports or other indications of cases of active corruption by LANXESS employees. In individual cases of verifiable corruption of LANXESS employees (passive corruption), we take disciplinary action (usually dismissal) and, if the legal chances of success are high enough, initiate civil damage claims (damages and criminal litigation). In fiscal 2016, we recorded a single-digit number of cases of passive corruption.

→ ***Awards for commitment to sustainability***

Our commitment to sustainable development was again recognized with various awards in 2016. For instance, the North Rhine-Westphalia branch of the German Chemical Industry Association (VCI) selected us as the winner of its Responsible Care competition for our nitrous oxide reduction plant at the Krefeld-Uerdingen site in Germany. Our site in Mannheim, Germany, was named one of the "100 facilities for resource efficiency" by the Ministry of the Environment, Climate Protection and the Energy Sector Baden-Württemberg. In China and India we received several awards in 2016 for our range of measures to achieve resource efficiency and sustainability in the supply chain and for our wider social commitment. More detailed information about all the awards can be found in the Corporate Responsibility section of our website. *On page 80, we report in detail on the various awards we received in 2016 from the Carbon Disclosure Project.*

EMPLOYEES

LANXESS's long-term entrepreneurial success is fundamentally based on our employees' sense of responsibility, professionalism and focus on finding solutions. Our global HR activities are supporting the fundamental change processes within the Group – both organizationally and culturally – which makes them more important to strategic success than ever before.

Following our realignment, LANXESS's identity as an employer 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 irreprehensible actions and striving for performance do not contradict each other. 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."

Of particular importance were the significant HR strategy and operational support for the spin-off of ARLANXEO, the integration of employees acquired as a result of the Chemours transaction and the preparation of the planned acquisition of Chemtura. We have also applied a great deal of attention to expanding our "Xcare" demographic program (see page 70).

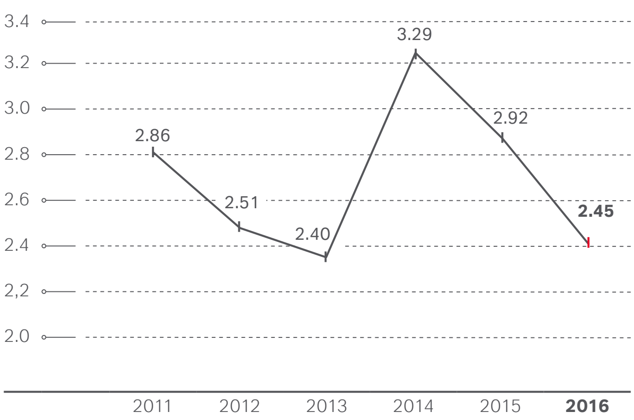
A focus on fostering talent

As part of our sustainable, value-based corporate policy and against the backdrop of demographic change, LANXESS is 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 1,294 new employees joined the company worldwide in fiscal 2016. 209 new employees were hired in Germany, where our focus was on the recruitment of specialists from various disciplines. In Germany, the turnover resulting from voluntary resignations was 1.03 % in the reporting period (2015: 1.1 %). Globally, it was 2.45 % (2015: 2.9 %).

LANXESS has a dedicated program which gives preferential support to master's degree students who are the ideal fit for our company. In 2016, we also awarded more than 50 scholarships to students at the seven German universities with which we collaborate.

Turnover Resulting from Voluntary Resignations
%



Turnover Resulting from Voluntary Resignations (%, Excluding Reduction Programs)

	EMEA (excluding Germany)		Germany		North America		Latin America		Asia-Pacific	
Age group	**Female**	**Male**	**Female**	**Male**	**Female**	**Male**	**Female**	**Male**	**Female**	**Male**
< 20										
20–29	9.0	4.9	1.3	3.4	7.4	4.5	1.8	4.1	8.3	14.3
30–39	3.1	2.7	3.4	1.8		4.2	1.5	1.3	6.4	6.5
40–49	2.0	1.0	0.7	0.7		1.1	5.6	0.3	3.8	3.3
50–59	1.9	0.2	0.9	0.4	2.2	3.0		0.4		4.1
≥ 60		5.9			10.3	9.2		3.3		
Total	**3.1**	**1.7**	**1.4**	**1.0**	**3.0**	**3.5**	**2.2**	**1.3**	**5.8**	**6.8**
Total Turnover (%, Including Reduction Programs)										
< 20										
20–29	14.3	7.9	1.3	4.0	7.4	4.5	7.2	8.1	10.8	16.1
30–39	5.7	5.7	3.7	2.3		8.0	5.4	3.9	9.0	9.6
40–49	2.6	3.5	2.0	1.4		1.8	13.0	3.3	3.8	8.4
50–59	6.5	5.6	5.1	3.7	3.7	9.0	13.4	6.7	5.5	11.9
≥ 60	22.9	38.0	19.3	29.6	12.3	17.5		13.3	44.4	97.0
Total	**6.4**	**6.3**	**3.8**	**4.1**	**3.9**	**7.4**	**8.2**	**5.3**	**8.1**	**11.1**

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**
< 20	1	2							1	5
20–29	27	50	16	43	6	40	17	18	31	79
30–39	19	71	12	66	8	40	15	17	27	90
40–49	16	51	15	34	6	29	8	14	21	148
50–59	9	33	3	19	12	28	1	3	1	113
≥ 60	3	4		1	3	17				1
Total	**75**	**211**	**46**	**163**	**35**	**154**	**41**	**52**	**81**	**436**

A key tool for attracting young talents in Germany is our international trainee program, which in 2016 was awarded a quality certificate by Germany's "Initiative for career-promoting and fair trainee programs." Particularly highly qualified master's degree graduates spend 18 months being prepared for challenging specialist and managerial roles within the company

Developing our own skilled workers

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. In 2016, 171 (2015: 139) young people (25 women and 146 men) started a vocational training or combined vocational training and study program at LANXESS in Germany. We thus increased the number of new training places by almost a quarter within a year. As of December 31, 2016, LANXESS had a total of 535 young people (70 women and 465 men) training in 18 different career paths, including six combined vocational training and study programs. We hired 81% (2015: 80%) of those who completed their vocational training and are targeting a hire rate of at least 80% in the years ahead.

Redefining leadership and performance

Successful change is primarily the result of successful leadership, which in turn is underpinned by clear, globally binding values and standards. For that reason, we have translated our new value model into five management principles that are applicable worldwide. A key tool for implementing these principles is the Performance Dialogue, which we are rolling out from the top down, starting with senior management in early 2016. The purpose of the Performance Dialogue is to 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. By the end of 2016, around 1,300 managerial staff worldwide had attended training courses on using the Performance Dialogue – this equates to more than 50% of this target group and 7.77% of the employees worldwide who will be receiving regular feedback in this form. The plan is to complete the global rollout in the first quarter of 2017.

Our operating and leadership principles also have a key role in our performance management. We place great emphasis on consultation with our employees to agree both on our business objectives and how to achieve these objectives within the framework of our corporate culture. We use an IT tool called the Talent Database to document targets and feedback and to manage global talent by recording employee profiles, assessments of potential and individual development needs. By March 2017 all management employees will have access to this tool. The information contained in the Talent Database is also the basis for our annual HR development conferences, another element in our succession planning process.

We focus especially on providing our talents with the skills they need in an extremely dynamic working environment and challenging market conditions. Suitable candidates are identified using our global Performance Management System and, more recently, by Functional Communities working across the company. There are currently three Functional Communities for Sales & Marketing/Global Procurement, Finance and Technology & Production. These Communities actively foster suitable candidates with development potential and prospects, for example, by rotating them through different business units. Our LANXESS Academy has an important role in providing individual support to promising talents through tailored management and specialist programs and individual coaching and mentoring.

Employee training in general remained an important element of our HR development activities in 2016. Alongside formal training sessions and seminars, which amounted to 8,137 hours in France, for example, employees were able once again to take advantage of many informal measures, such as mentoring and peer-to-peer coaching, which foster continuous knowledge sharing across the company. In Germany, we further expanded our training program in the reporting year to offer 15 training courses. A total of 145 employees (57 women and 88 men) attended these courses, with participation averaging 82 % of capacity.

In an environment of perpetual change, internal knowledge management is also becoming increasingly important. At the same time, the opportunity to share their knowledge with colleagues is a great motivation for our employees. For that reason, since 2015 we have been inviting our employees in China to develop and lead their own in-house training sessions – with great success. This not only reduces costs but, with an average of 4.89 out of a maximum possible 5 points, this type of training is actually rated more highly than training led by external providers.

Success through diversity

Our global alignment is a key strategic advantage. LANXESS currently employs people from 70 (2015: 69) 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. 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 to include employees by gender and hierarchy level.

An important task in 2016 was to anchor our D&I concept within our value culture and leadership principles and to add specific details.

International assignments are a key component of our systematic HR development process. In the reporting year, we therefore further diversified our international assignments and introduced specific assignment guidelines for both commuters and those employees who are transferred on local contracts. At year end 2016, a total of 76 employees (2015: 87 employees) – around 2.3 % (2015: 2.7 %) 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 compared with 2015.

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, 82.2 % (2015: 81.1 %) 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 16.29 %.

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 target for the first and second management levels through June 30, 2017. At the time this resolution was taken 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. The target for both management levels together is 18.6 %.

Meeting demographic challenges

The regions of key economic importance for LANXESS – Europe (especially Germany) and China – are particularly affected by the problem of aging demographies. As a result, the competition for qualified young talents is intensifying. This is particularly true in the case of 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 already taken 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, 2016, they made up 93.4% (2015: 93.3%) of our total workforce worldwide.

Where preventive measures in the context of health management are no longer applicable, we take other measures to ensure that older employees in particular can stay in their posts. Since January 2017, one position in our Human Resources Group Function has been responsible for planning the deployment of employees with impaired working ability. This includes looking at options for government support, particularly for severely disabled employees.

We have successfully deployed reintegration management at all German sites for a number of years. In 2016, 39% (2015: more than 40%) of the employees invited to participate accepted the offer of an individual consultation with the respective site workplace integration team.

We also offer employee health promotion initiatives at our sites outside Germany. For example, all our employees in the United States have access to health check-ups paid for by their health insurance. In Canada, our employees receive financial support to pay for membership at a gym or other health-promoting establishment. Our Employee Assistance Program in South Africa offers support in a range of areas over and above health. Employees with personal, family, financial or health issues can turn in confidence to qualified external advisory services.

LANXESS Employee Structure 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**
< 20		2		1						2
20–29	61	206	166	529	26	97	59	167	120	435
30–39	197	662	271	980	59	198	137	376	270	1,010
40–49	159	863	394	1,904	67	294	57	307	165	672
50–59	115	875	443	2,532	137	367	29	269	37	295
≥ 60	12	99	38	344	51	122	1	33	2	9
Total	**544**	**2,707**	**1,311**	**6,289**	**340**	**1,078**	**283**	**1,152**	**594**	**2,423**

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.

In the reporting year, for example, the occupational health management team organized a healthy living event at all the Lower Rhine sites and in Brunsbüttel to provide information and advice on various health-related topics. More than 1,000 employees took advantage of this offering. We hope to replicate this success in 2017 with similar events at other locations.

The issue of occupational safety is addressed by our "Xact" global program (see page 74).

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 and to review these on an annual basis. In this connection, the Board of Management has approved 45 additional demography positions in the aforementioned career paths.

We are also exploring new approaches to recruiting and retaining new talents. For example, we have accelerated the process of hiring successful trainees in order to maintain a high hire rate and expand it in line with our needs.

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 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. 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.

More flexible worktime models are becoming increasingly important at our sites outside Germany as well. For example, we introduced three new working time models in 2015 for our administrative employees in China, encompassing flextime, part-time and home office working. In Brazil, meanwhile, we offer our administrative employees a model with flexible starting times.

As of December 31, 2016, we employed a total of 146 temporary staff (7 women and 139 men) at our German companies – LANXESS GmbH, Saltigo GmbH and IAB Ionenaustauscher GmbH.

Career and family life

Balancing work and family life is important to a steadily growing number of employees. A total of 6.8% (2015: 7.0%) of our employees in Germany aged between 20 and 40 made use of the option to take parental leave. Of this figure, almost 50.3% (2015: 43%) were fathers. 96% (2015: 97%) of the employees who ended a parental leave period in 2016 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 crèche group. 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. In Brazil, for example, we have reached an agreement with the trade unions to benefit our employees by extending maternity leave from the statutory four months to over six months. Also in Brazil, we pay preschool fees for children up to the age of two whose parents return to work for us after their parental leave.

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, 60 employees in Germany have taken advantage of caregiver leave and other job release options.

LANXESS Employee Structure by Employment Type, Gender and Region (Also Including Employees on Fixed-Term Contracts)

	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	450	2,530	899	5,474	324	1,076	282	1,152	586	2,421
Permanent contract, part-time	94	177	412	815	16	2	1		8	2
Temporary contract, full-time	46	54	113	553	1	1	37	64	20	50
Temporary contract, part-time	3	2	13	25	1	2	9	6	3	
Total	**593**	**2,763**	**1,437**	**6,867**	**342**	**1,081**	**329**	**1,222**	**617**	**2,473**

Savings and retirement provision

In 2016, 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 97 %. A total of 63.8 % (2015: 64.7 %) of our employees worldwide benefit from unfunded company pension plans.

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, 91.9 % (2015: 88.3 %) of our employees worldwide receive variable compensation.

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. The Annual Performance Payment is linked to the attainment of the Group's defined EBITDA target. Additional individual targets are set for top management. In 2016, our employees around the world shared in the company's success in 2015 with a payout totaling around €101 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 2016, payments of around €12 million worldwide (€8 million in Germany) were made solely for outstanding individual performance. Around 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.

Following a two-year break, we again offered an employee stock plan in 2016. All LANXESS 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 €55.47 on the Frankfurt Stock Exchange. The participation rate was 60 %. 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 United States, 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 99.5 % in 2016 (2015: 99.8 %).

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. 2016 was a particularly successful year for idea management. Of the 2,048 ideas that were implemented, 20 have yielded annual savings of more than €25,000, while 12 ideas have led to annual savings above €50,000.

In the reporting year, employees at our German companies submitted a total of 2,442 (2015: 2,027) new suggestions, a rate of 318 (2015: 274) per thousand employees. In the same period, 902 ideas (2015: 1,077) were implemented, yielding total savings of €2.26 million (2015: €2.56 million). 528 of these led to improvements in occupational safety and 344 concerned environmental protection (2015: 789 together). A total of €0.795 million (2015: €0.95 million) was paid out to employees whose ideas were put into practice.

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, 66.9 % (2015: 66.9 %) of our employees are covered by collective agreements; in Germany the figure is 91.7 % (2015: 90 %).

We maintain a dialogue with employee representative bodies in Germany, Europe and around the world to discuss our corporate goals on a regular basis and involve these bodies in organizational changes at an early stage. In the context of the realignment and associated global restructuring program, management and the employee representatives in various countries collaborated during the reporting period to develop and implement socially acceptable solutions. As well as the annual European forum, which brings together the works councils in Europe, there was a meeting in 2016 of the Executive Committee, which comprises employee and employer representatives from Belgium, France, the Netherlands and Germany.

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 dialogue between local management and trade union representatives as well as binding collective agreements on compensation and working conditions.

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HEALTH, SAFETY, ENVIRONMENT AND CLIMATE PROTECTION IN THE VALUE CREATION CHAIN

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 product 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.

As a supplier of important precursors, LANXESS will also be expected by its B2B customers to exercise greater responsibility. 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. We firmly believe that we can continue to stand out positively in the way we embrace and exercise our responsibility going forward.

This responsibility spans the entire supply and value creation chain – from the global procurement of raw materials and product development, through production, storage and transport, to use and disposal. At each of these stages, the highest priority is given to the health and safety of our stakeholders – employees, contractors, customers, end users and the immediate neighbors of our production sites.

Company-wide standards ensure the responsible application of chemistry at LANXESS, defining requirements and 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.

Responsibility for health and safety

Our “Xact” global safety program is aimed at encouraging all employees to work together to improve safety throughout the company. 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.

In 2016, we introduced three more technical HSE standards within the framework of “Xact.” Like existing standards, these incorporate stricter regulations than before for technical activities with a higher risk potential, such as the use of tools or working on electrical plant. After receiving extensive training from the “Xact” regional managers, our managerial staff communicated these standards throughout the entire organization during the reporting year. In matters of safety, we generally attach great importance to active and continuous communication. One key format in this regard is the safety dialogue, which is a forum for discussing positive and critical behaviors and possible improvement measures.

Another 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 the importance that individual employees attach to safe working practices, whether they feel involved in safety activities – as we would like – and whether they receive positive feedback for working safely.

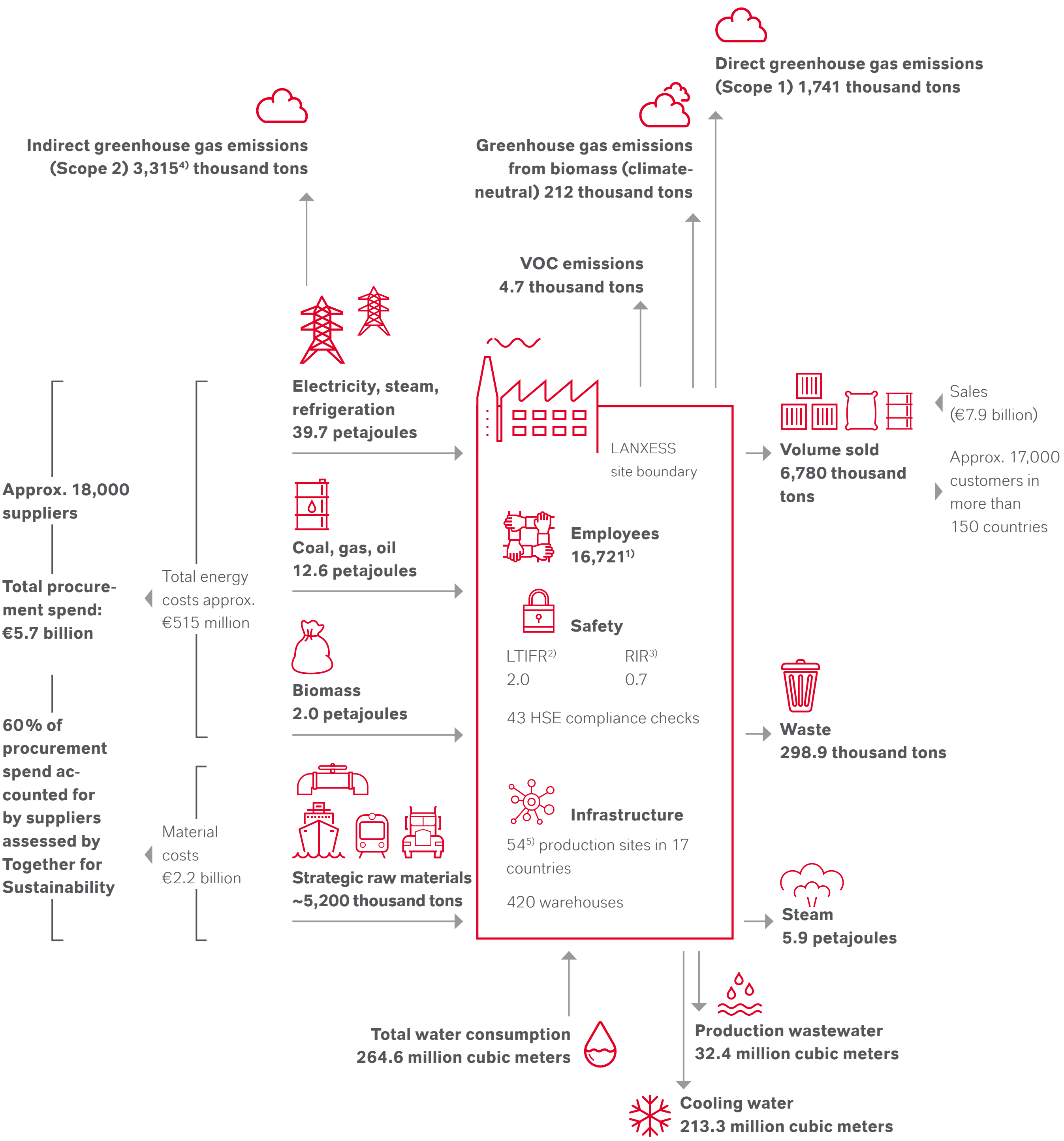
We are also seeking to achieve an improved mutual understanding of occupational safety with our providers of technical services, for example, and are therefore integrating them into our safety culture. Here, we apply the principle of “select, train, support and evaluate.” Among other things, our partners 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.

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, environmental incidents and downtime caused by, for example, bad weather or strike action. Each incident is carefully analyzed to identify measures that can be taken to avoid comparable incidents in the future.

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 injuries for every million hours worked) as indicators for evaluating occupational safety. The LTIFR was 2.0 in 2016, lower than the level of 2.2 recorded in 2015. This positive development is due not least to a safety project at our site in Antwerp, Belgium, which made it

Input-Output Balance Sheet

LANXESS reporting ceiling



1) Permanent workforce at the core companies (excluding temporary workers) as of December 31, 2016
2) 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
3) Number of recordable work-related accidents per 200,000 hours worked in accordance with OSHA regulations
4) Calculated using the market-based method in accordance with the GHG Protocol
5) The following sites are not yet included in the environmental data on account of their recent acqisition by LANXESS: Memphis and North Kingstown, U.S.A.; Sudbury, U.K.

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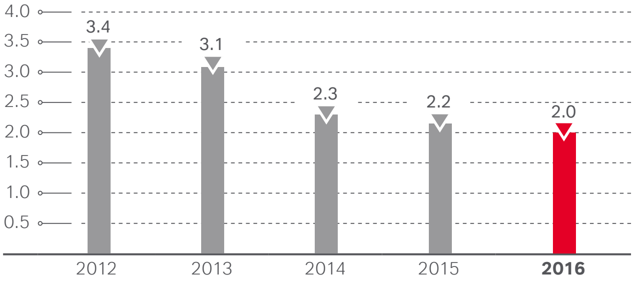
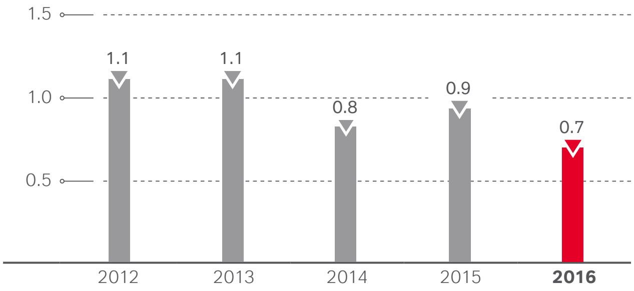
possible to significantly reduce the number of injuries at the site within the space of a year. The RIR, which enhances international comparability, was 0.7 in 2016, also down year on year from 0.9. This substantial medium-term reduction shows that the measures implemented in recent years to improve 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)



Safely does it!

In complete contrast to the improvement in the LANXESS Group's occupational safety indicators, our site in Antwerp, Belgium, recorded an LTIFR of 10.4 in 2015. This unacceptably high value prompted us to initiate the "Xact 2.0" safety project specially tailored to that site. The starting point was a detailed analysis of the accidents and near accidents that had been recorded there and a survey of around 200 employees. In a second step, we benchmarked the results against performance at our Leverkusen and Krefeld-Uerdingen sites in Germany. It quickly became apparent that the main problem was not technical but an issue of behavior and communication. The solution was to establish an extensive safety network made up of all the site's managers, 12 "Xact" coordinators and 110 "Xact" ambassadors. Numerous workshops were held at which these multipliers were able to familiarize a large number of the site's some 900 employees with effective methods of safety-conscious behavior for use at all times. The measure was a success. Within just one year, the number of accidents fell by more than half. The ambitious goal for 2017 is zero accidents.

Global product stewardship

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. In the reporting year, we revised our Development of New or Changed Products, Processes and Applications Directive to take account of sustainability aspects. The directive now officially defines what has long been standard practice at LANXESS – 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.

Management of chemical control regulations

Compliance with global chemical control regulations is the condition 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 more than 30 languages inform our customers worldwide about substance data and the safety

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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.

Before manufacturing, exporting or selling 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.

We expressly support the protection goals of the E.U. REACH regulation. 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 substances we produce in or import to Europe in amounts exceeding one ton will have been registered in Europe. Registration involves the systematic evaluation of information concerning our substances and their uses. In doing this, we consider the entire product life cycle. 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.

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 ensure that our products comply with national and international laws, 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.

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. For that reason, we have for the first time performed a systematic analysis of our product portfolio based on sustainability aspects.

The dedicated evaluation system we developed in the reporting year 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 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 Societal acceptance Safety in end use
Ecological impact	Raw material efficiency in production Energy efficiency in production Emissions and waste balance sheet in production Water risks Impact on the environment during use
Economic impact	Registration, evaluation and approval Profitability Demand trend

We applied these criteria 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. 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 dialogue with stakeholders.

Evaluation Processes

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. Going forward, the assessment of our product portfolio will form part of our annual strategy process. We will also work to continuously optimize the set of criteria we use.

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. This often sets us apart from local competitors.

→ *Operation Clean Sweep started*

The handling of plastic pellets is a good example of how we use the findings from our product monitoring activities in developing our own measures to protect users and the environment. 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.

In previous years, as part of the No Pellets Emission project, our most strongly affected business unit – High Performance Materials (HPM) – developed a self-assessment process in Germany to identify the sources and circumstances of possible pellet emissions at our plants and to define corresponding countermeasures. Due to the positive results of this self-assessment process, it will now be rolled out to all HPM sites around the world.

Processes like this are among the central requirements of the global Operation Clean Sweep program established by the Society of the Plastics Industry, a program that LANXESS joined in 2016. By participating in this program, we have made a commitment to train relevant employees, to perform regular checks on the success achieved and to require our business partners to also take active steps to prevent pellet emissions. Our goal is to systematically integrate the program's requirements into LANXESS's management system and to implement them across the company.

At the start of 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. In the future, assessment will no longer be based on the performance of the reporting segments, but rather on that of LANXESS as a whole. This approach takes account of the company's altered organizational structures.

Reduction of climate gas emissions

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%. Internationally, the United States, for example, aims to reduce its emissions by between 26% and 28% through 2025 compared with their level in 2005.

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 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. At our Leverkusen and Krefeld-Uerdingen sites in Germany and the Baytown site in the United States, for example, we have been able to return a substantial amount of steam – equivalent to around 10% of our total energy requirement – to the local integrated networks by consistently using our process heat to generate steam (waste heat). The average CO_2 factor of these networks has declined as a result. Compared with steam generated by conventional means at these sites, the steam returned to the networks is equivalent to 650 to 800 kilotons of Scope 2 CO_2 emissions. In the reporting year, for the first time, we extensively determined our Scope 3 emissions for the past two fiscal years, thus taking a further important step toward achieving a very high level of transparency in respect of the greenhouse gas emissions caused by our operations.

⊙ *Full steam ahead for climate protection*

A new project at our Antwerp, Belgium, site demonstrates that we are not only thinking about our own footprint but also about benefiting society when it comes to climate protection. We and four other chemical companies share an integrated network for steam at this site. Starting in 2019, a pipeline more than five kilometers long will supply the site with over 80 % of the process steam required. Overall, this project will cut CO_2 emissions by 100,000 tons per year. It was awarded the first sustainability prize of the Port of Antwerp in November 2016. We will be able to virtually stop producing our own steam from gas, replacing it with centrally produced steam from the waste incinerator. This will reduce the Scope 1 data in our emissions calculation while increasing the data for Scope 2 emissions. Whether the project will ultimately lead to lower emissions by LANXESS itself will not be known until the pipeline is in operation, but it will significantly improve the climate footprint of the Port of Antwerp.

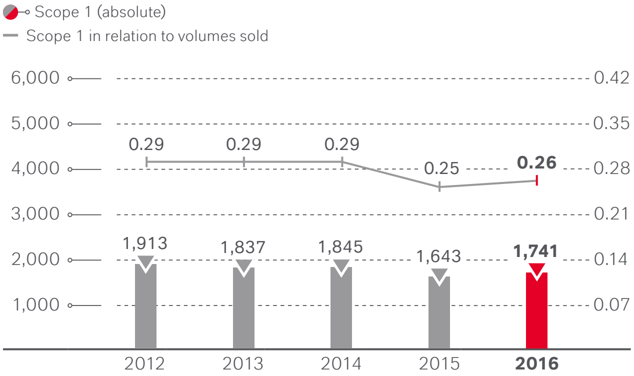
In Europe, 17 LANXESS facilities and/or sites are subject to the European Emissions Trading System. Trading in CO_2 emission rights – or allowances – is a cost-effective way of reducing harmful CO_2 emissions. Since all our facilities that are eligible for emissions trading are at the cutting edge of 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.

The year on year increase in our absolute Scope 1 emissions was largely due to the 4.4 % rise in volumes sold. At the same time, reduced availability meant that we used less biomass to generate energy. However, despite the higher absolute values, we kept our specific Scope 1 emissions at roughly the prior-year level.

The higher absolute Scope 2 emissions were also attributable to higher volumes sold. Here too, the specific values were level year on year.

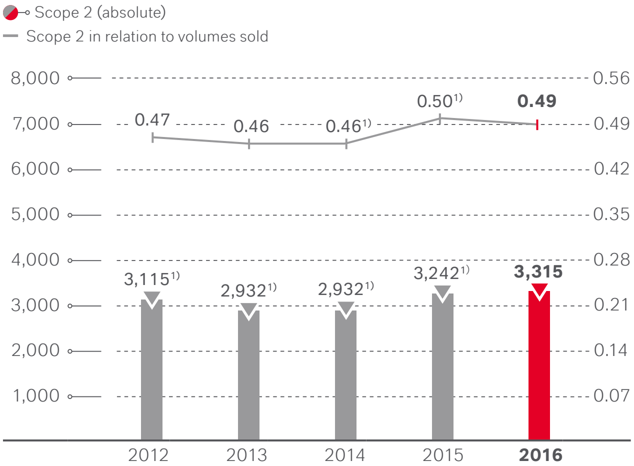
Greenhouse Gas Emissions (Scope 1)

thousand tons of CO_2 equivalents — CO_2 equivalents, tons per ton of product



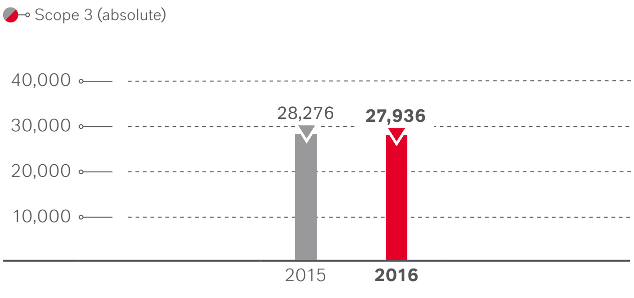
Greenhouse Gas Emissions (Scope 2)

thousand tons of CO_2 equivalents — CO_2 equivalents, tons per ton of product



1) Figure restated

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

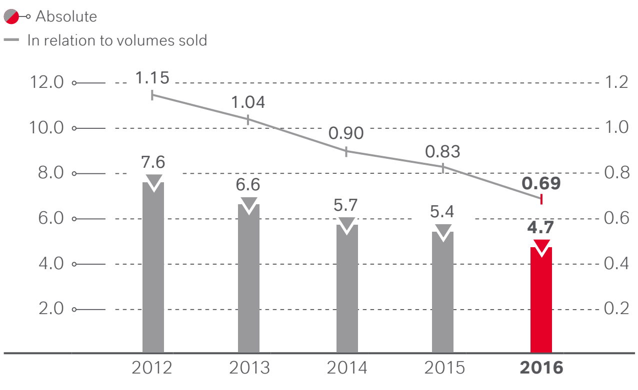


And the winner is…

For more than a decade, we have been participating in the Carbon Disclosure Project (CDP), each year sharing data and information on climate protection and the reduction of emissions. 2016 was a particularly successful year for us as far as the CDP is concerned because this international investor initiative recognized our efforts in several categories. Firstly, LANXESS was one of 193 companies worldwide to be included on the CDP Climate A List, putting us in the top 9% of the more than 2,100 companies that participate in the initiative. We were also named "Sector Leader Energy & Materials," ranking us among the best 11% in the Germany, Austria and Switzerland region. In an index comparison, LANXESS was placed as an "Index Leader" among the top 4% in the MDAX. Last but not least, we achieved the most substantial year-on-year improvement of all the German companies participating and were thus also honored as Best Improver Germany. CDP gave special recognition to our transparency and performance in the following areas: climate strategy, risk assessment, actual reductions achieved in greenhouse gas emissions intensity and handling of indirect emissions, for example through CO_2 emissions in the supply chain (Scope 3 emissions). These gratifying results gave us encouragement to continue systematically pursuing our climate protection strategy.

Other atmospheric emissions

VOC Emissions
tons / VOC, kilograms per ton of product

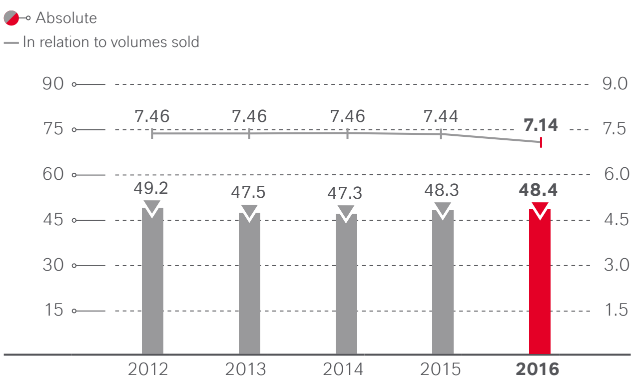


As far as our VOC emissions are concerned, the positive trend seen over past years has continued since we achieved our Group target for this indicator in 2015.

Systematic energy management

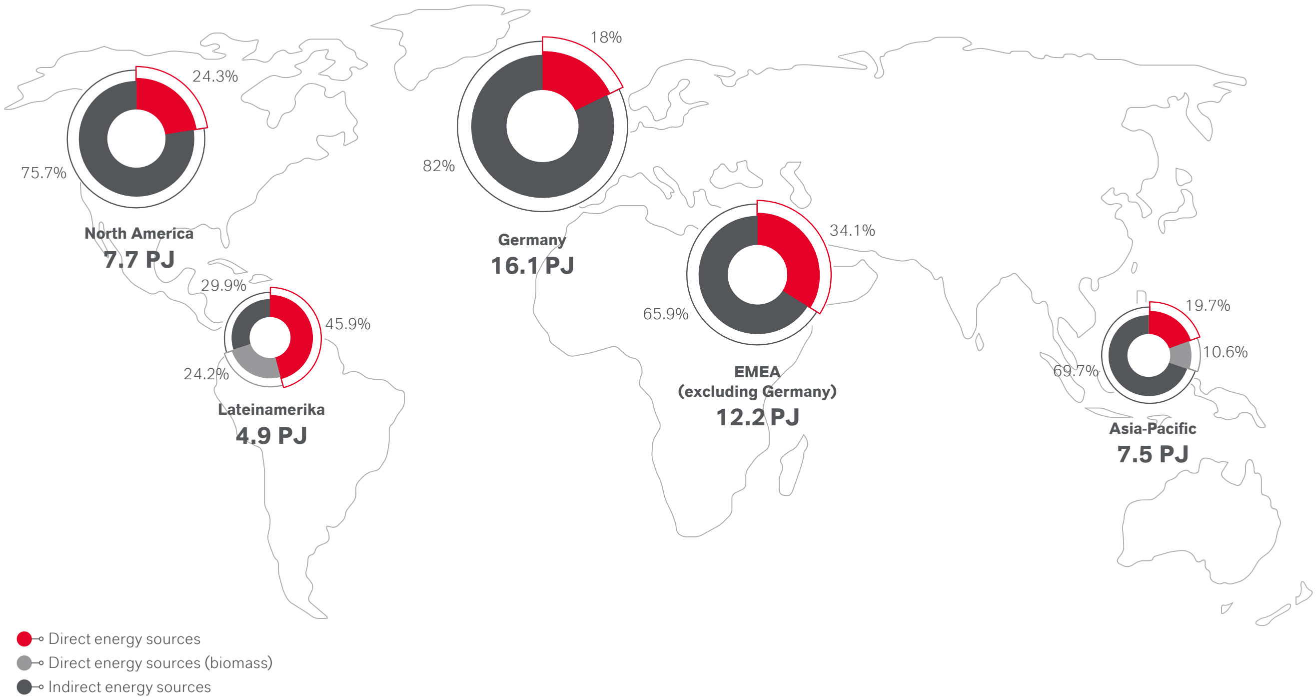
A high level of energy efficiency improves not only our emissions footprint but also our cost position and thus ultimately the competitiveness of LANXESS. In Germany, we have established an energy management system in accordance with ISO 50001. Our certification was reconfirmed in 2016. Outside Germany, we continue to pursue our strategy of regional and local certification.

Energy Consumption (Balance Sheet)
petajoules / gigajoules per ton of product



Mirroring the development of emissions, the slight increase in our absolute energy consumption reflected the higher volumes sold in 2016. The energy balance produced retroactively for the prior years for the first time in 2016 also includes the amount of steam (waste heat) emitted by LANXESS. As far as our specific energy consumption is concerned, we were able to continue the positive prior-year trend in 2016.

Direct and Indirect Energy Consumption by Region
petajoule/%



Responsible use of water resources

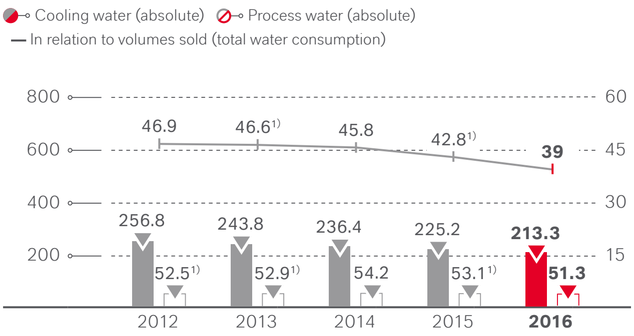
Access to clean water is not only crucial to the health and nutrition of a constantly growing world population, it is also an important economic factor. According to the United Nations World Water Development Report 2016, 75 % of all jobs worldwide are dependent on a reliable supply of water. Careful use of this scarce resource is therefore securing our future – particularly at sites in water-stressed areas where water is a scarce resource and more than 60 % of the available supply is extracted for human use.

All wastewater and surface water discharges at our sites 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. The issue of water extraction is also addressed by our environmental protection compliance program.

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. To conduct the analysis, we used two internationally recognized risk evaluation tools – the Water Risk Filter from the World Wide Fund For Nature (WWF) and the Global Water Tool from the World Business Council for Sustainable Development. Analysis of LANXESS's sites on the basis of the WWF Water Risk Map shows that our most of sites are located outside water-stressed areas. As a next step, we will be carrying out individual risk evaluations at the few sites in water-stressed areas in 2017.

Water Consumption

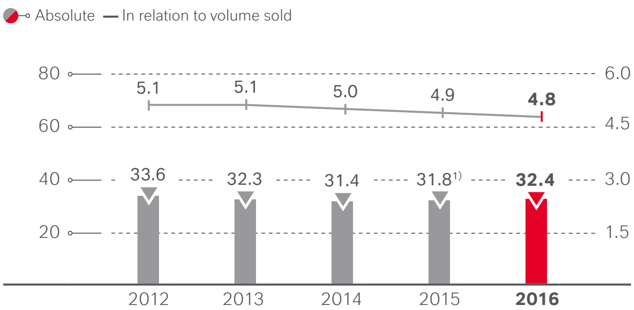
million cubic meters — cubic meters per ton of product



1) Figure restated

Production wastewater

million cubic meters — cubic meters per ton of product



1) Figure restated

As in past years, we reduced our water consumption in 2016. This was due particularly to the declining volumes of cooling water used. Despite the increase in volumes sold, the proportion of process water in our overall consumption was lower than a year earlier. The positive trend identified in the absolute figures is also mirrored in the specific values.

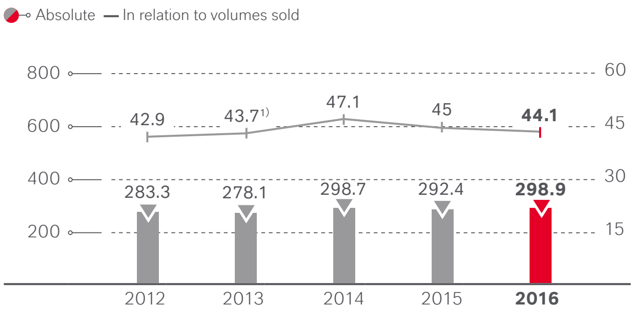
Wastewater volumes increased at a substantially lower rate than volumes sold. As a result, the specific amount of wastewater per ton of product sold decreased year on year.

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. Some forms of waste can be used as secondary raw materials and are thus a valuable resource. Sustainable waste management therefore involves systematically avoiding waste and, if this is not possible, using waste as a raw material or energy source. In order to minimize the amount of waste requiring disposal, we seek to continuously improve the yields achieved in our production processes. All forms of waste are disposed of or reused in compliance with statutory requirements.

Total Waste

tons — kilograms of waste per ton of product



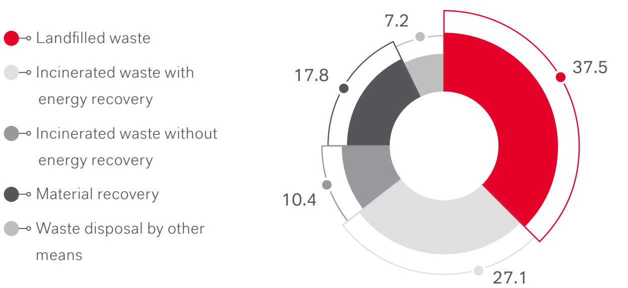
1) Figure restated

Compared with the previous year, the total amount of waste generated increased slightly. This was largely due to the amount of waste sent to landfill.

A substantial increase in production at our site in Newcastle, South Africa, which processes chrome ore, resulted in a larger amount of waste there going to landfill. Most of this was mineral ore waste. In 2016, we continued the positive trend in respect of the volume of waste per ton of product sold.

Waste for Disposal

%



Responsibility for the supply chain

Responsible action begins in procurement. At LANXESS, raw and other materials, plant and services must satisfy globally uniform safety and environmental protection requirements. 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 dialogue 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 by the applicable deadlines.

In order to minimize our procurement risks and enhance supply chain transparency, we and five other international chemical companies founded the Together for Sustainability initiative in 2012 (see page 115).

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 means of transport with the lowest emissions. In 2016, we piloted a preloading concept for marine tank containers at our Leverkusen site. This will enable us to use inland vessels to transport these special containers to the seaports, thereby increasing transport safety and reducing CO_2 emissions. Following the successful conclusion of the pilot phase in November 2016, we are now working to implement the concept in our regular operations.

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.

Packaging is often a critical aspect in sustainable logistics processes. However, it is of lower significance to a chemical company like LANXESS because at least 60 % of our products are transported in reusable containers. Nonetheless, in this area too, we have set ourselves the goal of reducing our CO_2 emissions on a lasting basis. Wherever possible we use recyclable packaging materials.

Global dangerous goods and transport safety management

Through our global dangerous goods and transport safety management system, we ensure the avoidance of hazardous situations in the relevant processes. Safety can often be improved just by choosing the right packaging materials. For instance, load securing devices can be used to attach barrels to palettes more reliably, which prevents them from slipping during transportation and thus reduces the risk of accidents. 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 various countries and LANXESS Group companies into this system. In 2016, we transitioned dangerous goods classification for Argentine and Australian products in line with local and international rules. Also in 2016, we assessed the entire portfolio (raw materials, intermediates, products and waste) of our subsidiary Rhein Chemie Rheinau GmbH in terms of dangerous goods regulations and incorporated it into LANXESS's global safety data system.

Storage management

We have over 420 warehouses worldwide, around half of which we operate ourselves while half are run by 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.

Uniform standards in production

LANXESS operates at a total of 54 production sites in 17 countries (sites in which it holds an interest of more than 50% and ARLANXEO sites; as of December 31, 2016). 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 help us achieve this, we have established LANXESS-specific guidelines within the context of our global management system. These govern our procedures for all safety-critical processes and environmental protection measures in our production facilities and cover aspects such as the formulation and implementation of technical and organizational protective measures and the environmentally friendly handling of raw materials, products and waste.

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, at least at the intervals required by local legislation. A total of 43 production facilities (2015: 45), 15 of them in Germany (2015: 19), were audited in the context of HSE (Health, Safety, Environment) compliance checks in 2016. The result of the audits in 2016 showed further improvements against previous years.

Systematic recording of key performance indicators

We use an electronic 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 HSEQ targets (see table on page 62). Generally speaking, data for all indicators except LTIFR and RIR (used to measure occupational safety) are gathered only at those production sites in which the company has a holding 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 continue to be included in our key data for this period.

PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft assessed our HSE indicators for 2012 to 2016 and the necessary data recording processes in the course of a business audit, with a view to achieving a "limited assurance" rating. The current audit certificate can be found on page 234.

Environmental and Safety Performance Data*

	2014	2015	2016
Safety			
Occupational injuries to LANXESS employees resulting in at least one day's absence (per million hours worked) (MAQ[1])	2.3	2.2	2.0
Volume sold[2] in thousand tons/year	6,343	6,496	6,780
Energy in petajoules (10^{15} joules)[3]	47.3	48.3	48.4
Direct energy sources (EN3)			
Non-renewable	13.1	12.2	12.6
Renewable	0	0	0
Indirect energy sources (EN4)[4]			
Non-renewable	32.2	33.9	33.8
Other direct energy sources			
From biomass	2.0	2.2	2.0
Water in million cubic meters			
Total water consumption (EN8)	290.6	278.3	264.6
Surface water	120.5	107.0	92.1
Groundwater	6.1	6.8	6.8
Rainwater	0.4	0.3	0.4
Wastewater	1.2	1.2	1.0
Other water sources	162.4	163.0	164.3
Cooling water in total water consumption[5]	236.4	225.2	213.3
Process water in total water consumption	54.2	53.1[a]	51.3

Environmental and Safety Performance Data*

	2014	2015	2016
Atmospheric emissions in thousand tons			
Total greenhouse gas emissions CO_2e	4,777 [a)]	4,885 [a)]	5,056
Direct (Scope 1)[6)]	1,845	1,643	1,741
Indirect (Scope 2)[7)]	2,932 [a)]	3,242 [a)]	3,315
Ozone-depleting substances	0.00132	0.00113	0.00182
NO_x, SO_x and other emissions			
NO_x[8)]	2.8	2.8	2.6
SO_2[9)]	1.1	1.0	1.1
CO	2.1	2.2	2.0
NH_3	0.1	0.1	0.1
NMVOC[10)]	5.7	5.4	4.7
Wastewater in million cubic meters			
Total wastewater discharge (EN21)	267.8	257.0 [a)]	245.7
Cooling water (uncontaminated, without treatment)[5)]	236.4	225.2	213.3
Production wastewater (with treatment)	31.4	31.8 [a)]	32.4
Emissions in wastewater (after treatment) in thousand tons			
Total nitrogen	0.52	0.54	0.59
Total organic carbon (TOC)	2.2	1.9	2.2
Heavy metals[11)]	0.0065	0.0059	0.0049
Waste in thousand tons			
Total weight of waste (EN22)	298.7	292.4 [a)]	298.9
Incineration with energy recovery	82.4	84.0	81.2
Incineration without energy recovery	26.7	30.3 [a)]	31.1
Landfilling	110.9	93.4	112.1
Material recovery	56.7	59.7	53.1
Other forms of disposal	22.0	25.0	21.4
Type of waste			
Hazardous	191.1	188.4 [a)]	196.6
Non-hazardous	107.6	104	102.3

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 continue to be included in our key data for this period.

The following sites are not yet included in the environmental data on account of their recent acqisition by LANXESS: Memphis and North Kingstown, U.S.A.; Sudbury, U.K.

2013/2014/2015: Some of the data are based on estimates and projections.
From this reporting period, to allow more accurate representation, the indicators are no longer displayed in 0.5 steps but are correctly rounded. Actual corrections are identified by a).

The indicators were assessed (limited assurance) by PwC GmbH Wirtschaftsprüfungsgesellschaft in the course of a business audit.

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_2e are based on the global warming potential (time horizon: 100 years) defined in the IPCC Second Assessment Report (SAR 1995).
All Scope 1 greenhouse gases are calculated as CO_2e. In accordance with the GHG Protocol, the CO_2 emissions from the combustion of biomass are shown separately and are not included in the Scope 1 emissions. The following emissions were produced during the reporting period: 2012: 225 kt CO_2, 2013: 223 kt CO_2, 2014: 217 kt CO_2, 2015: 236 kt CO_2, 2016: 212 kt CO_2.
7) All Scope 2 greenhouse gases are calculated as CO_2e. 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 2012 were used for fiscal year 2014, factors from 2013 were used for fiscal year 2015 and factors from 2014 were used for fiscal year 2016.
The Scope 2 CO_2e emissions are calculated using the market-based method in accordance with the GHG Protocol. Using the location-based method, Scope 2 CO_2e emissions for 2016 amounted to 4,446 kt.
8) Nitrogen oxide (NO_X) 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

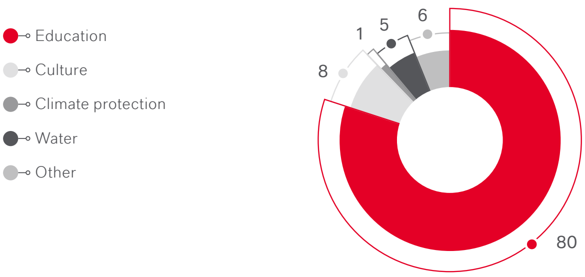
SOCIETY

As a company, we draw numerous benefits from the society of which we are part – well-trained employees, satisfied customers, legal and political stability and an excellent infrastructure. We therefore believe it is only right that, in the context of corporate citizenship, we take responsibility for the development of the social environment in which we operate. Our social commitment is aligned to our corporate expertise and targets and is focused on four areas of activity: education, climate protection, water and culture. In this respect, we concentrate especially on ensuring that people benefit from our projects. We also aim in the future to more specifically monitor the measurable effect of our commitment.

Europe remained the regional focus of our activities in the reporting period. Overall, around 200,000 (2015: more than 335,000) mainly young people benefited from our projects, which we funded with some €1.5 million in 2016 (2015: around €2 million).

Social Activities by Topic*

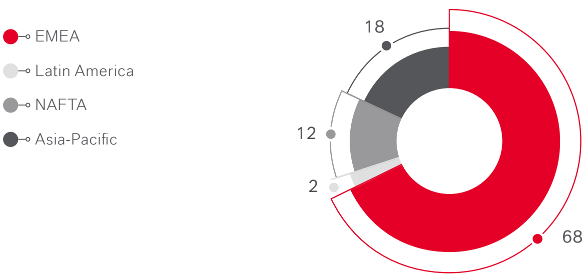
%



*Number of projects: 87

Social Activities by Region*

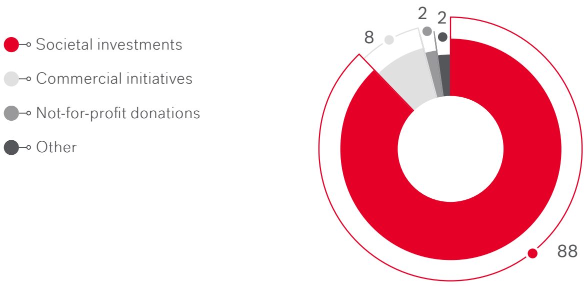
%



*Number of projects: 87

Social Activities by Type of Investment*

%



*Number of projects: 87

In this Annual Report, for the first time we have additionally evaluated our projects as to whether they are purely not for profit ("Not-for-profit donations"), represent investments in the social environment where our sites are located ("Societal investment") or couple corporate objectives such as image, sales and earnings with social motives ("Commercial initiative"). Also, in the reporting year, we began to develop performance indicators to measure the social impact of our activities. The results of the first projects evaluated show that a large majority of participants in our activities regard them as having a major to very major impact. We are seeking to progressively expand and optimize the evaluation system.

LANXESS promotes education

We endeavor to encourage young people worldwide to develop a passion for chemistry at a young age and in this way make them aware of the diverse career opportunities that the LANXESS Group offers. Within the context of the LANXESS education initiative, we have established projects at many of our sites to pursue these objectives in varying ways.

We underscore our clear commitment to Germany as a business location and a base for the chemical industry not just through financial assistance for schools close to our sites but also through collaboration in the provision of scientific teaching materials. For instance, the teaching materials we have produced on the subjects of mobility, globalization, urbanization and water are used in around 270 German elementary schools. In the reporting year, we also provided financial support for "Your Turn 2016 – Bewege Köln!" (Your Turn 2016 – Move Cologne) – a new program for school students aged between 14 and 16. They spent three days looking at how they could take responsibility in their city, make a contribution or work as a team to achieve change.

A very successful commitment initiated in 2010 is our partnership with Teach First in Germany and Teach For India (TFI). We are one of the main sponsors of these not-for-profit organizations. Both are national network partners of the global Teach For All initiative, which aims to help school students who have had a difficult start in life, fostering their individual talents and developing their career prospects. Particularly highly qualified university graduates who also have the requisite soft skills act as fellows for a period of two years, helping schools in socially disadvantaged areas with education and schooling tasks.

We have also been active for many years in supporting education initiatives in South Africa. For instance, we have funded the construction of new classrooms at a school for physically and mentally disabled children close to our site in Newcastle. The last of a total of four buildings was completed in June 2016.

Since its launch, the LANXESS education initiative has reached hundreds of thousands of children, adolescents and young adults worldwide. Feedback from teachers, principals and school authorities shows that the initiative has significantly enhanced the importance of the MINT subjects in school timetables.

Committed to climate and water

A further focus of our corporate responsibility is enhancing awareness worldwide of the causes and consequences of climate change and water scarcity – for both drinking and industrial uses.

In Brazil, we promote scientific knowledge and environmental awareness at our various sites through the "Green Cycle" competition, which gives participants the opportunity to develop their own environmental protection projects. LANXESS provides full funding for implementing the winning projects. Participants receive assistance from an agency that specializes in environmental projects. Since the competition began in 2010, we have successfully initiated 40 projects that have included raising the awareness of children, adolescents and adults for the importance of environment- and climate-friendly behavior, establishing recycling communities and remediating polluted land.

In China, we organized a research competition entitled "Clean water for a better life" for the second year running. Students from nine universities along the river Yangtze were asked to develop approaches for protecting water as a vital resource. Statistically, China has one of the lowest per capita water supplies in the world. We supported the research teams with funding, training and specialists who assisted on a voluntary basis. The competition saw a significant increase in popularity compared with the first year. 15 projects from nine universities were included in the final selection and twice as many people – more than 18,000 – took part in the public vote to determine the winners. A team from Tongji University won the most votes for its research into a cleaning agent for treating industrial wastewater.

Promoting art and 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. We have been the main partner to lit.COLOGNE, Europe's biggest literature festival in Cologne, since 2010. The second mainstay of our cultural commitment is support for musical training. The Young Euro Classic initiative brings together talents from Germany and LANXESS's main markets around the world. In Japan, we support the Ozawa International Chamber Music Academy, which enables talented young musicians from across Asia to receive a top-quality musical education. Furthermore, we are a partner to the "Kölner Philharmonie." In addition to the "Acht Brücken" (Eight Bridges) contemporary music festival, we support initiatives such as a discounted concert subscription for university students.

→ ***Alleviating distress, creating opportunities***

Since the beginning of 2015, more than one million refugees have come to Germany to escape war and poverty in their countries of origin. We, like others, wish to make a helpful contribution to alleviating the immediate distress of these people and to providing them with opportunities for the future. To this end, we are participating in the Germany-wide initiative "Unternehmen integrieren Flüchtlinge" (Companies integrate refugees). As part of this commitment, we are offering refugees individual assistance in choosing a career and enabling them to participate in specially tailored internships, training and work shadowing programs. In addition, we have accepted two young refugees from Syria and Iran to our one-year "XOnce" orientation program with which we are currently helping ten young people prepare for vocational training who were not yet ready to take this route. In October 2015, we announced that we would provide €400,000 to support selected refugee aid projects in Cologne, Leverkusen, Dormagen, Krefeld and Brunsbüttel. These funds were used mainly to finance language teaching for children at schools as part of their preparatory classes and for adults at further education centers. In addition, we have encouraged our employees' personal involvement by granting them up to eight days of paid vacation.

LANXESS ON THE CAPITAL MARKET

Strong development
In 2016, LANXESS stock significantly outperformed all benchmark indices. The share price increased by around 46 % year on year.

Successful bond issues
We took advantage of the favorable conditions on the capital markets to place bonds with a total volume of €1.5 billion.

Stable ratings
The rating agencies Standard & Poor's and Moody's confirmed LANXESS's ratings of BBB– and Baa3, respectively.

LANXESS on the Capital Market

Our positive business performance was rewarded by the capital market in 2016. In another eventful year on the stock market, the LANXESS share significantly outperformed all benchmark indices. Year on year, the share price rose by around 46 %. We successfully placed some large bond issues on the markets.

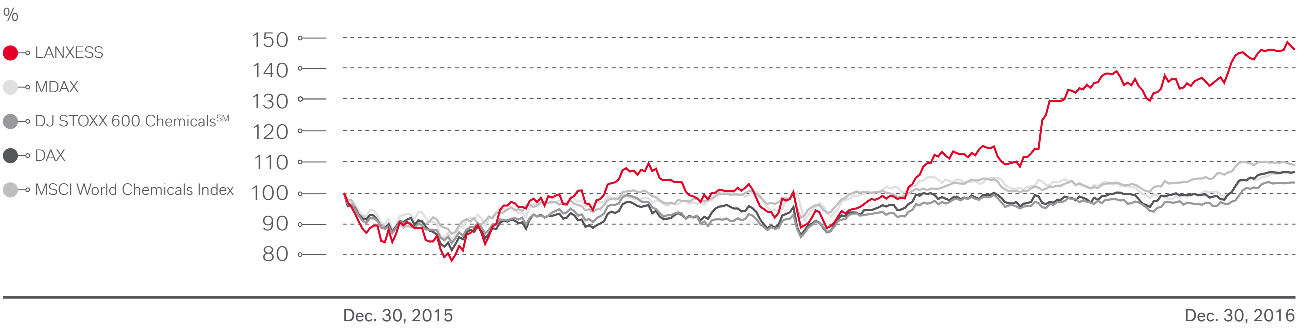
After a weak start to the year, the German equity market developed positively overall in 2016. Among the reasons for the poor start were disappointing economic data from China at the beginning of the year, a dip in the Chinese equity market, relatively weak U.S. economic data, the oil price dropping below US$30 per barrel and the terrorist attacks in Brussels. These factors influenced trading in the first quarter and led to a highly volatile performance on the stock markets. The German lead index, the DAX, lost around 2,000 points in the first six weeks of the year alone. However, it had already recovered more than half of these losses by the end of the first quarter. By contrast, the MDAX changed almost imperceptibly over the same period, ending the first quarter slightly up at 20,397 points. At the end of the second quarter – in which the DAX fluctuated as it moved sideways and the MDAX softened slightly – the surprising British referendum vote to leave the E.U. caused significant price declines on Europe's equity markets. However, fears of a lasting negative effect on the stock markets proved unfounded, with positive influences winning through in the second half of the year. These included the easing of monetary policy in the United Kingdom and Japan, the European Central Bank's announcement that it would continue to pursue its expansionary monetary policy, a stable oil price, an improvement in the Chinese economy and positive economic data from the United States. Donald Trump's surprise victory in the U.S. presidential election in November had relatively little impact on the capital markets.

On December 30, after a strong second half-year, the DAX closed at 11,481 points – 6.9 % higher than the 2015 closing price. The MDAX, which includes LANXESS, tracked parallel with the DAX over long periods during the year to finish 6.8 % up at a new all-time high of 22,189 points.

There was a very broad difference in performance between LANXESS's industry benchmark indices – the Dow Jones STOXX 600 Chemicals℠ and the MSCI World Chemicals Index. While the Dow Jones STOXX 600 Chemicals℠ gained only 3.5 % to finish the year on 857 points, the broader and more international MSCI World Chemicals Index rose 9.0 % year on year, closing at 273 points.

Reflecting the weakness of the overall market, LANXESS stock started 2016 by declining, reaching its low for the year of €32.90 on February 11. Swift recovery to around €40 was followed by several months of persistent sideways movement. Our stock decoupled from the market when, at the end of the September, we announced our plans to acquire U.S. additives specialist Chemtura. The subsequent rally drove the price above €60. The closing price on December 30, 2016, was €62.35, near to the high for the year of €63.53 that was recorded two days earlier. Compared with its closing price in 2015, LANXESS stock gained 46.1 % overall in 2016, thus significantly outperforming all benchmarks.

LANXESS Stock Performance 2016



Performance Data 2016

		Q1 2016	Q2 2016	Q3 2016	Q4 2016	Year 2016
Capital stock/no. of shares[1]	€/no. of shares	91,522,936	91,522,936	91,522,936	91,522,936	**91,522,936**
Market capitalization[1]	€ billion	3.87	3.60	5.06	5.71	**5.71**
High/low for the period	€	43.27/32.90	46.79/37.72	56.38/37.28	63.53/53.64	**63.53/32.90**
Closing price[1]	€	42.24	39.28	55.30	62.35	**62.35**
Earnings per share adjusted for exceptional items and amortization of intangible assets[4]	€	0.73	0.88	0.84	0.24	**2.69**
Price/cash flow ratio[1), 2), 3)]		–	–	–	–	**8.28**

1) End of quarter: Q1: March 31, 2016, Q2: June 30, 2016, Q3: September 30, 2015, Q4 and full year: December 31, 2016.
2) Earnings and cash flow data are influenced by exceptionals, which restricts the significance accordingly.
3) Reference value: operating cash flow.
4) Earnings per share adjusted for exceptional items and amortization of intangible assets as well as attributable tax effects.

Capital Market Information

Share class	No-par shares
Listing code	LXS
WKN (German securities identification number)	547040
ISIN	DE0005470405
Reuters/Bloomberg codes	LXSG.DE/LXS:GR
Market segment	Prime Standard
Trading venues	XETRA, Frankfurt, Munich, Stuttgart, Düsseldorf, Hamburg, Hannover, Berlin
Selective indices	MDAX, Dow Jones STOXX 600 Chemicals[SM], MSCI Germany Standard, MSCI Germany Mid Cap, Dow Jones Sustainability Index World, FTSE4Good
Investment-grade ratings (outlook)	Standard & Poor's: BBB– (negative) Moody's: Baa3 (stable)

SUSTAINABILITY

In 2016, for the sixth time in succession, we were included in the respected Dow Jones Sustainability Index (DJSI) World. The index applies the best-in-class principle and includes only the top 10% of the companies evaluated. In 2016, we received special recognition for our management of innovation processes and for our climate strategy with its goals that were reformulated at the start of the year. Our listing in the FTSE4Good Index, in which we were first included in 2011, was also confirmed. In addition, oekom research – one of the leading sustainability rating agencies – gave us a corporate responsibility rating of C.

Detailed information about sustainability can be found in the "Corporate Responsibility" section starting on page 58 of this Annual Report and on our website.

STOCKHOLDER STRUCTURE

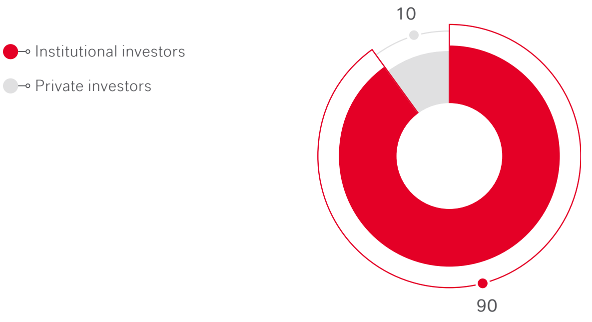
The majority of LANXESS's stockholders are institutional investors whose strategy is oriented toward growth or value. As of December 31, 2016, these investors held around 90% of the stock. The remaining share of around 10% of LANXESS stock is owned by private investors, including our employees, who hold around 1%. Since LANXESS was first listed on the stock exchange, most of our private investors have been located in Germany.

In 2016, as in the past, many of our institutional investors were based in the United States, the United Kingdom and Germany. The proportion of our stockholders in the United States decreased slightly and as of December 31, 2016, was around 32% (2015: 35%). As of the same date, some 16% (2015: 17%) of LANXESS stock was held in the United Kingdom. Institutional investors from Germany represented about 17% (2015: 15%) of our stock. Taking private and institutional investors together, ownership of our shares in Germany increased slightly to around 28% (2015: 26%).

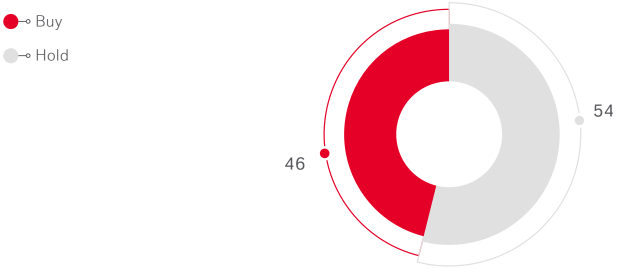
In other regions, LANXESS is represented in Norway, France, the Netherlands and Switzerland, in particular. The proportion of institutional investors from the rest of Europe increased slightly year on year to around 15% (2015: 12%). Meanwhile, the proportion in the other regions decreased slightly to around 9% (2015: 10%).

An overview of the institutional investors which 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.

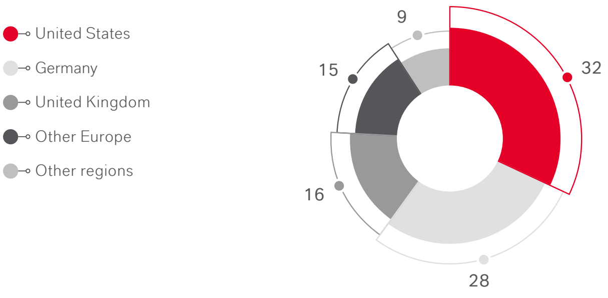
Stockholder Profile
%, as of December 31, 2016



Recommendations
%, as of January 31, 2017



Geographical Breakdown
%, as of December 31, 2016



ANALYSTS

We accord high priority to regular and extensive dialogue with analysts. In fiscal 2016, around 30 analysts issued reports detailing their estimates of our company's current and future development. Key themes were the successful implementation of the realignment – particularly our strategic alliance with Saudi Aramco in the rubber business – and LANXESS's future strategic direction. In this connection, the acquisition of the Chemours Clean and Disinfect business and our announcement of the planned acquisition of Chemtura resulted in lively dialogue. Alongside our dialogue with share analysts, we once again maintained our close interaction with bond analysts during the reporting year.

As of January 31, 2017, 46% of analysts (2015: 36%) recommended buying LANXESS stock. A further 54% (2015: 48%) said to hold our stock, while none (2015: 16%) gave a sell recommendation. In the Investor Relations section of our website we publish consensus estimates compiled by an independent service provider on the basis of current analyst evaluations.

ANNUAL STOCKHOLDERS' MEETING

At our Annual Stockholders' Meeting on May 20, 2016, 50,275,967 shares and the same number of votes – equivalent to 54.93% of the voting capital – were represented. This was a further improvement against the prior year, when representation was already at a good level of 52.21%. LANXESS stockholders passed all the agenda items. Detailed voting results and additional information about LANXESS's Annual Stockholders' Meeting are available in the Investor Relations section of our website. The next Annual Stockholders' Meeting is scheduled for May 26, 2017.

DIVIDEND

LANXESS follows a consistent dividend policy. We aim 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 26, 2017, that a dividend of €0.70 per share be declared for fiscal 2016 (2015: €0.60 per share). The 17% increase in the dividend is a signal of the company's increased profitability and financial solidity.

Relative to the price of €62.35 at which LANXESS shares ended 2016, this equates to a dividend yield of 1.1%. Subject to approval of the corresponding resolution by the Annual Stockholders' Meeting, the dividend is expected to be paid on May 31, 2017.

BONDS

In fiscal 2016, we took advantage of the favorable conditions on the bond markets to place three bonds. The September issuance of two eurobonds with a volume of €500 million each was significantly oversubscribed. The bonds have coupons of 0.25 % and 1.0 % and terms of five and ten years, respectively. In November, we then issued our company's first hybrid bond. This also had a total volume of €500 million but a term of 60 years and a coupon of 4.5 %. The first regular redemption option can be exercised in June 2023. As the hybrid bond is subordinate to LANXESS's other financial liabilities, 50 % of it is treated as equity by the rating agencies. This issuance was likewise several times oversubscribed – a clear signal of the great trust that LANXESS enjoys on the capital markets. The proceeds from these three newly issued bonds will serve to finance our planned acquisition of Chemtura. The bonds have a special redemption option in case it is not possible to close the transaction.

Our eurobond issued in September 2009 matured after a seven-year term in September 2016 and was redeemed. It had a total volume of €200 million and an annual coupon of 5.5 %.

Overview of LANXESS's Main Bonds

ISIN/WKN	Volume	Term	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	Term
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

All existing LANXESS eurobonds are listed on the Luxembourg Stock Exchange. Their term sheets are available in the Investor Relations section of our website. Further information about our bonds may also be found in the combined management report on page 135 ff.

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.

In September 2016, Standard & Poor's confirmed LANXESS's investment-grade rating at BBB– with a negative outlook. Standard & Poor's takes a positive view of the planned acquisition of Chemtura and the greater diversification that will result. It also praised our strong liquidity and our clear commitment to retaining our investment-grade rating.

In September 2016, Moody's confirmed its investment-grade rating of LANXESS at Baa3 with a stable outlook. This agency likewise regards the planned Chemtura transaction as being advantageous for LANXESS's risk profile. Moody's also emphasized aspects including our significantly reduced financial debt.

INVESTOR RELATIONS ACTIVITIES

Maintaining an active, broad and uninterrupted dialogue with investors and analysts is a top priority for LANXESS. Our objective is to provide a continuous and sustained flow of information about our company. Our activities remain focused on addressing equity-side investors. However, we also maintain a close dialogue with fixed income investors and with institutional investors focused on sustainability.

The high quality of our investor relations work again received external acknowledgment in 2016. For example, the sell-side analysts surveyed each year by U.S. magazine Institutional Investor ranked LANXESS first among European chemical companies in the Best Investor Relations category. The Chairman of our Board of Management Matthias Zachert was honored as "Best CEO" by the buy and sell sides. As part of its Pan European Survey, Extel ranked our Chief Financial Officer Michael Pontzen as best CFO in the chemical industry. The LANXESS Investor Relations team placed second in the annual Extel ranking of IR performance.

CORPORATE GOVERNANCE

Transparent governance

Through our corporate governance standards, we are seeking to strengthen the trust of investors, customers, employees and the public in LANXESS.

Binding principles

The LANXESS Code of Conduct provides employees worldwide with guidance on compliance.

Focus on prevention

An extensive portfolio of briefings, targeted training and regular risk assessments are aimed at preventing compliance violations.

Corporate Governance Report

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

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 pursuant to Section 289a of the German Commercial Code, which is published together with the Corporate Governance Report on our website at *http://www.lanxess.com/* under Investor Relations/Corporate Governance.

IMPLEMENTATION OF THE GERMAN CORPORATE GOVERNANCE CODE

As LANXESS is a stock corporation listed on the German stock exchange, corporate governance at the company is aligned with Germany's securities and capital market legislation, regulations pertaining to codetermination and the German Corporate Governance Code. The latter makes recommendations and suggestions concerning corporate governance. There is no obligation to comply with this code. Pursuant to Section 161 of the German Stock Corporation Act, the Board of Management and Supervisory Board of LANXESS make an annual declaration of compliance, in the past and going forward, with the recommendations and suggestions of the German Corporate Governance Code. The declaration of compliance of March 14, 2017, and the previous declarations are published on our website at *http://www.lanxess.com/* under Investor Relations/Corporate Governance. Reasons were given for non-compliance with two of the total 102 recommendations of the German Corporate Governance Code valid when the current declaration of compliance was issued. In addition, two suggestions were not fully implemented.

OTHER KEY PRINCIPLES OF THE MANAGEMENT PRACTICES APPLIED BY LANXESS

As an international company, LANXESS bears global responsibility for the propriety and sustainability of its conduct. Compliance, meaning the observance of all legal provisions that are binding on the LANXESS Group, ethical principles and regulations defined by the company itself, is therefore a fundamental requirement for all entrepreneurial activities. For this reason, LANXESS has established a company-wide compliance management system (CMS), which is defined in the CMS directive that is applicable throughout the company.

The goal of the CMS is to appropriately and effectively ensure compliance throughout the LANXESS Group, so as to counter unlawful or unethical conduct at the LANXESS Group at an early stage and introduce suitable measures to prevent improprieties. The 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 LANXESS has subsidiaries. The compliance organization is in particular the central point of contact and advisory for all employees on compliance-related issues. The function that includes the global compliance organization reports directly and regularly to the Board of Management.

One of the fundamental elements of the CMS is the compliance culture based on LANXESS's corporate values of respect, ownership, integrity, professionalism and trust. It is shaped by the clear commitment and dedication of the LANXESS Board of Management and the Supervisory Board. All managerial staff at LANXESS have a duty to embody this compliance culture and communicate it to employees.

The goal of the LANXESS Compliance Program, which is part of the CMS, is to prevent individual impropriety, identify misconduct at an early stage and react with appropriate sanctions. The "Code of Conduct – Code for integrity and compliance at LANXESS" is the cornerstone of the Compliance Program. It defines binding principles of conduct and provides employees with information and guidance on compliance. Additional preventive measures include in particular an extensive portfolio of compliance briefings and targeted compliance training. Compliance risk assessments are performed regularly to identify and evaluate company-specific compliance risk areas, as well as to develop additional measures and processes for reducing compliance risks. The main risk areas identified are assigned to individual group functions as special areas of responsibility for compliance. They are responsible for developing and implementing individual compliance programs that encompass in particular specific Group policies, standard operating procedures and training concepts. The compliance organization supports both the design and implementation phases.

An effective internal control system, appropriate monitoring activities and preventive compliance audits performed by Internal Auditing and those functions with special compliance responsibilities are designed to ensure observance of the regulations. If there are indications of compliance violations, the Integrity Line offers employees and external third parties many ways to notify the compliance organization – also anonymously if they wish.

LANXESS considers corporate responsibility a prerequisite to being able to operate successfully in the future and create value for all stakeholders. Given this awareness, sustainability is a key success factor that is at the heart of LANXESS's corporate culture and a component of our business strategy. For LANXESS, actively demonstrating corporate responsibility involves knowing and evaluating the impact of our actions – whether positive or negative – and maintaining a dialogue with stakeholders that enables us to satisfy their expectations to the best of our ability. By signing the Responsible Care® Global Charter, we have documented our commitment to the visions and ethical principles of the Responsible Care® 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. As a signatory to the U.N. Global Compact, LANXESS also recognizes in its directives the principles set forth by the world's largest and most important initiative for responsible corporate governance. An overview of the implementation of corporate responsibility at LANXESS can be downloaded from the Corporate Responsibility section of our website at *http://www.lanxess.com/*.

CORPORATE GOVERNANCE STRUCTURE

LANXESS AG is a company 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 comprises four members: Matthias Zachert (Chairman), Dr. Hubert Fink, Michael Pontzen and Dr. Rainier van Roessel. Information about the members of the Board of Management is available on our website at *http://www.lanxess.com/* 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. In deciding the composition of the Board of Management, the Supervisory Board gives consideration to professional suitability, leadership qualities and diversity. 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 resolved to maintain the status quo with a target for the proportion of women on the Board of Management of

LANXESS AG of 0% through June 30, 2017, in light of the fact that the appointments and service contracts of the members of the Board of Management serving at the time the resolution was taken are valid beyond June 30, 2017. In the future, however, the Supervisory Board will seek to appoint women with the appropriate professional qualifications and personal skills as members of the Board of Management.

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.

Manuela Strauch, Werner Czaplik, Dr. Hans-Dieter Gerriets, Thomas Meiers, Ralf Sikorski and Ifraim Tairi serve as the employee representatives on the Supervisory Board. Dr. Heike Hanagarth, Dr. Friedrich Janssen, Lawrence A. Rosen, Dr. Rolf Stomberg, Theo H. Walthie and Dr. Matthias L. Wolfgruber serve as the stockholder representatives. The Chairman of the Supervisory Board is Dr. Rolf Stomberg. The Vice Chairman is Ralf Sikorski. Information about the members of the Supervisory Board is available on our website at *http://www.lanxess.com/* 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 balance sheet 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.

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 Board of Management reports to the Supervisory Board on a timely and comprehensive basis about the progress of business and the situation of the Group, including potential risks and relevant issues relating to corporate planning. The Supervisory Board has laid down the Board of Managements notification and reporting requirements in detail in its rules of procedure. The Chairman of the Board of Management regularly exchanges information with the Chairman of the Supervisory Board in order to discuss matters of strategy, planning, business performance, risks, risk management and compliance. Certain transactions and measures of major or long-term importance require the Supervisory Boards approval. Measures requiring approval include, but are not limited to: adoption of the corporate planning; the acquisition, sale or encumbrance of real property, shareholdings or other assets; borrowings and certain other types of financial transactions. Thresholds have been set for some of these transactions.

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

Goals for the composition of the Supervisory Board

Section 5.4.1 of the German Corporate Governance Code states that the concrete objectives of the Supervisory Board regarding its composition and the status of the implementation of these objectives are to be published in the Corporate Governance Report.

The members of the Supervisory Board of LANXESS AG are expected to possess the necessary expertise, skills and professional experience to perform their duties. The members of the Supervisory Board autonomously undertake the necessary training required for their tasks and are supported in their efforts by the company. The 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. In making nominations, the Supervisory Board applies only legally permissible and fair selection criteria, acts in the company's best interests, and gives consideration to the nominated candidates' personality, integrity, commitment, professionalism and independence. The Supervisory Board should collectively possess all the knowledge and experience that is material to LANXESS's business activities.

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 within the meaning of Section 5.4.2 of the German Corporate Governance Code and free of conflicts of interest.

The Supervisory Board has now 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. The members of the Supervisory Board have professional knowledge of the chemical industry and other sectors that are important for the company's business.

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 Presidial Committee discusses key issues and prepares the meetings and resolutions of the Supervisory Board. 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 and resolutions of the full Supervisory Board regarding the compensation of the members of the Board of Management. In place of the full Supervisory Board, the Presidial Committee resolves on the conclusion and amendment of employment contracts with the members of the Board of Management and all other contractual matters not pertaining to compensation. The members of the Presidial Committee are Dr. Stomberg (Chairman), Ms. Strauch, Mr. Sikorski, Mr. Tairi, Mr. Walthie and Dr. Wolfgruber.

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 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. The members of the Audit Committee are Dr. Janssen (Chairman), Mr. Czaplik, Dr. Gerriets, Mr. Meiers, Mr. Rosen and Mr. Walthie. 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 members of this committee are Dr. Stomberg (Chairman), Mr. Czaplik, Mr. Sikorski and Dr. Wolfgruber.

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 members of this committee are Dr. Stomberg (Chairman), Mr. Rosen and Dr. Wolfgruber.

Other Supervisory Board committees established for a particular purpose perform the duties assigned to them by Supervisory Board resolution.

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 balance sheet 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 2016, 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, 2016, was less than 1% of all shares issued by the company.

OFFICES HELD BY BOARD OF MANAGEMENT MEMBERS

Offices held by serving Board of Management members (as of December 31, 2016)

Member of the Board of Management	External offices	Offices within the LANXESS Group
Matthias Zachert		
Chairman of the Board of Management	• Member of the Presidium of the German Chemical Industry Association (VCI) • Member of the Asia-Pacific Committee of German Business (APA) • Member of the Presidium of "stiftung neue verantwortung e.V."	• Chairman of the Executive Board of LANXESS Deutschland GmbH • 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 • Chairman of the Supervisory Board of Saltigo GmbH
Michael Pontzen		
Chief Financial Officer	• Member of the Board of Directors of Deutsches Aktieninstitut (DAI) • Member of Gesellschaft für Finanzwirtschaft in der Unternehmensführung e.V. (GEFIU)	• Member of the Executive Board of LANXESS Deutschland GmbH • Member of the Board of Directors of LANXESS Corp. • Member of the Shareholders' Committee of ARLANXEO Holding B.V.
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 Board of the German Chemical Industry Association (VCI) in North Rhine-Westphalia • Chairman of the Trade Policy Committee of the German Chemical Industry Association (VCI) • Member of the German Committee on Eastern European Economic Relations • Member of the 1 b Experience-Exchange Group of the German Association for Personnel Management (DGFP) • Member of the Board of the German Chemical Industry Federation (BAVC)	• Member of the Executive Board of LANXESS Deutschland GmbH • Chairman of the Board of Directors of LANXESS S.A. de C.V. • Executive member of the Board of Administration of LANXESS N.V. • Chairman of the Board of Directors of LANXESS Hong Kong Ltd. • Chairman of the Board of Directors of LANXESS Corp. • Member of the Board of Directors of LANXESS Chemical (China) Co. Ltd. • Chairman of the Board of Directors of LANXESS India Private Ltd. • Chairman of the Board of Directors of LANXESS K.K. • Chairman of the Board of Directors of LANXESS Pte. Ltd. • Chairman of the Board of Directors of LANXESS Thai Co., Ltd.

LANXESS AG SUPERVISORY BOARD

Serving members (as of December 31, 2016)

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, U.K.
- Former member of the Board of Directors of The British Petroleum Co. p.l.c., London, U.K.

Further offices:

- LANXESS Deutschland GmbH, Cologne* (Chairman)
- Biesterfeld AG, Hamburg*
- HOYER GmbH, Hamburg
- KEMNA Bau Andreae GmbH & Co. KG, Pinneberg

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*

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)

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)

Thomas Meiers

- District Secretary of the German Mining, Chemical and Energy Industrial Union, Cologne

Further offices:

- LANXESS Deutschland GmbH, Cologne*
- INEOS Deutschland Holding GmbH, Cologne*
- INEOS Köln GmbH, Cologne*

Serving members (as of December 31, 2016)

Lawrence A. Rosen

- Member of the Board of Management of Deutsche Post AG, Bonn

Further offices:
- LANXESS Deutschland GmbH, Cologne*
- Qiagen N.V., Venlo, Netherlands

Ralf Sikorski

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

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)

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*

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*

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, Basle, 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*
- ALTANA AG, Wesel*
- Grillo Werke AG, Duisburg*
- ARDEX GmbH, Witten (Chairman of the Advisory Committee)
- Cabot Corporation, Boston, Massachusetts, United States

* 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 December 31, 2016).

FINANCIAL INFORMATION

Profitability raised

Our key controlling parameter at Group level, the EBITDA pre exceptionals, has improved substantially.

Expanding our customer relationships

We increased sales volumes year on year in all segments.

Sound financing

We have strengthened our financial position and are well placed to finance the planned acquisition of Chemtura.

COMBINED MANAGEMENT REPORT

OF THE LANXESS GROUP AND LANXESS AG FOR FISCAL 2016

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
LANXESS Corporation, Pittsburgh, U.S.A.	Production and sales	Advanced Intermediates/ Performance Chemicals/ High Performance Materials
LANXESS India Private Ltd., Thane, India	Production and sales	Advanced Intermediates/ Performance Chemicals/ High Performance Materials
LANXESS N.V., Antwerp, Belgium	Production and sales	Advanced Intermediates High Performance Materials
LANXESS Chemicals S.L., Barcelona, Spain	Holding company	Advanced Intermediates/ Performance Chemicals/ High Performance Materials
Saltigo GmbH, Leverkusen, Germany	Production and sales	Advanced Intermediates

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., Sittard-Geleen, 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 Elastomères France S.A.S., Lillebonne, France	Production and sales	ARLANXEO
ARLANXEO Netherlands B.V., Sittard-Geleen, Netherlands	Production and sales	ARLANXEO
ARLANXEO Brasil S.A., Rio de Janeiro, Brazil	Production and sales	ARLANXEO
ARLANXEO Canada Inc., Sarnia, Canada	Production and sales	ARLANXEO
ARLANXEO Switzerland S.A., Granges-Paccot, Switzerland	Sales	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.

For additional information, please also see the Corporate Governance Report.

BUSINESS

Business organization and Group portfolio

As part of the “Let’s LANXESS again” realignment program, LANXESS and Aramco Overseas Holdings Coöperatief U.A., The Hague, Netherlands, a subsidiary of Saudi Aramco, have formed a strategic alliance for the synthetic rubber business named ARLANXEO in which each party holds a 50% interest. On the basis of a preliminary purchase price calculation for its interest after deduction of debt and other financial liabilities, Saudi Aramco paid a cash contribution of €1.2 billion. Closing of the transaction took place on April 1, 2016. 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. In this connection, new legal entities have been established and existing legal entities renamed. They have been assigned to the ARLANXEO segment. Details about the scope of consolidation are provided in the Notes to the Consolidated Financial Statements as of December 31, 2016.

As a result of the transaction described above, Group structures have been reorganized. The synthetic rubber business, formerly bundled in the Tire & Specialty Rubbers and High Performance Elastomers business units in the Performance Polymers segment, has since been reported as the ARLANXEO segment, while the High Performance Materials business unit, formerly also assigned to the Performance Polymers segment, has become a separate segment. LANXESS now reports as four segments, comprising an unchanged total of ten business units, each of which conducts its own operations and has global profit responsibility: Advanced Intermediates, Performance Chemicals, High Performance Materials and ARLANXEO. Prior-year figures have been restated accordingly.

Group functions support our 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 necessary proximity to markets and provide the organizational infrastructure required.

On August 31, 2016, we completed the acquisition of the Clean and Disinfect specialties business of U.S. chemical company Chemours. This business has some 170 employees worldwide and three production sites in Memphis and North Kingstown in the United States and Sudbury in the United Kingdom. It has been integrated into the Material Protection Products business unit in the Performance Chemicals segment. The anticipated annual EBITDA contribution is around €20 million. In addition, growth and synergy effects are expected to gradually generate an additional €10 million by 2020. In 2015, the acquired business generated sales of around €100 million, roughly half of which in North America. The provisional purchase price of around €200 million was paid from existing liquidity. This acquisition represents the first such transaction associated with our strategic realignment. In this connection, LANXESS acquired all shares in Antec International Ltd., Sudbury, United Kingdom; International Dioxcide Inc., North Kingstown, United States; and Chemours Jersey Ltd., St Helier, Jersey, Channel Islands.

LANXESS is also preparing to acquire U.S. company Chemtura, one of the major global providers of flame retardant and lubricant additives. With the largest acquisition in its history, LANXESS is building on its own additives portfolio and will become one of the world's major actors in this growing market. In addition to additives, Chemtura's portfolio includes urethanes and organometallics. According to the data published by Chemtura in its December 31, 2016, financial report, the company generated sales of around €1.5 billion in fiscal 2016, some 43% of which in North America. Adjusted EBITDA reported by Chemtura came to about €255 million. The enterprise value (including net financial liabilities and pension obligations) is around €2.4 billion. The two companies have signed an acquisition agreement under the terms of which Chemtura shareholders will receive US$33.50 per share in cash for each outstanding share of common stock held. This amounts to an expected purchase price of around €1.9 billion, which LANXESS will finance largely with corporate bonds, which have already been issued, and existing liquidity. Chemtura shareholders approved the transaction by a large majority at an extraordinary general meeting held on February 1, 2017. Subject to regulatory approvals and other closing conditions customary for such a transaction, the acquisition is expected to close around mid-2017.

In connection with the optimization of our plant networks for rubber products, we discontinued production of ethylene propylene diene monomer (EPDM) rubber at the site in Marl, Germany, as of the end of the first quarter of 2016. Within LANXESS's EPDM rubber production network, this facility was no longer competitive due to its relatively small capacity and comparatively high energy and raw material costs.

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

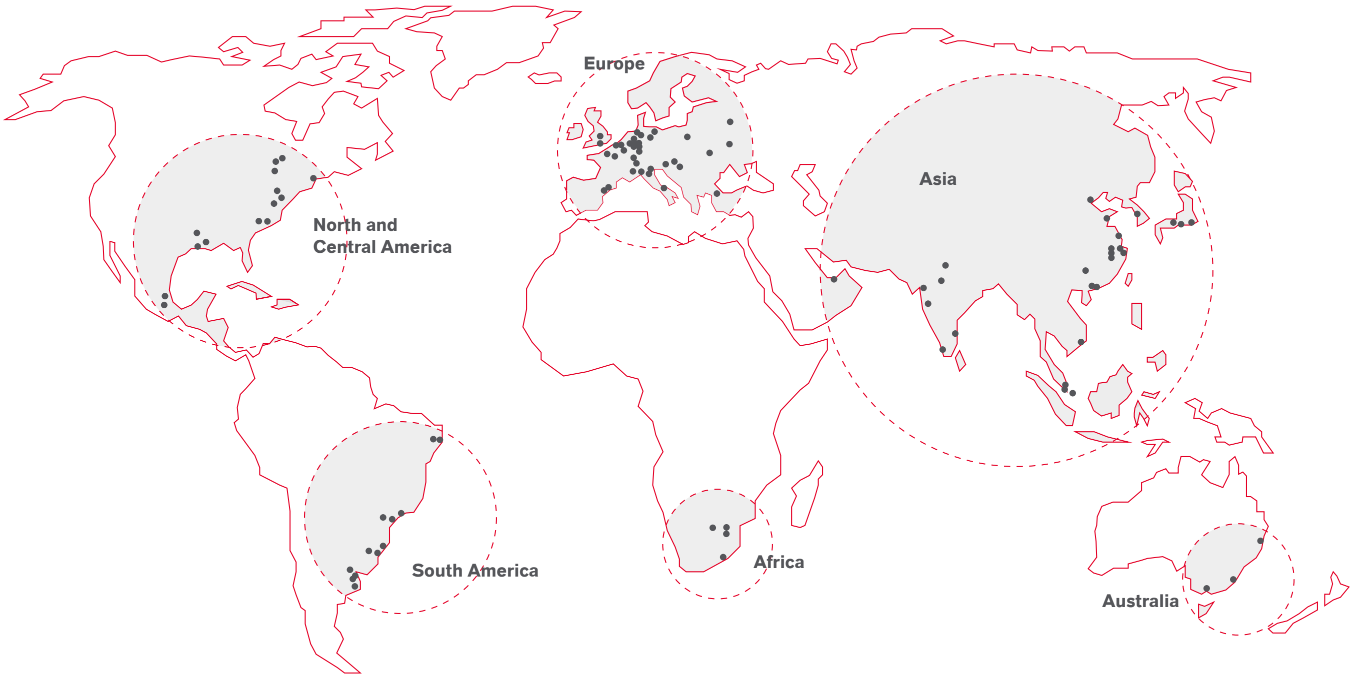
Business Units	Advanced Industrial Intermediates
	Saltigo
Sites	Brunsbüttel, Dormagen, Krefeld-Uerdingen and Leverkusen, Germany
	Antwerp, Belgium
	Baytown and Bushy Park, U.S.A.
	Liyang, China
	Nagda and Jhagadia, India
Applications	Agrochemicals
	Automotive
	Construction
	Aromas and flavors
	Pharmaceuticals
	Tire chemicals

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

Performance Chemicals

Business Units	Rhein Chemie Additives
	Inorganic Pigments
	Material Protection Products
	Leather
	Liquid Purification Technologies
Sites	Bitterfeld, Dormagen, Krefeld-Uerdingen, Leverkusen and Mannheim, Germany
	Epierre, France
	Branston and Sudbury, U.K.
	Filago, Italy
	Lipetsk, Russia
	Vilassar de Mar, Spain
	Merebank, Newcastle and Rustenburg, South Africa
	Burgettstown, Chardon, Greensboro, Little Rock Memphis, North Kingstown and Pittsburgh, U.S.A.
	Porto Feliz, Brazil
	Burzaco, Merlo and Zárate, Argentina
	Changzhou, Qingdao, Shanghai and Ningbo, China
	Jhagadia, India
	Toyohashi, Japan
	Sydney, Australia
	Singapore

LANXESS has a Presence Throughout the World



Performance Chemicals

Applications	Polymer additives
	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 High Performance Materials segment.

High Performance Materials

Business Units	High Performance Materials
Sites	Brilon, Hamm-Uentrop and Krefeld-Uerdingen, Germany
	Antwerp, Belgium
	Porto Feliz, Brazil
	Wuxi, China
	Jhagadia, India
	Gastonia, U.S.A.
Applications	Automotive
	Construction
	Electrical/electronics and medical equipment

We have combined our synthetic rubber activities in the ARLANXEO segment.

ARLANXEO

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

STRATEGY

Despite its comparative maturity, the chemical industry continues to expand. Worldwide it is achieving growth rates which are in part well above overall global economic expansion. For European companies in particular, sharing in this growth requires a strong ability and willingness to adapt, as the chemical industry is undergoing profound change.

Given the enormous scientific advances being made and the high cost of registering new substances, there are now only few opportunities for bringing commercially viable new chemical compounds to market. The challenge for most chemical companies is to deliver sustainable products based on known compounds for existing and new areas of application and to ensure that global processes and supply chains are sustainable, efficient, safe and fair.

The competitive environment in the chemical industry is also changing. On the supplier side, particularly in the commodity segment, the balance of power is shifting. Manufacturers in the emerging markets, the Middle East and the United States, with good access to low-cost raw materials and energy, are extending their value chains and entering the global markets with products that are competitive in terms of both price and quality. On the sales side, previously traditional importing nations like China are becoming increasingly self-sufficient. In recent years, China has built its own state-of-the-art production infrastructure that is also capable of manufacturing higher-quality products.

In addition to these shifts, factors like increasing political instability in important growth markets are generating considerable uncertainty and risks in both procurement and sales. Moreover, digitalization will change processes, working conditions and value chains in the chemical industry in the years ahead.

In the face of such challenging conditions, a company's quality is demonstrated by its readiness to formulate and consistently implement a forward-looking strategy which

- actively shapes change;
- creates stability in an increasingly uncertain environment;
- optimally balances the interests and needs of all stakeholders.

Substantial progress in realignment

We have created the basis for such a strategy through our three-phase global realignment program "Let's LANXESS again," which we initiated in 2014. 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 have also sustainably improved our cost position by around €150 million. In Saudi Aramco we have found a strong partner for our synthetic rubbers business and together we successfully launched the new strategic alliance ARLANXEO in April 2016. As part of our program to optimize our production, sales and supply chains, we initiated and in some cases have already completed a number of measures aimed at achieving further cost savings of around €150 million by the end of 2019. As with the optimization of our business and administrative structures, we are making progress faster than planned; we brought forward some measures from 2017 to 2016 and thereby realized associated cost savings sooner than anticipated.

LANXESS: enhanced stability and improved cash flow

We aim to make LANXESS a specialty chemicals group with enhanced stability, improved cash flow and a more balanced portfolio. To achieve this, we will be building especially on our strengths in both mid-sized and individual niche markets.

An important element of our strategy is to reduce economic dependency on individual sectors or closely correlated markets. In regional terms, too, we aim to achieve an even better balance in our portfolio by increasing the share of our business accounted for by the growth markets of China, North America and Southeast Asia. With the launch of ARLANXEO, we have started to limit the influence of the tire industry on our business. The acquisition of the Clean and Disinfect specialties business of U.S. company Chemours, completed at the end of August 2016, strengthens the portfolio and regional position of our Material Protection Products business unit, particularly in North America.

With the planned acquisition of the U.S. company Chemtura, one of the major global providers of flame retardant and lubricant additives, we would be building significantly on our own additives portfolio and become one of the world's major actors in this growing market. We are confident of completing the acquisition of Chemtura by the middle of fiscal 2017.

In order to further improve the alignment of our existing businesses and leverage future growth potential, we aim to invest up to €400 million in our organic growth through 2020, as decided in 2015. Much of our investment budget will be focused on expansion measures in the Advanced Intermediates, Performance Chemicals and High Performance Materials segments. All capital expenditures and future strategic measures are subject to the strict application of a conservative financing policy guided by clear criteria and focused on EBITDA pre exceptionals – our key controlling parameter – and on maintaining our investment-grade rating.

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 parameter – 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) and the net financial debt ratio as company-specific lead indicators or as a basis for monitoring.

Value Management and Control System

		2012	2013	2014	2015	2016
EBITDA pre exceptionals	€ million	1,223	735	808	885	995
EBITDA margin pre exceptionals	%	13.4	8.9	10.1	11.2	12.9
Capital employed	€ million	5,442	4,969	5,093	5,043	7,479
ROCE	%	15.6	5.8	7.9	8.4	6.9
Days of sales in inventory (DSI)	Days	64.7	58.0	65.4	67.2	67.2
Days of sales outstanding (DSO)	Days	47.4	47.8	48.0	47.6	51.1
Net financial liabilities	€ million	1,483	1,731	1,336	1,211	2,394
Net financial liabilities after deduction of time deposits and securities available for sale	€ million	1,483	1,731	1,336	1,211	269
Net financial debt ratio		1.2x	2.4x	1.7x	1.4x	0.3x
Investment ratio	%	7.7	7.5	7.7	5.5	5.7

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

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, because of their nature or scope, may 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 no sales targets, either for the short or 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 lead indicators

Lead 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 we use 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 2016, ROCE was 6.9% – against 8.4% in 2015 – and thus slightly above our weighted average cost of capital (WACC) after adjustment for comparability. ROCE in 2016 was negatively affected by the planned 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 the reporting year, DSI replaced DIO (days of inventory outstanding) as a performance indicator. The latter was based on cost of goods sold rather than on sales. The switch to DSI was made because sales provide the basis for a more comparable performance indicator as of the reporting dates than cost of goods sold, which may also be influenced by inventory-related valuation effects. In 2016, DSI was at 67.2 days (2015: 67.2 days) and DSO at 51.1 days (2015: 47.6 days). In this connection, receivables in the reporting period were 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-off period, net present value and ROCE. The investment rate is an indicator which describes cash outflows for capital expenditures divided by sales. For more detailed information about our capital expenditure guidelines, please see "Strategy" above.

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 of €1,950 million and securities available for sale, net financial liabilities as of December 31, 2016, amounted to €269 million, compared with €1,211 million at the end of 2015.

The time deposits, which have maturities through mid-2017 at the latest, and the securities available for sale result from investing the payment of around €1.2 billion received from Saudi Aramco for its interest in ARLANXEO and liquidity of €1,477 million from the issuance of bonds. These financial resources are for the most part earmarked to finance the acquisition of Chemtura.

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, 2016, decreased to 0.3 from 1.4 at the previous year's reporting date.

At Group level, we also consider provisions for pensions and other post-employment benefits to be components of debt. Compared with the end of 2015, they increased by €34 million to €1,249 million. Including these additional components of debt, the total net debt ratio in relation to EBITDA pre exceptionals was 1.5, compared with 2.7 at the end of 2015.

Net Financial Liabilities

€ million	2012	2013	2014	2015	2016
Non-current financial liabilities	2,167	1,649	1,698	1,258	2,734
Current financial liabilities	167	668	182	443	78
Less:					
Liabilities for accrued interest	(54)	(53)	(26)	(24)	(23)
Cash and cash equivalents	(386)	(427)	(418)	(366)	(355)
Near-cash assets	(411)	(106)	(100)	(100)	(40)
Net financial liabilities	**1,483**	**1,731**	**1,336**	**1,211**	**2,394**
Time deposits and securities available for sale	0	0	0	0	(2,125)
Net financial liabilities after deduction of time deposits and securities available for sale	**1,483**	**1,731**	**1,336**	**1,211**	**269**

PROCUREMENT AND PRODUCTION

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 reduce the risk of delivery shortfalls caused by transportation issues in particular.

Our biggest suppliers of chemical raw materials in 2016 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 2016 were ammonia, butadiene, cyclohexane, ethylene, isobutylene and toluene. In all, strategic raw materials accounted for a purchasing volume of about €2.2 billion in fiscal 2016 (2015: about €2.5 billion), or around 76 % of our procurement spend for raw materials and goods in 2016, which amounted to approximately €2.9 billion (2015: about €3.1 billion). Our total procurement spend in 2016 was about €5.7 billion (2015: around €5.9 billion).

We systematically apply best-practice processes. These include e-procurement tools, such as e-catalogs, auctions and electronic marketplaces, many of which are integrated into our internal IT systems. At the end of 2016, around 80 % of all items ordered (2015: about 70 %) were handled in e-procurement systems. In this context, we have linked in 693 new catalogs globally. The catalog use rate was around 20 % at ARLANXEO and about 45 % in the other three segments.

Our HSEQ management process begins when raw materials and services are procured. Across the LANXESS Group, a global procurement directive defines how our employees should behave toward suppliers and their employees. In the reporting year, our procurement transactions involved around 18,000 suppliers. 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. A successful sustainability assessment and/or audit are a fundamental requirement for major new suppliers seeking to be included in our portfolio. In 2016, we included a total of some 95 significant new suppliers.

Also in 2016, in order to further support the global rollout of the assessment process, we trained employees in India in the sustainability assessment of our suppliers. In countries where this training had already taken place in previous years, regular courses are conducted to familiarize new employees with the process and provide longer-serving employees with updates about any changes made in the interim.

As a founder of the Together for Sustainability (TfS) initiative, we aim to enhance supply chain transparency and thus further minimize procurement risks. This initiative, membership of which in the reporting year rose to 19 international chemical companies with a cumulative procurement volume of more than €180 billion, aims to develop and implement a global audit program to assess and continuously improve sustainability activities along the chemical industry supply chain, focusing 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 6,500) and audit reports (around 680) at the end of 2016. Suppliers whose sustainability-related activities have been assessed by TfS currently account for 60% (2015: 57%) of our relevant procurement spend. Brazil, China and India remained the focus of the 238 audits conducted in 2016 (2015: 179). These identified a need for action in respect of labor and human rights and occupational safety at around ten suppliers. However, no serious deficiencies were identified that would have resulted in termination of a business relationship. In the reporting year, our own production site in Leverkusen, Germany, successfully underwent a TfS audit and received the best-possible assessment.

In 2016, many participants attended the TfS Supplier Days in Mumbai, India, the purpose of which was to explain to suppliers the growing importance of a sustainable supply chain to LANXESS and the other members of the initiative

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 and polymers in quantities of several ten thousand tons.

Our production facilities are organizationally assigned to individual business units. The most important production sites are in Leverkusen, Dormagen and Krefeld-Uerdingen, Germany; Antwerp, Belgium; Sittard-Geleen, Netherlands; Orange, United States; Sarnia, Canada; Triunfo and Duque de Caxias, Brazil; Jhagadia, India; Singapore; and Changzhou and Wuxi, China. LANXESS also has other production sites in Argentina, Australia, Belgium, Brazil, China, France, Germany, India, Italy, Japan, Russia, South Africa, Spain, the United Kingdom and the United States. For a detailed breakdown of our production sites by segment, please see "The segments in brief" in this combined management report.

The following significant changes occurred in our global production network in 2016:

- At the start of the year, our High Performance Materials business unit began operating a second production line for compounding high-tech plastics at its Gastonia facility in the United States, doubling the plant's annual capacity to 40,000 tons.
- In Ningbo, China, the new site operated by our Inorganic Pigments business unit started production of iron oxide red pigments in 2016. The plant deploys state-of-the-art process technology and has an initial annual capacity of 25,000 tons. At the same site, a mixing and milling plant with an annual capacity of 70,000 tons began producing inorganic pigments in 2016.
- With the acquisition of the Chemours Clean and Disinfect specialties business at the end of August, our Material Protection Products business unit took over three production sites in Memphis and North Kingstown, United States, and Sudbury, United Kingdom.
- In connection with the optimization of our global rubber production network, we discontinued production of EPDM rubber at the site in Marl, Germany, which was no longer competitive, at the end of the first quarter of 2016.

Including the measures described above, cash outflows for capital expenditures came to €439 million in fiscal 2016. Further information about the capital expenditures can be found in the "Statement of financial position and financial condition" section of this combined management report.

SALES ORGANIZATION AND CUSTOMERS

Sales organization

We sell our products all over the world, to several thousand customers in more than 150 countries across all continents. LANXESS's long-standing 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 48 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 52 of our own production sites in 17 countries. Wherever possible, customers are supplied from production sites in the same region, yielding advantages in terms of time and costs.

In 2016, e-business activities continued to account for a significant proportion of procurement, sales and logistics transactions. Altogether, considerably more than one million orders and the respective automated follow-up notices were handled as e-business. This capability is provided by the "LANXESS one" internet portal and the system-to-system connections via ELEMICA. In 2016, the "SAP Ariba" portal was used for the first time in procurement. We will continue to expand this process, which provides benefits for all involved, by adding further partners and technical services. Sales generated through e-business reached approximately €1.4 billion (2015: €1.7 billion).

Selling costs in the reporting year came to 10.1 % of LANXESS Group sales, compared with 9.6 % in 2015.

The table below shows selling costs by segment over the last five years.

Selling Costs

	2012	2013	2014	2015	2016
Selling costs (€ million)	763	755	742	759	781
% of sales	8.4	9.1	9.3	9.6	10.1
Breakdown by segment					
Advanced Intermediates	147	146	143	152	155
Performance Chemicals	313	308	310	321	324
High Performance Materials	75	81	77	83	85
ARLANXEO	209	205	200	197	208
Reconciliation	19	15	12	6	9

Prior-year figures adjusted to reflect changed segment structure

Customers

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. We regularly review individual sales and marketing strategies on the basis of customer satisfaction surveys.

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

Shares of Sales by Industry Sector

%	2016
Tires	~ 20
Automotive	~ 20
Chemicals	~ 15
Agrochemicals	~ 10
Construction, electrical/electronics, leather/footwear	~ 15
Others (cumulative share)	~ 20

In 2016, our top ten customers accounted for about 20 % (2015: 22 %) of total sales. None of our customers accounted for more than 10 % of Group sales. 51 (2015: 55) customers accounted for annual sales in excess of €20 million.

The number of customers in each segment varies widely. The Advanced Intermediates segment had some 3,300 customers in 2016 (2015: 3,400), while Performance Chemicals, High Performance Materials and ARLANXEO had about 9,800 (2015: 10,400), around 1,900 (2015: 1,900) and some 1,900 (2015: 1,800), respectively. This information is based on the number of customer accounts in each segment. Each segment includes all customer groups and sales categories. However, one customer may do business with more than one segment.

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 High Performance Materials and ARLANXEO segments, which nonetheless generate relatively high sales, are typical of the high-performance plastics and synthetic rubber products businesses. On account of the extensive customer base, 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. In 2016, as part of the organizational changes at LANXESS, we also adjusted the framework for research and development. With the establishment of ARLANXEO, rubber-related projects were transferred from the Production, Technology, Safety & Environment Group Function to the Tire & Specialty Rubbers and High Performance Elastomers business units, in addition to the research activities conducted directly there.

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 and transferred those projects that were previously managed centrally to the business units' research departments.

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. One focus is on reviewing current production processes using mathematical and experimental methods in order to pinpoint optimization potential. In this way, we have identified potential savings on raw materials and energy, developed process concepts to exploit these savings and already realized them in several areas. We have also succeeded in further reducing our operating costs by developing new model-based process control concepts that we have implemented with the incorporation of state-of-the-art online analytics. These concepts enable us to run our plants even closer to the optimum operating point and make them even more efficient in terms of raw material and energy consumption. In this way, we can ensure the full utilization of synergies and the transfer of innovations to various business units.

Our main research and development units are at the sites in Leverkusen, Krefeld-Uerdingen and Dormagen, Germany; London, Canada; and Qingdao and Wuxi, China. We also operate a center for engineering plastics in Hong Kong. At our international research and development sites, we test materials such as high-performance rubbers and engineering plastics for lightweight automotive engineering applications.

LANXESS also collaborates with universities and research institutes in many research projects. In 2016, we had a total of 144 (2015: 153) major research and development alliances, 38 (2015: 35) of which were with universities, 88 (2015: 97) with suppliers or customers, and 18 (2015: 21) with research institutes.

Main research and development projects

In 2016, the Advanced Intermediates segment continued to invest in its efficiency and in improving its production processes.

For the Saltigo business unit, innovative products are no longer the sole guarantee of market success. Instead, the focus is on holistic solutions for complex and swiftly evolving customer requirements. These solutions deliver added value through tailored combinations of technologies and services. To safeguard its future capability in this area, Saltigo is currently investing around €60 million at the Leverkusen site to expand state-of-the-art synthesis capacities for customer projects by about a third. The redevelopment and expansion work is scheduled for completion at the end of 2017.

The Performance Chemicals segment brought important innovations to market in 2016. For example, the Rhein Chemie Additives business unit introduced Stabaxol P 110, a new anti-hydrolysis additive for plastics which extends the life of biopolymers such as polylactic acid, in particular. The same business unit launched Rhenowave, an innovative process control system that enables our customers to more reliably guarantee the quality of rubber compounds during processing.

The Material Protection Products business unit introduced a tailored product portfolio for the antimicrobial treatment of plastics, thereby gaining access to the attractive biocide market for high-volume applications in flexible PVC, silicon-based construction materials and polyurethanes. Sold as Biochek® 8064-8069 and Biochek® 8071 in the core markets of the United States, China, Taiwan and EMEA, the products are designed to satisfy the increasingly stringent regulatory requirements for biocide products.

In 2016, the High Performance Materials segment developed a range of product innovations including Durethan TC polyamides for the thermal management of components and devices. These new thermally conductive polyamides are ideal for manufacturing components from which heat needs to be dissipated because they are up to seven times more conductive than the standard polyamides used in automotive engineering. They are also a cost-effective alternative to die-cast metals. Another milestone last year was the optimization of our high-temperature-stabilized polyamide portfolio. In response to demands for higher long-term service temperatures in engines, we can now offer our customers high-performance polyamides with extreme temperature stability.

In 2016, ARLANXEO continued optimizing its portfolio of high-quality rubber products. For instance, the Tire & Specialty Rubbers business unit expanded its range of Buna FX functionalized SSBR rubbers. These products were rigorously tested by various tire customers and are to be commercialized in 2017. Our research activities to develop a self-healing technology which maintains the air pressure in a tire that has been punctured by an object such as a screw or nail were transferred from our central research unit to the Tire & Specialty Rubbers business unit. The first samples were provided to tire manufacturers in the reporting year.

Cost trend and employees

Research and development expenses in 2016 totaled €131 million, or 1.7 % of sales (2015: €130 million or 1.6 %). The High Performance Elastomers, Tire & Specialty Rubbers, High Performance Materials and Saltigo business units together accounted for the largest share of these expenses. Material Protection Products, Saltigo, Liquid Purification Technologies and Leather were the business units most active in research in terms of their ratios of research and development expenses to sales.

Research and Development Expenses

	2012	2013	2014	2015	2016
Research and development expenses (€ million)	192	186	160	130	131
% of sales	2.1	2.2	2.0	1.6	1.7

At the end of 2016, we employed 589 people – against 585 in 2015 – in our research and development laboratories worldwide. Due to the transfer of projects to ARLANXEO, the number of employees in our central research unit declined to 117 from 213 on December 31, 2015.

Number of Employees in Research and Development

	2012	2013	2014	2015	2016
Year end	843	931	708	585	589
% of Group employees	4.9	5.4	4.3	3.6	3.5

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 223 to 270 in 2016, 176 (2015: 128) of which aimed to develop new products and applications or improve existing ones. The remaining 94 projects (2015: 95) 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 2016, we submitted 56 priority applications worldwide. As of December 31, 2016, the full patent portfolio included approximately 1,010 patent families covering around 6,820 property rights.

CORPORATE RESPONSIBILITY

LANXESS considers responsible business conduct a prerequisite to being able to operate successfully in the future and create value for all stakeholders. Given this awareness, sustainability is a key success factor that is at the heart of LANXESS's value-based performance culture and a component of our business strategy. Our objective is to know the impact of our actions – whether positive or negative – and to maintain a dialogue with our stakeholders that enables us to satisfy their expectations to the best of our ability. In this connection, our responsibility spans the entire supply and value creation chain – from the global procurement of raw materials and product development, through production, storage and transport, to use and disposal.

Our actions are guided by established international standards and frameworks, such as the U.N. Global Compact, the Responsible Care® Global Charter, the employment standards of the International Labour Organization and the Sustainable Development Goals. Our own corporate directives and regulations, chief among them the "Code of conduct – Code for integrity and compliance at LANXESS", specify the rules for individual areas of activity and are binding requirements on all LANXESS employees.

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. External, independent experts regularly audit the progress of integrating new sites into our management system and the performance of our management system worldwide.

As of December 31, 2016, our matrix certificate covered 49 certifiable companies (companies with employees and in which LANXESS holds an interest of more than 50 %) with 79 sites in 23 countries. In relation to total headcount, this equates to coverage of 98 %. In addition, since 2012, we have successively obtained certification to ISO 50001 for energy management for LANXESS AG and all its subsidiaries (in which it holds an interest of more than 50 %) in Germany. As of December 31, 2016, our certification coverage for energy management in Germany stood at 100 % in relation to headcount. The status of our certificates can be viewed at any time in the Corporate Responsibility section of our website.

Environment data

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. Data for all indicators except LTIFR and RIR (used to measure occupational safety) are gathered only at those production sites in which the company holds an interest of more than 50%[1]. PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft (formerly PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft) assessed our HSE indicators for 2012 to 2016 and the necessary data recording processes in the course of a business audit ("limited assurance").

Social commitment

We believe it is only right that, in the context of corporate citizenship, we take responsibility for the development of the social environment in which we operate. In this respect, we concentrate especially on ensuring that people benefit from our projects. Our not-for-profit activities focus on providing support for science education in schools. The LANXESS education initiative is the Group-wide platform for these activities. Since its launch, we have reached a great number of children, adolescents and young adults worldwide. A further focus of our social commitment is enhancing awareness worldwide of the causes and consequences of climate change and water scarcity – for both drinking and industrial uses. In addition, through our cultural commitment activities, we sponsor both literary and musical talents.

LEGAL ENVIRONMENT

There were no changes in the legal environment in 2016 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 economy was subject to various influences in the reporting year. On the one hand, growth was supported by oil prices and the monetary policy of key central banks. On the other hand, the discussion at the start of the year about a possible hard landing for the Chinese economy increased uncertainty, as did the ongoing economic problems in Russia and Brazil and the growing threat of terrorism. Adverse effects included protectionist and populist trends in politics, the difficult situation facing a number of European banks and political uncertainty in Europe heightened by the United Kingdom's decision to leave the European Union.

Despite these mixed conditions, the global economy expanded by 2.3%, with regional variations in growth, as shown by the table below.

GDP and Chemical Production in 2016

Change vs. prior year in real terms (%)	Gross domestic product	Chemical production
NAFTA	1.6	0.4
Latin America	(2.3)	(0.8)
EMEA (incl. Germany)	1.6	1.3
Germany	1.8	(0.9)
Asia-Pacific	4.4	5.9
World	**2.3**	**3.7**

Source for 2016 growth rates: IHS Markit

One euro was worth US$1.05 at the end of 2016. The U.S. currency thus appreciated by 3.7% on the closing price of US$1.09 at the end of 2015. As in 2015, the average price for the year was US$1.11 to the euro. Due to the regional positioning of our business, a stronger U.S. dollar generally has a positive effect on our earnings. Centralized hedging activities limit any impact that cannot be neutralized by ensuring that production and sales take place in the same currency area.

Compared with 2015, procurement prices for raw materials mostly fell, though the trend was less marked overall for aromatics and olefins than 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 price of butadiene on the procurement markets rose on average for the year, whereas the prices of feedstocks such as benzene and toluene moved in the opposite direction.

1) Also covered are the wholly owned subsidiaries of ARLANXEO Holding B.V., Sittard-Geleen, Netherlands, in which LANXESS holds a 50% interest.

The chemical industry

The chemical industry increased global production in 2016 by 3.7 %, although the picture varied regionally. Asia-Pacific was the driving force of this development with growth of 5.9 % based on momentum from China and India.

Evolution of major user industries

Global automobile production expanded by 3.8 % during the reporting period. Asia-Pacific, driven by China and India, posted the strongest growth, whereas Latin America saw a very significant decline.

Agrochemicals achieved solid global growth of 2.9 %. The NAFTA region expanded production by a substantial 5.2 %. On the other hand, production in Germany decreased by 5.3 %.

The construction industry recorded growth of 2.8 % worldwide. The Asia-Pacific region was a significant factor in this growth with an increase of 5.1 %. By contrast, Latin America saw a decline of 3.2 %.

The global tire industry recorded strong growth in production of 3.8 %. Asia-Pacific was the most dynamic region with growth in production of 4.9 %. Latin America achieved growth of 3.0 % on a low prior-year level.

Evolution of Major User Industries in 2016

Change vs. prior year in real terms (%)	Automotive	Agrochemicals	Construction	Tires
NAFTA	1.9	5.2	2.1	0.9
Latin America	(12.9)	0.1	(3.2)	3.0
EMEA (incl. Germany)	3.4	0.7	0.9	2.6
Germany	0.2	(5.3)	1.3	0.2
Asia-Pacific	5.8	3.4	5.1	4.9
World	**3.8**	**2.9**	**2.8**	**3.8**

Source for 2016 growth rates: IHS Markit, LMC

KEY EVENTS INFLUENCING THE COMPANY'S BUSINESS

Business performance in 2016 was characterized by higher production and sales volumes and by the successful implementation of measures to improve operational competitiveness. Falling procurement prices for raw materials and energy and the persistently difficult competitive situation in our synthetic rubber business resulted in adjustments to selling prices. Exchange rate developments supported a positive result overall.

As a significant aspect of its realignment, LANXESS partnered with Saudi Aramco to establish a strategic alliance – named ARLANXEO – for the synthetic rubber business in which each partner holds a 50 % interest. We believe this alliance will give the business units concerned – Tire & Specialty Rubbers and High Performance Elastomers – competitive and reliable access to strategic raw materials in the medium term. Closing of the transaction took place on April 1, 2016. LANXESS used the cash contribution of €1.2 billion paid by Saudi Aramco to significantly reduce its debt.

With the acquisition of the Clean and Disinfect specialties business of U.S. chemical company Chemours at the end of August 2016, we made the first purchase associated with our strategic realignment. We intend to take a further step on our route to becoming a more stable specialty chemicals group with a more balanced portfolio through the acquisition of U.S. company Chemtura, closing of which is expected before mid-2017.

COMPARISON OF FORECAST AND ACTUAL BUSINESS

Comparison of Forecast and Actual Business 2016

	Forecast for 2016 in Annual Report 2015	Actual 2016
Business development: Group		
EBITDA pre exceptionals	• Influences expected to have a largely offsetting effect on the individual segments • Around the prior-year level (€885 million)	• €995 million
Business development: segments		
Advanced Intermediates	• Business stable overall, especially in Advanced Industrial Intermediates • Slower growth in the agriculture business of our Saltigo business unit	• EBITDA pre exceptionals virtually in line with expectations at €326 million (2015: €339 million)
Performance Chemicals	• Stable business development overall	• EBITDA pre exceptionals significantly higher than expected at €374 million (2015: €326 million)
High Performance Materials	• Positive development of our business with lightweight polymers for automotive applications	• Forecast EBITDA pre exceptionals substantially exceeded at €159 million (2015: €111 million)
ARLANXEO	• Declining business development • Slight improvement in demand from the tire and automotive industries • Ongoing price pressure against the background of additional capacities • Impact of idle costs • No significant positive effects from the continuing strength of the U.S. dollar	• EBITDA pre exceptionals decreasing but substantially better than expected at €373 million (2015: €391 million)
Raw material prices	• Little change to the low procurement cost level, especially for the petrochemical raw materials used in synthetic rubber products • Continuation of the volatility in raw material prices that is in some cases substantial	• Still volatile and substantially below the prior-year level
Financial condition: Group		
Cash outflows for capital expenditures	• Approx. €450 million	• €439 million

In the combined management report for fiscal 2015, we predicted that EBITDA pre exceptionals for 2016 would be on a more or less comparable level to 2015. Influences were expected to have a largely offsetting effect on the individual segments. We narrowed this guidance over the course of the year and, in our interim report for the third quarter of 2016, forecast improved EBITDA pre exceptionals of between €960 million and €1 billion. The actual result of €995 million was at the upper end of this range and exceeded 2015 earnings of €885 million by €110 million.

The Performance Chemicals, High Performance Materials and ARLANXEO segments contributed more or less equally to enabling the LANXESS Group to exceed its earnings forecast. EBITDA pre exceptionals for the Advanced Intermediates segment was virtually in line with expectations. At minus €237 million, the reconciliation for the LANXESS Group was more negative than expected.

Positive exchange rate effects had an impact at Group level. The early implementation of measures to improve operational competitiveness, which also resulted in higher capacity utilization, was a further reason for substantially exceeding earnings expectations. Continued support came from a slightly positive portfolio effect following the acquisition of the Chemours Clean and Disinfect specialties business.

As expected in 2015, the partnership with Saudi Aramco strengthened our liquidity position. Saudi Aramco paid a cash contribution of €1.2 billion for its interest in ARLANXEO. Most of this amount, together with proceeds from the issuance of new bonds, was invested in time deposits and securities available for sale. We had expected net income of LANXESS AG in the reporting year to be substantially higher than in 2015. Mainly due to a significant improvement in income from investments in affiliated companies, net income in 2016 amounted to €578 million after net income of €91 million in 2015.

BUSINESS PERFORMANCE OF THE LANXESS GROUP

- Significant strategic evolution of the company with the establishment of ARLANXEO
- Integration of the Chemours Clean and Disinfect business successfully completed
- Persistently challenging competitive situation for synthetic rubber
- Sales decline by 2.6 % against prior year, largely due to raw material prices
- Volumes increase by 3.7 % year on year
- EBITDA pre exceptionals up 12.4 % to €995 million
- Substantial improvement of EBITDA margin pre exceptionals to 12.9 % after 11.2 % in 2015
- Net income and earnings per share improved to €192 million and €2.10, respectively, after €165 million and €1.80 in 2015
- Earnings per share adjusted for exceptional items and amortization of intangible assets increase from €2.03 to €2.69

Key Financial Data

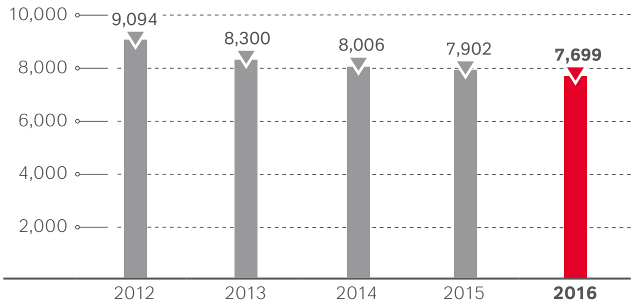
€ million	2015	2016	Change %
Sales	7,902	7,699	(2.6)
Gross profit	1,748	1,754	0.3
EBITDA pre exceptionals	885	995	12.4
EBITDA margin pre exceptionals	11.2 %	12.9 %	–
EBITDA	833	945	13.4
Operating result (EBIT) pre exceptionals	422	514	21.8
Operating result (EBIT)	415	464	11.8
EBIT margin	5.3 %	6.0 %	–
Financial result	(127)	(125)	1.6
Income before income taxes	288	339	17.7
Net income	165	192	16.4
Earnings per share (€)	1.80	2.10	16.4
Earnings per share adjusted for exceptional items and amortization of intangible assets	2.03	2.69	32.5

Sales and earnings

In 2016, LANXESS Group sales declined by 2.6 % from €7,902 million in the prior year to €7,699 million. Lower selling prices, which resulted particularly from passing on lower procurement prices for raw materials and from the challenging competitive situation for synthetic rubbers, diminished sales by 6.5 %. Changes in exchange rates had almost no impact at minus 0.1 %. These effects were partially offset by a sales increase attributable to higher volumes (3.7 %) and the acquisition of the Chemours Clean and Disinfect business (0.3 %). After adjustment for currency and portfolio effects, operational sales decreased by 2.8 %.

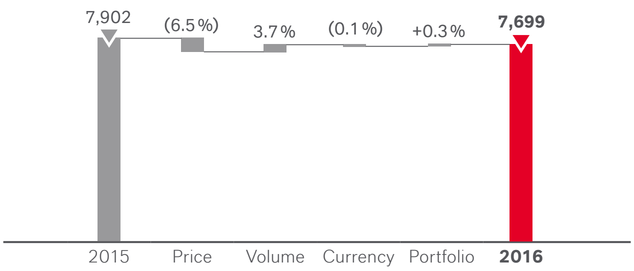
Group Sales

€ million



Effects on Sales

€ million/%



Sales in our Advanced Intermediates segment fell by 4.6 %. Selling price adjustments, driven primarily by raw material prices, resulted in a decline in sales. On the other hand, solid demand led to a positive effect from higher volumes.

Sales in our Performance Chemicals segment advanced by 2.7 %. The positive development of volumes more than compensated the negative effect of the decrease in selling prices. The integration of the Clean and Disinfect specialties business of U.S. chemical company Chemours into the Material Protection Products business unit also had a positive effect on sales.

Our High Performance Materials segment recorded a decline in sales of 2.7 %, resulting especially from passing lower procurement prices for raw materials on to customers. On the other hand, the growth in volumes had a positive impact on sales.

ARLANXEO posted a sales decrease of 5.2 %. Lower selling prices resulted particularly from the challenging competitive situation in the synthetic rubber business and lower raw material prices. Sales volumes were above the prior-year level.

Shifts in exchange rates had almost no effect on sales in all segments.

Sales by Segment

€ million	2015	2016	Change %	Proportion of Group sales %
Advanced Intermediates	1,826	1,742	(4.6)	22.6
Performance Chemicals	2,085	2,142	2.7	27.8
High Performance Materials	1,085	1,056	(2.7)	13.7
ARLANXEO	2,859	2,710	(5.2)	35.2
Reconciliation	47	49	4.3	0.7
	7,902	**7,699**	**(2.6)**	**100.0**

Prior-year figures adjusted to reflect changed segment structure

While sales in the Asia-Pacific region increased by a slight 1.2%, LANXESS recorded a decline in sales in the other sales regions.

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 operating target. For additional information, please see "Company-specific lead indicators."

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

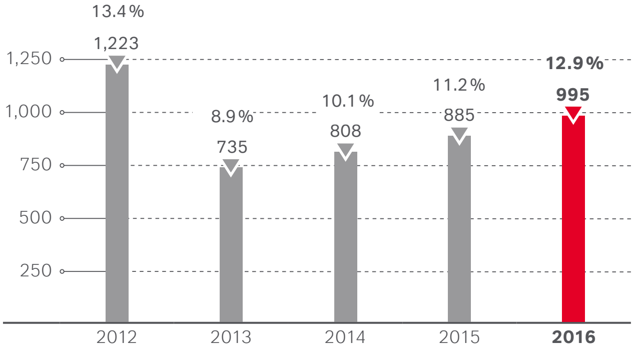
The cost of sales showed a decline of 3.4%, to €5,945 million, which was disproportionately large compared with sales. Cost relief was chiefly attributable to lower procurement prices for raw materials and energy, a favorable shift in exchange rates (especially for the Argentinian, Brazilian and South African currencies), lower production costs attributable to the implementation of measures to improve operational competitiveness and higher capacity utilization. Higher volumes and the acquisition of the Chemours Clean and Disinfect specialties business had an opposing effect. Capacity utilization of around 80% was 3 percentage points above the prior-year level.

Gross profit was €1,754 million, up by €6 million or 0.3% against the prior year. The gross profit margin increased from 22.1% to 22.8%. Selling prices were adjusted to reflect the overall decline in raw material costs. The expansion of volumes and the positive effect of exchange rates on our production costs had a positive impact on gross profit. In addition, the specialties business acquired from Chemours made a positive contribution to gross profit.

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 €110 million, or 12.4%, to €995 million in 2016, after €885 million in the prior year. A positive overall earnings performance at Group level was particularly the result of lower production costs attributable to the implementation of measures to improve operational competitiveness and of increased volumes. Advantageous exchange rate effects provided additional support. An opposing influence came from the adjustment in selling prices as a result of the persistently challenging competitive situation in the synthetic rubber business, which significantly exceeded the effect of reduced raw material costs. A slightly positive effect resulted from the acquisition of the Chemours Clean and Disinfect business. Selling expenses rose by 2.9% to €781 million, especially due to portfolio effects and a volume-driven increase in freight costs. Research and development costs increased by €1 million to €131 million. General administration expenses were up €19 million to €303 million. The Group's EBITDA margin pre exceptionals increased from 11.2% to 12.9%.

In the Advanced Intermediates segment, EBITDA pre exceptionals decreased by €13 million to €326 million. Lower production costs, higher volumes and positive exchange rate effects resulted in positive earnings development. The adjustment of selling prices, primarily due to raw material price effects, had an opposing influence.

The Performance Chemicals segment generated EBITDA pre exceptionals of €374 million, up €48 million or 14.7 % on the prior-year level. Earnings were improved by higher volumes and favorable currency effects on our production costs. The net effect of lower procurement costs for raw materials and the adjustment in selling prices was virtually zero.

EBITDA pre exceptionals in the High Performance Materials segment advanced by €48 million to €159 million, compared with the prior-year level of €111 million. Earnings were buoyed in particular by higher volumes in relatively profitable product groups. Lower procurement prices for raw materials resulted in selling price adjustments.

ARLANXEO posted EBITDA pre exceptionals of €373 million, compared with €391 million in the prior year. The positive influence of lower procurement prices for raw materials was significantly more than offset by lower selling prices due to the persistently difficult competitive situation in the synthetic rubber business. Earnings were improved by higher volumes, lower production costs and favorable exchange rate developments.

EBITDA Pre Exceptionals by Segment

€ million	2015	2016	Change %
Advanced Intermediates	339	326	(3.8)
Performance Chemicals	326	374	14.7
High Performance Materials	111	159	43.2
ARLANXEO	391	373	(4.6)
Reconciliation	(282)	(237)	16.0
	885	**995**	**12.4**

Prior-year figures adjusted to reflect 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	2015	2016	Change %
EBITDA pre exceptionals	**885**	**995**	**12.4**
Depreciation and amortization	(474)	(481)	(1.5)
Reversals of impairment charges	56	0	(100.0)
Exceptional items in EBITDA	(52)	(50)	3.8
Operating result (EBIT)	**415**	**464**	**11.8**

The operating result (EBIT) of the Group increased from €415 million to €464 million in fiscal 2016. Depreciation and amortization amounted to €481 million (2015: €474 million), of which write-downs accounted for €9 million. In 2015, depreciation and amortization of €474 million were offset by reversals of impairment charges of €56 million. Write-downs amounted to €25 million, €11 million of which were exceptional items.

The other operating result, which is the balance between other operating income and expenses, improved by €85 million to minus €75 million. Adjusted for exceptional items, the other operating result came to minus €25 million, which was €128 million higher than in 2015. This decline was largely due to lower expenses for currency hedging transactions.

Net negative exceptional items of €50 million for the reporting year resulted from negative exceptional items of €56 million and positive exceptional items of €6 million. They were mainly in connection with the strategic realignment of LANXESS.

In 2015, net negative exceptional items of €7 million resulted from negative exceptional items of €106 million and positive exceptional items of €99 million. The negative exceptional items, €96 million of which impacted EBITDA, resulted mainly from expenses in connection with the planned discontinuation of EPDM rubber production at the Marl site in Germany as of the end of the first quarter of 2016 and from further measures associated with the “Let’s LANXESS again” program. The negative exceptional items which did not impact EBITDA related to write-downs recognized in connection with the planned discontinuation of production at the Marl site in Germany. The positive exceptional items, €44 million of which impacted EBITDA, were mainly related to the sales of intangible assets and property, plant and equipment. The positive exceptional items that did not impact EBITDA primarily related to the reversal of impairment charges recognized in previous years, amounting to €56 million. €37 million of these reversals related to our High Performance Elastomers business unit and €19 million to the Advanced Industrial Intermediates business unit. Please see “Notes on EBIT and EBITDA (pre exceptionals)” for details about exceptional items.

Reconciliation of EBIT to Net Income

€ million	2015	2016	Change %
Operating result (EBIT)	**415**	**464**	**11.8**
Income from investments accounted for using the equity method	0	0	–
Net interest expense	(66)	(63)	4.5
Other financial income and expense	(61)	(62)	(1.6)
Financial result	**(127)**	**(125)**	**1.6**
Income before income taxes	**288**	**339**	**17.7**
Income taxes	(121)	(144)	(19.0)
Income after income taxes	**167**	**195**	**16.8**
of which:			
attributable to non-controlling interests	2	3	50.0
attributable to LANXESS AG stockholders (net income)	**165**	**192**	**16.4**

Financial result

The financial result came in at minus €125 million in fiscal 2016, compared with minus €127 million for the prior year. As in the prior year, companies accounted for using the equity method did not generate an earnings contribution. Our net interest position improved by €3 million against the prior year to minus €63 million. Other financial income and expense items were also virtually level with the prior year at minus €62 million. The proceeds from the sale of our financial interest in Elemica Inc., Exton, United States, and the year-on-year decline in expenses for accrued interest for provisions stood against a higher net exchange loss and fees in connection with the bridge loan for the planned acquisition of Chemtura.

Income before income taxes

Due to the improved operating result, income before income taxes increased by €51 million to €339 million.

Income taxes

In fiscal 2016, tax expense amounted to €144 million, compared with €121 million the year before. The Group's tax rate was 42.5%, after 42.0% in the previous year.

Net income/earnings per share/earnings per share adjusted for exceptional items and amortization of intangible assets

Net income was €192 million, which was €27 million higher than in the prior year. After €2 million in 2015, the profit attributable to non-controlling interests was €3 million 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 €2.10, ahead of the €1.80 recorded in 2015.

We also calculate earnings per share adjusted for exceptional items and amortization of intangible assets, an indicator which is not defined by International Financial Reporting Standards. This value was calculated from the earnings per share adjusted for exceptional items and amortization of intangible assets as well as attributable tax effects. Against the backdrop of the acquisition of the Chemours specialties business and the planned acquisition of Chemtura, a correspondingly adjusted earnings per share figure as defined in this way is better suited to assessing and comparing our performance over time.

Earnings per share adjusted for exceptional items and amortization of intangible assets were €2.69, against €2.01 the year before.

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

€ million	2015	2016
Net income	**165**	**192**
Exceptional items[1]	7	47
Amortization of intangible assets/ reversal of impairment charges	30	31
Attributable tax effects[1]	(16)	(24)
Net income adjusted for exceptional items and amortization of intangible assets	**186**	**246**
Number of shares outstanding	91,522,936	91,522,936
Earnings per share adjusted for exceptional items and amortization of intangible assets	**2.03**	**2.69**

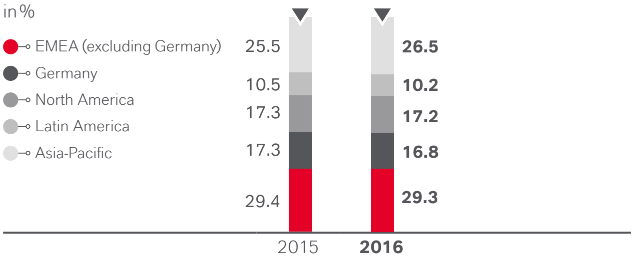
1) Excluding exceptional items and amortization of intangible assets attributable to non-controlling interests

BUSINESS TRENDS BY REGION

Sales by Market

	2015		2016		Change
	€ million	%	€ million	%	%
EMEA (excluding Germany)	2,325	29.4	2,254	29.3	(3.1)
Germany	1,365	17.3	1,292	16.8	(5.3)
North America	1,368	17.3	1,326	17.2	(3.1)
Latin America	830	10.5	788	10.2	(5.1)
Asia-Pacific	2,014	25.5	2,039	26.5	1.2
	7,902	**100.0**	**7,699**	**100.0**	**(2.6)**

Sales by Market
in %



EMEA (excluding Germany)

Sales in the EMEA region (excluding Germany) decreased by €71 million, or 3.1 %, to €2,254 million. Exchange rate and portfolio effects had no notable impact. The ARLANXEO, High Performance Materials and Advanced Intermediates segments recorded sales declines in the low- to mid-single-digit percentage range. By contrast, the Performance Chemicals segment posted a slight sales increase in the low-single-digit percentage range. Business performance in France, Belgium and Italy contributed to the downward development in the region. However, sales were bolstered by positive growth in demand in other countries such as Turkey, Switzerland, Portugal and Slovakia.

Germany

In Germany, we generated sales of €1,292 million in 2016, down €73 million, or 5.3%, from the previous year. There were no material portfolio effects. While the ARLANXEO segment posted a sales decrease in the low-double-digit percentage range, business in the Advanced Intermediates and High Performance Materials segments contracted by mid-single-digit percentages. By contrast, the Performance Chemicals segment posted a slight increase in sales.

North America

Sales in this region came to €1,326 million, down €42 million, or 3.1 %, from the previous year. However, after adjusting for positive exchange rate effects and for portfolio effects resulting from the acquisition of the Clean and Disinfect specialties business of U.S. chemical company Chemours, sales declined by 4.9 %. This was largely attributable to business performance in the ARLANXEO and Advanced Intermediates segments, which saw decreases by a mid-single-digit percentage and a low-double-digit percentage, respectively. Sales of the Performance Chemicals segment were also down year on year. By contrast, the High Performance Materials segment recorded sales gains in the mid-single-digit percentage range.

Latin America

In the Latin America region, sales declined by €42 million, or 5.1 %, to €788 million. After adjusting for slight exchange rate and portfolio effects, sales were down by 5.4 %. This development was mainly driven by the ARLANXEO segment, which posted the largest absolute decrease in sales in the mid-single-digit percentage range. Sales in the other segments also declined by low- to high single-digit percentages. Business performance in the region was mainly attributable to the contraction of sales in Brazil, Mexico and Argentina.

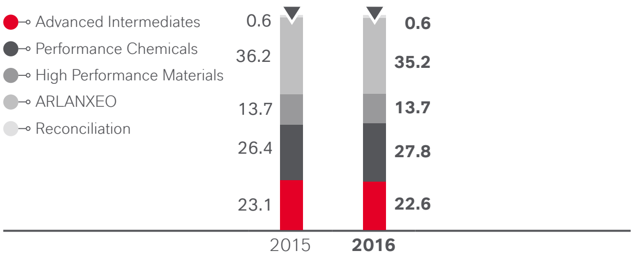
Asia-Pacific

Sales in the Asia-Pacific region increased by €25 million, or 1.2 %, to €2,039 million in 2016. Adjusted for opposing currency effects and slight portfolio effects, sales were up by 1.7 %. This was mainly attributable to the business performance of the Performance Chemicals segment, which posted an increase in sales in the high-single-digit percentage range. Sales in the other segments were slightly lower or changes in the low-single-digit percentage range were barely discernible. The main driver of the region's positive operating performance were increasing sales in China, India and Thailand which, however, were largely offset by declines in Singapore, South Korea, Japan and Hong Kong.

SEGMENT INFORMATION

- Advanced Intermediates: relatively stable business performance as a result of higher volumes, but challenging market environment for agrochemicals
- Performance Chemicals: realignment and higher volumes lead to improved sales and earnings
- High Performance Materials: clear improvement in earnings as a result of higher volumes in more profitable product groups
- ARLANXEO: competitive situation in synthetic rubbers remains challenging; lower selling prices impact sales and earnings

Sales by Segment
%



Advanced Intermediates

Overview of Key Data

	2015		2016		Change
	€ million	Margin %	€ million	Margin %	%
Sales	1,826		1,742		(4.6)
EBITDA pre exceptionals	339	18.6	326	18.7	(3.8)
EBITDA	338	18.5	328	18.8	(3.0)
Operating result (EBIT) pre exceptionals	240	13.1	221	12.7	(7.9)
Operating result (EBIT)	258	14,1	223	12.8	(13.6)
Cash outflows for capital investments	87		123		41.4
Depreciation and amortization/ reversals of impairment charges	80		105		31.3
Employees as of Dec. 31[1]	3,259		3,335		2.3

1) 2015 figure restated

Our Advanced Intermediates segment recorded sales of €1,742 million in 2016, 4.6% or €84 million below the prior-year level. While selling price adjustments, driven largely by raw material prices, resulted in a negative price effect of 6.4%, higher volumes added 1.9% to sales. Exchange rate developments had virtually no impact on sales.

Whereas selling prices in the Advanced Industrial Intermediates business unit were below the prior-year level due to lower raw material prices, the Saltigo business unit was able to achieve slightly higher selling prices. With demand remaining good in almost all end markets, the Advanced Industrial Intermediates business unit increased volumes. The Saltigo business unit, on the other hand, recorded a decline in volumes, particularly in the customized production of agrochemicals. Exchange rate development had almost no impact on either business unit. Sales in all regions were below prior-year levels.

EBITDA pre exceptionals in the Advanced Intermediates segment declined by €13 million, or 3.8%, from the prior-year level of €339 million. Lower energy and manufacturing costs as well as slightly higher volumes had a positive impact on earnings. Exchange rate movements had no significantly positive effect. The adjustment in selling prices, driven largely by lower procurement prices for raw materials, had an opposing influence. The EBITDA margin pre exceptionals was 18.7%, up slightly from 18.6% in the prior year.

In fiscal 2016, net positive exceptional items amounted to €2 million and fully impacted EBITDA. They related to the reversal of restructuring provisions established in previous years. In the prior year, net positive exceptional items of €18 million were posted. Please see “Notes on EBIT and EBITDA (pre exceptionals)” for details.

Performance Chemicals

Overview of Key Data

	2015		2016		Change
	€ million	Margin %	€ million	Margin %	%
Sales	2,085		2,142		2.7
EBITDA pre exceptionals	326	15.6	374	17.5	14.7
EBITDA	313	15.0	371	17.3	18.5
Operating result (EBIT) pre exceptionals	238	11.4	280	13.1	17.6
Operating result (EBIT)	225	10.8	277	12.9	23.1
Cash outflows for capital expenditures	139		118		(15.1)
Depreciation and amortization	88		94		6.8
Employees as of Dec. 31[1]	5,138		5,581		8.6

1) 2015 figure restated

Sales in the Performance Chemicals segment in fiscal 2016 rose by €57 million, or 2.7%, to €2,142 million. This improvement was the result in particular of a 3.8% expansion in volumes, while lower selling prices had a negative effect of 2.2% on sales. Integration of the Clean and Disinfect specialties business of U.S. chemical company Chemours into the Material Protection Products business unit had a positive effect of 1.3% on sales. Exchange rate developments had hardly any impact on sales.

Volumes in all the segment's business units were up on the prior year, with the Material Protection Products business unit increasing volumes significantly and also holding selling prices stable. Selling prices fell in the remaining business units. Exchange rate developments had a slightly negative impact on sales in almost 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 €48 million, or 14.7%, against the prior year to €374 million. Earnings were improved by higher volumes and favorable currency effects on our production costs. The effect of reduced selling prices stood against the cost relief from lower raw material prices. A slightly positive effect resulted from the acquisition of the Chemours Clean and Disinfect business. The EBITDA margin pre exceptionals increased from 15.6% to 17.5%.

The segment recorded negative exceptional items of €3 million in the reporting year, which fully impacted EBITDA. These related mainly to effects in connection with the revaluation of inventories undertaken within the context of acquiring the Chemours specialties business. Negative exceptional items in the prior year amounted to €13 million and fully impacted EBITDA. These related to, among other things, measures associated with the "Let's LANXESS again" program. Please see "Notes on EBIT and EBITDA (pre exceptionals)" for details.

High Performance Materials

Overview of Key Data

	2015		2016		Change
	€ million	Margin %	€ million	Margin %	%
Sales	1,085		1,056		(2.7)
EBITDA pre exceptionals	111	10.2	159	15.1	43.2
EBITDA	131	12.1	159	15.1	21.4
Operating result (EBIT) pre exceptionals	66	6.1	114	10.8	72.7
Operating result (EBIT)	85	7.8	114	10.8	34.1
Cash outflows for capital expenditures	39		46		17.9
Depreciation and amortization	46		45		(2.2)
Employees as of Dec. 31	1,546		1,583		2.4

Sales in our High Performance Materials segment declined by 2.7% in 2016, to €1,056 million. Selling price adjustments, due to cost relief from lower procurement prices for raw materials being passed on to customers, resulted in a negative price effect of 8.0%. On the other hand, higher volumes added 5.6% to sales. Exchange rate developments had almost no impact on sales. While business in this segment was positive in the North America region, sales in the other regions were below the prior-year level.

EBITDA pre exceptionals in the High Performance Materials segment advanced substantially from the prior-year level of €111 million to €159 million. Higher volumes in more profitable product groups and high capacity utilization resulted in a positive earnings performance. Lower raw material prices led to an adjustment in selling prices. The EBITDA margin pre exceptionals for the segment improved from 10.2% to 15.1%.

No exceptional items were recorded in the segment in 2016. In the prior year, net positive exceptional items of €19 million were posted. Please see "Notes on EBIT and EBITDA (pre exceptionals)" for details.

ARLANXEO

Overview of Key Data

	2015		2016		Change
	€ million	Margin %	€ million	Margin %	%
Sales	2,859		2,710		(5.2)
EBITDA pre exceptionals	391	13.7	373	13.8	(4.6)
EBITDA	376	13.2	375	13.8	(0.3)
Operating result (EBIT) pre exceptionals	183	6.4	153	5.6	(16.4)
Operating result (EBIT)	195	6.8	155	5.7	(20.5)
Cash outflows for capital expenditures	145		138		(4.8)
Depreciation and amortization/reversals of impairment charges	181		220		21.5
Employees as of Dec. 31	3,491		3,463		(0.8)

Sales in our ARLANXEO segment declined by 5.2% year on year in 2016, to €2,710 million. This development was primarily influenced by selling price adjustments in both business units, which resulted in a negative price effect of 9.2%. These adjustments were the result in particular of the persistently difficult competitive situation in synthetic rubbers and of lower procurement prices for raw materials being passed on to customers. Especially due to good demand in the Asia-Pacific region, volumes increased in both business units and added 4.0% to sales. Exchange rate developments had almost no impact on sales. Sales in all regions were below prior-year levels.

EBITDA pre exceptionals in the ARLANXEO segment declined from €391 million in the prior year to €373 million. The reduction of selling prices in response to ongoing competitive pressure significantly outweighed the positive impact of cost relief resulting from lower raw material prices. Earnings were improved by higher volumes, an improved portfolio of products sold, reduced production costs and favorable exchange rate effects. The EBITDA margin pre exceptionals of 13.8% was virtually level with the prior-year figure of 13.7%.

The segment recorded positive exceptional items of €2 million in the reporting year, which fully impacted EBITDA. These primarily related to the reversal of provisions in connection with the discontinuation of EPDM rubber production at the Marl site in Germany. In 2015, net positive exceptional items of €12 million were posted. Please see "Notes on EBIT and EBITDA (pre exceptionals)" for details.

Reconciliation

Overview of Key Data

€ million	2015	2016	Change %
Sales	47	49	4.3
EBITDA pre exceptionals	(282)	(237)	16.0
EBITDA	(325)	(288)	11.4
Operating result (EBIT) pre exceptionals	(305)	(254)	16.7
Operating result (EBIT)	(348)	(305)	12.4
Cash outflows for capital expenditures	24	14	(41.7)
Depreciation and amortization	23	17	(26.1)
Employees as of Dec. 31[1]	2,791	2,759	(1.1)

1) 2015 figure restated

EBITDA pre exceptionals for the Reconciliation came to minus €237 million, compared with minus €282 million in the prior year. This change was mainly due to lower currency hedging losses. The net negative exceptional items of €51 million reported in the Reconciliation, which fully impacted EBITDA, mainly related to expenses in connection with the strategic realignment of the LANXESS Group. In the prior year, negative exceptional items of €43 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 2015	EBIT 2016	EBITDA 2015	EBITDA 2016
EBIT/EBITDA pre exceptionals	**422**	**514**	**885**	**995**
Advanced Intermediates	**18**	**2**	**(1)**	**2**
Strategic realignment/ "Let's LANXESS again"	(2)	–	(2)	–
Reversals of impairment charges	19	–	–	–
Other	1	2	1	2
Performance Chemicals	**(13)**	**(3)**	**(13)**	**(3)**
Strategic realignment/ "Let's LANXESS again"	(3)	(3)[1]	(3)	(3)[1]
Other	(10)	0	(10)	0
High Performance Materials	**19**	**–**	**20**	**–**
Strategic realignment/ "Let's LANXESS again"	(1)	–	(1)	–
Sale of assets	20	–	21	–
ARLANXEO	**12**	**2**	**(15)**	**2**
Strategic realignment/ "Let's LANXESS again"[2]	(47)	2	(37)	2
Sale of assets	22	–	22	–
Reversals of impairment charges	37	–	0	–
Reconciliation	**(43)**	**(51)**	**(43)**	**(51)**
Strategic realignment/ "Let's LANXESS again"	(34)	(42)	(34)	(42)
Other	(9)	(9)	(9)	(9)
Total exceptional items	**(7)**	**(50)**	**(52)**	**(50)**
EBIT/EBITDA	**415**	**464**	**833**	**945**

1) The exceptional items largely concerned effects associated with the revaluation of inventories in connection with the acquisition of the Chemours specialties business.
2) The exceptional items were primarily in connection with the discontinuation of EPDM rubber production at the Marl site in Germany.

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, mainly due to the financing secured for the planned acquisition of Chemtura and to Saudi Aramco's interest in ARLANXEO
- Equity ratio improved to 37.7%
- Net financial liabilities decrease substantially from €1,211 million to €269 million after deduction of time deposits and securities available for sale

Structure of the Statement of Financial Position

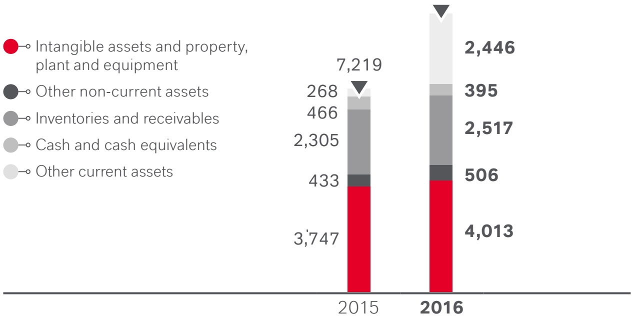
	Dec. 31, 2015		Dec. 31, 2016		Change
	€ million	%	€ million	%	%
ASSETS					
Non-current assets	4,180	57.9	4,519	45.8	8.1
Current assets	3,039	42.1	5,358	54.2	76.3
Total assets	**7,219**	**100.0**	**9,877**	**100.0**	**36.8**
EQUITY AND LIABILITIES					
Equity (including non-controlling interests)	2,323	32.2	3,728	37.7	60.5
Non-current liabilities	2,936	40.7	4,516	45.7	53.8
Current liabilities	1,960	27.1	1,633	16.6	(16.7)
Total equity and liabilities	**7,219**	**100.0**	**9,877**	**100.0**	**36.8**

Structure of the statement of financial position

Total assets of the LANXESS Group amounted to €9,877 million as of December 31, 2016, an increase of €2,658 million, or 36.8%, on the prior-year figure. This development was attributable in particular to the placement of three eurobonds with a nominal volume of €500 million each that will serve to finance the planned acquisition of Chemtura. The increase in total assets also resulted from the cash inflow of around €1.2 million from Saudi Aramco's interest in ARLANXEO and the corresponding increase in equity attributable to non-controlling interests.

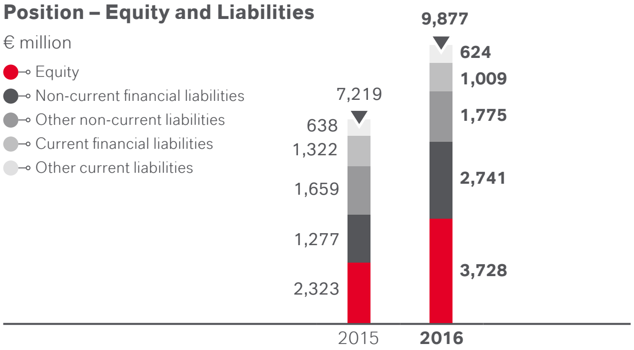
Structure of the Statement of Financial Position – Assets

€ million



Structure of the Statement of Financial Position – Equity and Liabilities

€ million



Non-current assets rose by €339 million to €4,519 million, with intangible assets and property, plant and equipment increasing by €266 million to €4,013 million. The increase in intangible assets was the result in particular of the intangible assets identified in the context of the acquisition of the Chemours specialties business. For further information, please see the "Companies consolidated" section of the Notes.

Cash outflows for purchases of property, plant and equipment and intangible assets amounted to €439 million, almost level with the prior-year figure of €434 million. Depreciation and amortization totaled €481 million, which was €7 million above the prior-year level of €474 million. In the prior year, depreciation and amortization were mitigated by reversals of impairment charges amounting to €56 million. The carrying amount of investments accounted for using the equity method was €0 million, the same as in the prior year. Deferred taxes increased by €81 million to €442 million. The ratio of non-current assets to total assets decreased from 57.9% to 45.8% on December 31, 2016.

Current assets increased by €2,319 million, or 76.3%, compared with December 31, 2015, to €5,358 million. This effect was mainly attributable to the increase in current financial assets and resulted primarily from the investment of liquid assets in time deposits and securities available for sale totaling €2,125 million. Inventories were up by €80 million, or 5.9%, to €1,429 million, mainly due to volume and currency effects. Days of sales in inventory (DSI) were unchanged from the prior year at 67.2 days. Trade receivables were €132 million, or 13.8%, higher at €1,088 million. Days of sales outstanding (DSO) increased from 47.6 days to 51.1 days. This was primarily due to the low level of receivables in 2015. Cash and cash equivalents decreased by €11 million to €355 million. Near-cash assets fell to €40 million in the reporting year (2015: €100 million). The ratio of current assets to total assets was 54.2%, compared with 42.1% on December 31, 2015.

Equity amounted to €3,728 million, up by €1,405 million or 60.5% compared with December 31, 2015. The change in the reporting period resulted mainly from the increase in non-controlling interest due to Saudi Aramco's cash contribution to ARLANXEO of €1,194 million, net of transaction costs. The ratio of equity to the Group's total assets was 37.7% as of December 31, 2016, after 32.2% as of December 31, 2015.

Non-current liabilities as of December 31, 2016, rose by €1,580 million to €4,516 million. Provisions for pensions and other post-employment benefits increased by just a slight €34 million compared with the end of 2015, to €1,249 million. The decline in discount rates for pension obligations (in Germany: from 3.0% to 2.0%) was largely compensated by an addition to German pension fund assets. Other non-current financial liabilities amounted to €2,734 million, up by €1,476 million against December 31, 2016, mainly due to the issuance of bonds.

The ratio of non-current liabilities to total assets was 45.7%, up from 40.7% as of December 31, 2015.

Current liabilities came to €1,633 million, down by €327 million, or 16.7%, against December 31, 2015. This was largely attributable to the redemption of a maturing bond of €200 million. Trade payables increased by €110 million to €889 million, mainly as a result of higher capacity utilization at year end 2016. Current derivative liabilities fell from €100 million to €42 million. Other current liabilities rose by €32 million to €174 million, while other current provisions were at the prior-year level, at €406 million. The ratio of current liabilities to total assets was 16.6% as of December 31, 2016, against 27.1% at the end of 2015.

At €2,394 million, net financial liabilities were substantially above the figure of €1,211 million as of December 31, 2015. However, they declined to €269 million after the deduction of time deposits and securities available for sale.

The Group's key ratios developed as follows:

Ratios

%		2012	2013	2014	2015	2016
Equity ratio	Equity[1] / Total assets	31.0	27.9	29.8	32.2	37.7
Non-current asset ratio	Non-current assets / Total assets	49.8	52.7	56.6	57.9	45.8
Asset coverage I	Equity[1] / Non-current assets	62.0	52.9	52.7	55.6	82.5
Asset coverage II	Equity [1] and non-current liabilities / Non-current assets	157.2	137.2	136.7	125.8	182.4
Funding structure	Current liabilities / Total liabilities	31.4	38.3	32.3	40.0	26.6

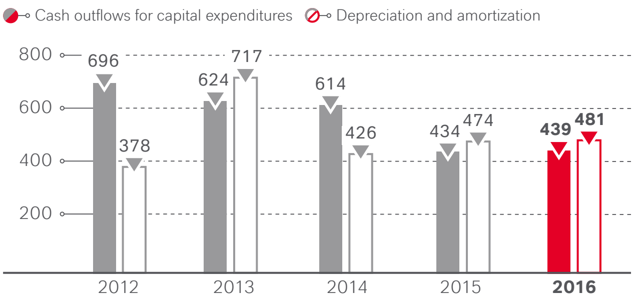
1) Equity includes non-controlling interest.

Capital expenditures

In 2016, our capital expenditures for property, plant and equipment and intangible assets came to €462 million, compared with €457 million the year before, and led to cash outflows of €439 million (2015: €434 million). Depreciation and amortization in the same period totaled €481 million (2015: €474 million). In the prior year, depreciation and amortization were partially offset by reversals of impairment charges of €56 million. In addition, the figure for depreciation and amortization in 2016 included write-downs of €9 million (2015: €25 million).

Cash Outflows for Capital Expenditures vs. Depreciation and Amortization

€ million



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

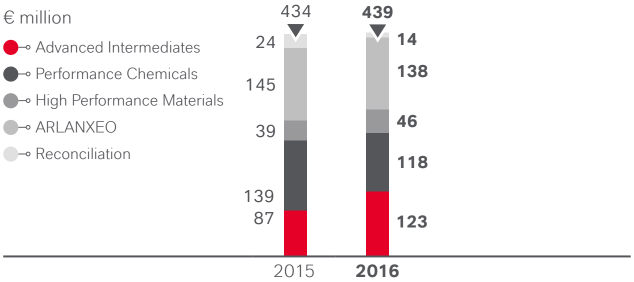
- Expansion and maintenance of existing facilities, construction of new facilities
- Measures to increase plant availability
- Projects to improve plant safety, enhance quality and comply with environmental protection requirements

Around two-thirds of the capital expenditures in 2016 went to maintain existing facilities, while the rest went toward expansion or efficiency improvement measures.

In regional terms, 46 % of our capital expenditures in the reporting period were made in Germany, 21 % in the EMEA region (excluding Germany), 16 % in North America, 7 % in Latin America and 10 % in Asia-Pacific. Capital expenditures in Germany mostly comprised our investments to increase capacities and modernize facilities in all segments, especially investments in the Saltigo business unit. Some of the capital expenditures made in the EMEA region (excluding Germany) were used to further optimize production in the context of realignment to improve operational competitiveness. The capital expenditures made in the Asia-Pacific region mainly related to the construction of plants for iron oxide red pigments, which came on stream in the reporting year, and of a mixing and milling plant for the Inorganic Pigments business unit in Ningbo, China.

Cash Outflows for Capital Expenditures by Segment

€ million



2015 figures restated

Capital expenditures in the Advanced Intermediates segment amounted to €136 million (2015: €99 million). Cash outflows stood at €123 million (2015: €87 million), which exceeded depreciation and amortization of €105 million (2015: €80 million less reversals of impairment charges). 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, which began in 2016. Production is due to start at the end of 2017. In the Performance Chemicals segment, capital expenditures came to €124 million (2015: €144 million), €118 million (2015: €139 million) of which were cash outflows. Depreciation and amortization stood at €94 million (2015: €88 million). The plant for iron oxide red pigments constructed for the Inorganic Pigments business unit in Ningbo, China, represents a substantial investment. Equipped with state-of-the-art process technology, it began operating in the reporting year. In the High Performance Materials segment, capital expenditures totaled €47 million (2015: €39 million), €46 million (2015: €39 million) of which were cash outflows. Depreciation and amortization came to €45 million (2015: €46 million). A share of the capital expenditures in this segment were accounted for by capacity expansion measures at the second production line for compounding high-tech plastics in Gastonia, United States. This facility started operating at the beginning of 2016. Other capital expenditures made by this segment related to production optimization measures at the Belgian sites.

In the ARLANXEO segment, capital expenditures totaled €138 million (2015: €151 million), €138 million (2015: €145 million) of which were cash outflows. Depreciation and amortization amounted to €220 million (2015: €181 million less reversals of impairment charges). 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 financing and investing activities influenced by financing for the planned acquisition of Chemtura and interim investments of liquid assets
- Liquidity position remains solid

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

Cash Flow Statement

€ million	2015	2016	Change
Income before income taxes	288	339	51
Depreciation and amortization/ reversals of impairment charges	418	481	63
Other items	(107)	(84)	23
Net cash provided by operating activities before change in net working capital	**599**	**736**	**137**
Change in net working capital	93	(47)	(140)
Net cash provided by operating activities	**692**	**689**	**(3)**
Net cash used in investing activities	**(400)**	**(2,879)**	**(2,479)**
Net cash provided by (used in) financing activities	**(333)**	**2,173**	**2,506**
Change in cash and cash equivalents from business activities	(41)	(17)	24
Cash and cash equivalents as of December 31	366	355	(11)
Free cash flow	258	250	(8)

Cash provided by operating activities, before changes in net working capital, increased by €137 million to €736 million in fiscal 2016. The starting point was income before income taxes of €339 million, which was €51 million above the prior-year level. At €481 million, depreciation and amortization were €63 million higher than the prior-year figure of €418 million, from which reversals of impairment charges of €56 million had been deducted. 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, 2015, resulted in a cash outflow of €47 million compared with a cash inflow of €93 million in the prior year. The outflow in the reporting period resulted in particular from the increase in inventories and trade receivables, which overcompensated the rise in trade payables. Therefore, the net cash provided by operating activities totaled €689 million, which was on a level with the prior-year figure of €692 million.

Investing activities in fiscal 2016 resulted in a cash outflow of €2,879 million, compared with €400 million in the prior-year period, mainly due to the investment of funds received for the acquisition of Chemtura. Cash outflows for intangible assets and property, plant and equipment came to €439 million, which was about level with the prior-year figure of €434 million. The sale of intangible assets and property, plant and equipment resulted in a cash inflow of €7 million (2015: €45 million).

Net cash provided by financing activities came to €2,173 million, against net cash used in financing activities of €333 million the year before. Major effects in the reporting year were the cash inflows for Saudi Aramco's interest in ARLANXEO and a cash inflow from the issuance of eurobonds. In the prior year, a significant effect was the net repayment of borrowings amounting to €220 million. Interest payments and other financial disbursements of €73 million were slightly below the previous year's amount of €76 million. An outflow of €55 million was accounted for by the dividend paid to the stockholders of LANXESS AG for fiscal 2015, after €46 million in the prior year.

The net change in cash and cash equivalents from business activities in fiscal 2016 was minus €17 million, against minus €41 million the previous year. After taking into account currency-related and other changes in cash and cash equivalents of €6 million, cash and cash equivalents at the closing date amounted to €355 million, against €366 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 €40 million, which were lower than in the prior year (€100 million), the Group retained a solid liquidity position of €395 million as of December 31, 2016, compared with €466 million at the end of 2015.

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 – decreased by €8 million to €250 million. The definition of this indicator was changed compared with 2015, when it was calculated as the difference between the cash inflows from operating activities and the cash used in investing activities.

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 dialogue and communication with banks, investors and rating agencies are of crucial importance. In fiscal 2016, the rating agencies Standard & Poor's and Moody's confirmed their ratings for LANXESS of BBB- and Baa3, respectively. Following the announcement of the acquisition of Chemtura in September 2016, Standard & Poor's lowered its outlook from "positive" to "negative," while Moody's kept its outlook at "stable." Both rating agencies regarded the planned acquisition as positive for LANXESS's business profile while pointing out the associated risks.

Development of LANXESS Ratings and Rating Outlook Since 2012

	2012	2013	2014	2015	2016
Standard & Poor's	BBB/stable Aug. 31, 2012	BBB/negative June 27, 2013	BBB–/stable May 19, 2014	BBB–/positive Sept. 24, 2015	BBB–/negative Sept. 26, 2016
Moody's Investors Service	Baa2/stable Sept. 26, 2012	Baa2/negative Aug. 14, 2013	Baa3/stable June 20, 2014	Baa3/stable July 2, 2015	Baa3/stable Sept. 26, 2016

Financing analysis

In fiscal 2016, LANXESS retained a balanced financing structure and a very solid liquidity position. Full financing was already secured for the planned acquisition of Chemtura.

In January 2016, a development bank loan of €138 million was repaid from available cash funds. In addition, an undrawn development bank loan was canceled in May 2016. A €200 million eurobond that matured in September 2016 was also redeemed from available cash funds.

To finance the planned acquisition of Chemtura, a bridge loan of €2.0 billion was agreed in September 2016. This was followed by stepwise refinancing on the capital market: the placement of two eurobonds with a total volume of €1.0 billion under the LANXESS debt issuance program in October 2016 and the issuance of a €500 million hybrid bond with its own prospectus in December 2016. The volume of the bridge loan was gradually reduced with the issuance of the bonds and still amounted to €500 million on December 31, 2016.

The existing debt issuance program allows the very flexible placement of bonds on the capital market. As of December 31, 2016, 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 decreased from €443 million in 2015 to €78 million as of December 31, 2016.

We made only limited use of finance leases, which are reported as financial liabilities in the statement of financial position. As of December 31, 2016, the financial liabilities from finance leases were on a level with the prior year at €70 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 €334 million (2015: €341 million).

As of December 31, 2016, LANXESS had no material financing items off statement of financial position in the form of factoring, asset-backed structures or project financing, for example.

LANXESS's total financial liabilities, net of accrued interest, increased from €1,677 million in 2015 to €2,789 million as of December 31, 2016, as a result of the early securing of financing for the Chemtura acquisition. Net financial liabilities – the total financial liabilities net of cash, cash equivalents, accrued interest and near-cash assets – increased in the reporting year to €2,394 million from €1,211 million as of December 31, 2015. After deduction of time deposits and securities available for sale, net financial liabilities amounted to €269 million as of December 31, 2016.

Of the total financial liabilities, almost 100% bear a fixed interest rate over the term of the financing, which is above the prior-year level of 90%. This resulted especially from the repayment of a variable-rate development bank loan. 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 98% in the reporting year, which was above the prior-year level of 90%. The weighted average interest rate for our financial liabilities was 2.7% at year end 2016, which was below the prior-year figure of 3.8%.

The following overview shows LANXESS's financing structure as of December 31, 2016, in detail, including its principal liquidity reserves.

Financing Structure

Instrument	Amount € million	Term	Interest rate %	Financial covenant
Eurobond 2011/2018 (€500 million)	499	May 2018	4.125	no
Eurobond 2016/2021 (€500 million)	496	October 2021	0.250	no
Eurobond 2012/2022 (€500 million)	496	November 2022	2.625	no
Eurobond 2016/2026 (€500 million)	492	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	48	n/a		no
Finance lease	70	n/a		no
Total financial liabilities	**2,789**			
Cash and cash equivalents	355	≤ 3 months		
Near-cash assets	40	≤ 3 months		
Total liquidity	**395**			
Net financial liabilities	**2,394**			
Time deposits and securities available for sale	2,125			
Net financial liabilities after deduction of time deposits and securities available for sale	**269**			

Our financing structure has changed significantly due to the early procurement of liquidity to finance the acquisition of Chemtura. The issuance of two eurobonds and a hybrid bond added new liabilities totaling €1.5 billion. The terms of the bonds were chosen to maintain a balanced maturity profile and ensure sufficient scope for reducing indebtedness in the future. A development bank loan and a €200 million bond were repaid in 2016. No refinancing risks existed at the time these financial statements were prepared. The other loans related mainly to the use of credit facilities by subsidiaries in China and Argentina, which are extended on a regular basis.

Liquidity analysis

In addition to cash and cash equivalents of €355 million, near-cash assets of €40 million and other current financial assets of €2,130 million, LANXESS has additional liquidity reserves in the form of undrawn credit facilities. Investments in bilateral instruments at banks, money market funds and commercial paper are undertaken by Group companies that are not subject to restrictions on foreign exchange and capital transfers. Around 97 % of our cash funds is held in Group companies in countries with no restrictions on foreign exchange and capital transfers. The remaining some 3 % is 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 2016.

By far the most important of LANXESS's credit lines is the syndicated credit facility of €1.25 billion with a term until February 2020, which has not been significantly drawn upon to date. This credit facility is designed as an operating line of credit and to provide funds for capital investment. It corresponds to market requirements in the European syndicated loan market for investment-grade companies with a BBB rating. The company also has an undrawn bridge loan agreement which was concluded in September 2016 to finance the acquisition of Chemtura. This bridge loan agreement had an initial volume of €2.0 billion, which was gradually adjusted downward with the issuance of two eurobonds and a hybrid bond. It amounted to €500 million as of December 31, 2016. None of our major loan agreements contains a financial covenant. LANXESS had unused credit lines totaling around €1.8 billion as of December 31, 2016, compared with €1.5 billion at the end of the previous year.

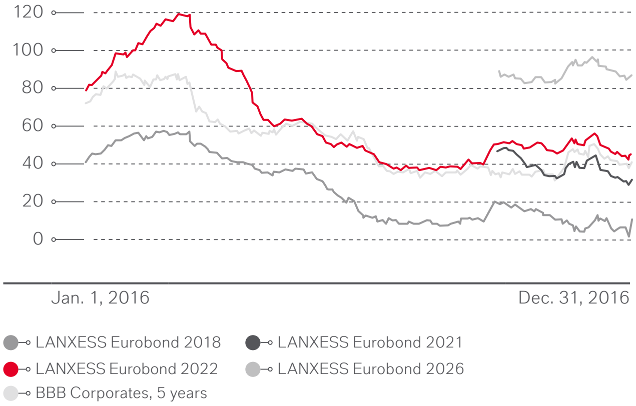
The total of liquid assets and undrawn credit lines gives us available liquidity of around €4.3 billion, which is some €2.3 billion more than in the prior year. This higher amount is related to our preparations for the acquisition of Chemtura and serves to secure our entrepreneurial flexibility; it is an expression of our conservative financial policy. Our solvency is safeguarded for the short and long term.

Bond performance – evolution of credit spread in 2016

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. BBB 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.

MANAGEMENT'S SUMMARY OF BUSINESS DEVELOPMENT AND THE FISCAL YEAR

In 2016, LANXESS Group sales declined by 2.6 % from €7,902 million in the prior year to €7,699 million. The company's business performance in 2016 continued to be characterized by reduced selling prices resulting from lower purchase prices for raw materials. This particularly affected our ARLANXEO segment due to the persistently difficult competitive environment for synthetic rubbers. Our Advanced Intermediates segment saw a decline in sales which was largely attributable to selling price adjustments driven by raw material prices. The Performance Chemicals segment posted higher sales due to volume and portfolio effects. Higher volumes in the High Performance Materials segment could not compensate for the lower selling prices resulting from raw material prices. At Group level, higher volumes, the successful implementation of measures to improve operational competitiveness and favorable exchange rate effects more than offset the impact of the challenging business environment in our ARLANXEO segment.

EBITDA pre exceptionals in 2016 increased by 12.4 % to €995 million from €885 million. This was mainly attributable to higher volumes and lower production costs resulting from the implementation of measures to improve operational competitiveness.

Net income and earnings per share improved in comparison to the prior year, rising from €165 million to €192 million and €1.80 to €2.10, respectively.

We view the development of earnings as positive overall.

We upheld our conservative accounting and financing policy in 2016 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. Our equity ratio improved from 32.2 % to 37.7 %, mainly due to Saudi Aramco's interest in ARLANXEO. Total assets increased from €7,219 million to €9,877 million because of the financing secured for the planned acquisition of Chemtura and because of Saudi Aramco's interest in ARLANXEO.

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 above the prior-year level of 90 %. Our financial liabilities are free of financial covenants.

After consideration of time deposits with a term of more than 90 days and investments in securities, our net financial liabilities fell by €942 million to €269 million. In fiscal 2016, the rating agencies Standard & Poor's and Moody's confirmed our ratings of BBB– and Baa3, respectively. Following the announcement of the acquisition of Chemtura, Standard & Poor's lowered its outlook from "positive" to "negative," while Moody's kept its outlook at "stable."

We continue to regard our business situation as positive. We are responding to the changes and challenges confronting the European chemical industry especially with our program for the global realignment of the LANXESS Group. Through its strategic alignment, LANXESS aims to become a less cyclical specialty chemicals group with a strong cash flow and a more balanced portfolio.

KEY BUSINESS DATA – MULTI-PERIOD OVERVIEW

Indicators

€ million	2012	2013	2014	2015	2016
Earnings performance					
Sales	9,094	8,300	8,006	7,902	7,699
EBITDA pre exceptionals	1,223	735	808	885	995
EBITDA margin pre exceptionals	13.4%	8.9%	10.1%	11.2%	12.9%
EBITDA	1,186	624	644	833	945
Operating result (EBIT) pre exceptionals	847	288	402	422	514
Operating result (EBIT)	808	(93)	218	415	464
EBIT margin	8.9%	(1.1%)	2.7%	5.3%	6.0%
Net income (loss)	508	(159)	47	165	192
Earnings per share (€)	6.11	(1.91)	0.53	1.80	2.10
Financial position					
Cash flow from operating activities	838	641	797	692	689
Depreciation and amortization/ reversals of impairment charges	378	717	426	418	481
Cash outflows for capital expenditures	696	624	614	434	439
Net financial liabilities	1,483	1,731	1,336	1,211	2,394
Net financial liabilities after deduction of time deposits and securities available for sale	1,483	1,731	1,336	1,211	269
Assets and liabilities					
Total assets	7,519	6,811	7,250	7,219	9,877
Non-current assets	3,747	3,592	4,101	4,180	4,519
Current assets	3,772	3,219	3,149	3,039	5,358
Net working capital	1,849	1,679	1,600	1,526	1,628
Equity (including non-controlling interests)	2,330	1,900	2,161	2,323	3,728
Pension provisions	893	943	1,290	1,215	1,249
Indicators					
ROCE	15.6%	5.8%	7.9%	8.4%	6.9%
Equity ratio	31.0%	27.9%	29.8%	32.2%	37.7%
Non-current asset ratio	49.8%	52.7%	56.6%	57.9%	45.8%
Asset coverage I	62.2%	52.9%	52.7%	55.6%	82.5%
Net working capital/sales	20.3%	20.2%	20.0%	19.3%	21.1%
Employees (as of December 31)	17,177	17,343	16,584	16,225	16,721

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 combined 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	2015	2016	Change %
Sales	**4**	**6**	**50.0**
Cost of sales	(4)	(6)	(50.0)
Gross profit	**0**	**0**	**–**
General administration expenses	(44)	(37)	15.9
Other operating income	32	3	(90.6)
Other operating expenses	(4)	(9)	< (100)
Operating result	**(16)**	**(43)**	**< (100)**
Income from investments in affiliated companies	252	762	> 100
Income from loans held as financial assets	7	8	14.3
Net interest expense	(44)	(50)	(13.6)
Other financial income and expenses – net	(7)	(10)	(42.9)
Financial result	**208**	**710**	**> 100**
Income (loss) before income taxes	(101)	(89)	11.9
Income taxes	**91**	**578**	**> 100**
Net income	**91**	**578**	**> 100**
Carryforward to new account	7	43	> 100
Withdrawal from other retained earnings	0	(289)	–
Distributable profit	**98**	**332**	**> 100**

The earnings of LANXESS AG are largely determined by profit or loss transfers from LANXESS Deutschland GmbH.

Sales at LANXESS AG stood at €6 million, which was above the prior-year level of €4 million. 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 decreased against the prior year, down €7 million, or 15.9 %, to €37 million. They principally comprised personnel and other business expenses not directly related to the services provided to Group companies. The decrease in other operating income was primarily due to lower reversals of provisions. The operating result declined by €27 million to minus €43 million.

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, increased by €502 million to €710 million. This change was primarily due to the profit transfer of €762 million from LANXESS Deutschland GmbH, which was €510 million higher than in the prior year. Major effects came from, for example, the establishment of 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 €6 million deterioration in the net interest position to minus €50 million. The bundling of external financing at LANXESS AG, initiated in 2015, had a full-year effect for the first time in 2016.

Income taxes resulted in expenses of €89 million. These were comprised of tax expenses of €68 million for 2016 and €21 million for previous years. Net income for 2016 was €577 million after €91 million in the previous year.

Taking into account the addition of €289 million (2015: €0) to other retained earnings and the profit carryforward of €43 million, the distributable profit as of December 31, 2016, increased to €332 million from €98 million at the end of 2015.

Asset and capital structure of LANXESS AG

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

	Dec. 31, 2015		Dec. 31, 2016		Change
	€ million	%	€ million	%	%
ASSETS					
Financial assets	956	27.9	980	16.6	2.5
Non-current assets	**956**	**27.9**	**980**	**16.6**	**2.5**
Receivables from affiliated companies	2,035	59.3	2,510	42.4	23.3
Other assets	21	0.6	1,985	33.5	> 100
Liquid assets and securities	411	12.0	415	7.0	1.0
Current assets	**2,467**	**71.9**	**4,910**	**82.9**	**99.0**
Prepaid expenses	**9**	**0.2**	**29**	**0.5**	**> 100**
Total assets	**3,432**	**100.0**	**5,919**	**100.0**	**72.5**
EQUITY AND LIABILITIES					
Equity	**1,518**	**44.2**	**2,041**	**34.5**	**34.5**
Provisions	**145**	**4.2**	**130**	**2.2**	**(10.3)**
Bonds	1,400	40.8	2,700	45.6	92.9
Liabilities to banks	148	4.3	23	0.4	(84.5)
Payables to affiliated companies	219	6.4	1,021	17.2	> 100
Other liabilities	2	0.1	4	0.1	100.0
Liabilities	**1,769**	**51.6**	**3,748**	**63.3**	**> 100**
Total assets	**3,432**	**100.0**	**5,919**	**100.0**	**72.5**

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 €5,919 million as of December 31, 2016, which was €2,487 million, or 72.5 %, above 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 of €198 million to subsidiaries. The share of non-current assets in total assets decreased from 27.9 % to 16.6 %. Current assets increased by €2,443 million, or 99.0 %, to €4,910 million and accounted for 83.0 % of total assets, compared with 71.9 % in 2015. Receivables from subsidiaries accounted for 42.4 % of total assets and related principally to short-term loans, financial transactions and claims to profit or loss transfers. Other receivables largely consisted of non-disposable time deposits and accounted for 33.5 % of total assets (2015: 0.6 %). The share of bank balances and securities in total assets decreased from 12.0 % to 7.0 %.

Equity increased by €523 million to €2,041 million, largely due to net income of €578 million. This was partly offset by the dividend payment for 2015. The equity ratio was 34.5 %, after 44.2 % at the end of 2015.

Liabilities increased by €1,979 million to €3,748 million, mainly because of the issuance of new bonds amounting to €1,500 million and the rise in payables to affiliated companies, which were €802 million above the prior-year figure at €1,021 million. The redemption of a bond for €200 million had an opposing effect. The provisions decreased by €15 million to €130 million and related mainly to commitments to employees and to statutory and contractual obligations.

The issuance of the bonds amounting to €1,500 million served to secure the financing for the planned acquisition of Chemtura. At the closing date, these financial funds were invested in time deposits.

EMPLOYEES

As of December 31, 2016, the LANXESS Group had a total of 16,721 employees, against 16,225 at the closing date of the prior year. The increase was mainly attributable to amended local legislation in South Africa and China, which requires external service providers to be recorded as Group employees after a certain period of deployment for the company, and to the acquisition of the Chemours specialties business.

In the EMEA region (excluding Germany), the number of employees as of December 31, 2016, was 3,251, up from 3,143 in the previous year. In Germany, the headcount rose from 7,523 to 7,600.

The number of employees in the North America region increased to 1,418 from 1,312 as of December 31, 2015, while Latin America saw its workforce grow from 1,412 at the end of 2015 to 1,435. At the reporting date, we employed 3,017 people in the Asia-Pacific region, which was 182 more than a year earlier.

A total of 13,649, or 81.6 %, of our employees were men and 3,072, or 18.4 %, were women. The number of employees who were non-German nationals was 9,596. In addition, 1,003 employees worldwide worked on temporary contracts for the Group. LANXESS AG had 135 employees as of the reporting date, versus 127 the year before.

As of the end of 2016, the Group had a total of 533 trainees in 18 different career paths and six combined vocational training and study programs. We thus continue to train more young people than we need to meet our own requirements. In 2016, we hired 81 % (2015: 80 %) of those who completed their vocational training with us in Germany.

Part-time employees accounted for 7.0% of the workforce at our German core companies as of the reporting date. Individuals with severe disabilities made up 5.6% of the workforce at our German companies. In addition, we routinely award contracts to work centers for the disabled.

Indicators for the assessment of occupational safety at LANXESS are the recordable incident rate (RIR) and injuries for every million hours worked (MAQ). In 2016, the MAQ was 2.0 and thus once again below the prior-year level. The RIR, which enables better international comparison, improved from 0.9 in 2015 to 0.7.

Personnel expenses for the Group in fiscal 2016 totaled €1,467 million (2015: €1,432 million). Wages and salaries, at €1,168 million (2015: €1,124 million), accounted for the greater part of this figure. Social security contributions amounted to €194 million (2015: €198 million), while pension plan expenses were €92 million (2015: €97 million) and social assistance benefits €13 million (2015: €13 million).

Personnel expenses for LANXESS AG in fiscal 2016 came to €33 million, after €36 million in the previous year. Wages and salaries accounted for the largest proportion of personnel expenses at €31 million (2015: €26 million). Social security contributions decreased from €10 million to €2 million. Pension plan expenses accounted for €1 million (2015: €9 million) of this amount.

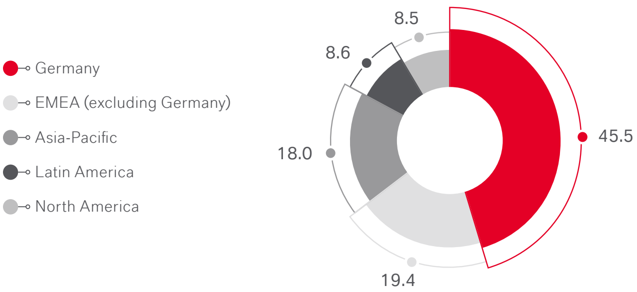
HR strategy

LANXESS's long-term entrepreneurial success is fundamentally based on our employees' sense of responsibility, professionalism and focus on finding solutions. Our global HR activities are supporting the fundamental change processes within the Group – both organizationally and culturally – which makes them more important to strategic success than ever before.

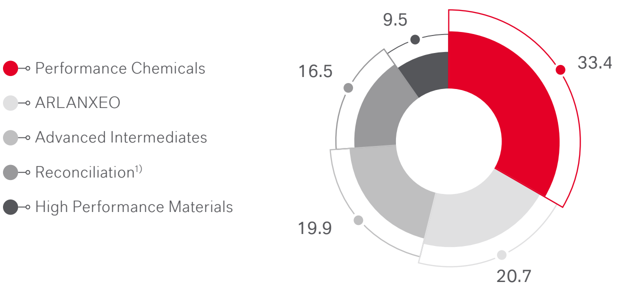
Following our realignment, LANXESS's identity as an employer is based on five central values: respect, ownership, trust, professionalism and integrity. We seek to foster a corporate culture in which responsible and morally irreprehensible actions and striving for performance do not contradict but complement each other. LANXESS aims to be a company whose success is driven by the personal commitment of each and every employee. At an organizational level, significant HR strategy and operational support was provided in 2016 for the spin-off of ARLANXEO, the integration of employees acquired as a result of the Chemours transaction and the preparation of the planned acquisition of Chemtura. We also applied a great deal of attention to expanding our "Xcare" demographic program.

In addition to developing and implementing innovative concepts for addressing the challenges resulting from demographic change, our top long-term strategic human resources goal is to attract and cultivate a range of talented employees for LANXESS. We aim to strengthen our diversity, particularly in terms of age, national origin and gender.

Employees by Region
%

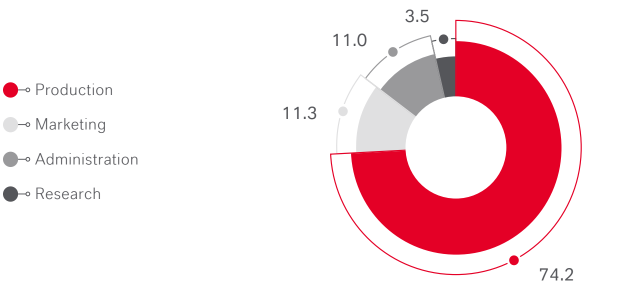


Employees by Segment
%



1) Includes group functions, LANXESS Distribution and HPE/TSR employees in LANXESS companies

Employees by Functional Area (Annual Average)
%



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. 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.

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. This compensation system was applied when concluding the service contracts with all Board of Management members.

The components of the compensation for members of the Board of Management are the annual base salary; the 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, particularly, to its corporate success over a number of years. The average compensation mix of 31% annual base salary and 69% 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

%	
Annual base salary	31
Annual Performance Payment	35
Long Term Stock Performance Plan	20
Long Term Performance Bonus	14
	100

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.

Variable compensation

The annual performance-based component of the variable compensation, known as the Annual Performance Payment (APP), is based on corporate business targets and other conditions, such as the attainment of certain targets for EBITDA pre exceptionals, which are defined by the Supervisory Board before the beginning of the respective fiscal year. In the case of 100% target attainment, the individual APP budget for 2016 for Mr. Zachert is 125% and for the other members of the Board of Management 100% of their respective annual base salaries. The maximum payment is defined on an annual basis by the Supervisory Board. For fiscal 2016, it was capped at 150% of the individual budgets for the members of the Board of Management – assuming 100% target attainment. For fiscal 2017, the maximum payment is capped at 200% of the individual budgets in line with the caps applied for non-managerial and managerial staff. Actual payments may differ from the amount calculated in advance.

The Long-Term Stock Performance Plan (LTSP) is another element of variable compensation. This compensation component is based on the performance of LANXESS stock against a reference index, the Dow Jones STOXX 600 Chemicals℠. 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. The LTSP 2014–2017 program uses the MSCI World Chemicals Index as a new reference index. There were no further material changes compared with the LTSP 2010–2013.

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

The personnel expenses in fiscal 2016 for share-based compensation for active members of the Board of Management were €1,966 thousand for Mr. Zachert (2015: €450 thousand), €293 thousand for Dr. Fink (2015: €0 thousand), €293 thousand for Mr. Pontzen (2015: €0 thousand) and €879 thousand for Dr. van Roessel (2015: €245 thousand). The personnel expenses for former members of the Board of Management were €0 thousand for Dr. Düttmann (2015: €755 thousand).

The Long-Term Performance Bonus (LTPB), which is the third variable compensation 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. Assuming an average APP target attainment of 100%, the LTPB amounts to 45% of the annual base salary. Actual payments in 2017 and 2018 may differ from the amounts calculated in advance.

Compensation of the Board of Management

		Fixed compensation		Variable compensation				Payments from LTSP rights	
€ thousand	Year	Annual base salery	Compensation in kind	Performance bonus[1]	LTPB (multi-year)	Payment for previous years[2]	Total cash compensation	Fair values	**Total**
Serving members of the Board of Management as of December 31, 2016									
Matthias Zachert	**2016**	**1,200**	**73**	**2,250**	**810[4]**	**(82)**	**4,251**	**1,337**	**5,588**
	2015	1,200	66	2,250	810[3]	–	4,326	721	5,047
Dr. Hubert Fink (as of October 1, 2015)	**2016**	**450**	**53**	**675**	**304[4]**	**(7)**	**1,475**	**446**	**1,921**
	2015	113	14	169	76[3]	–	372	–	372
Michael Pontzen (as of April 1, 2015)	**2016**	**450**	**44**	**675**	**304[4]**	**(20)**	**1,453**	**446**	**1,899**
	2015	338	33	506	228[3]	–	1,105	–	1,105
Dr. Rainier van Roessel	**2016**	**650**	**50**	**975**	**439[4]**	**(38)**	**2,076**	**368**	**2,444**
	2015	650	49	975	439[3]	(31)	2,082	347	2,429
Former members of the Board of Management as of December 31, 2016									
Dr. Bernhard Düttmann (until March 31, 2015)	**2016**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2015	163	15	187	73[3]	(31)	407	–	407
Total	**2016**	**2,750**	**220**	**4,575**	**1,857**	**(147)**	**9,255**	**2,597**	**11,852**
	2015	2,464	177	4,087	1,626	(62)	8,292	1,068	9,360

1) Payment in 2016 and 2017, respectively 2) Payment in 2015 and 2016, respectively 3) Payment of 50% each in 2016 and 2017 4) Payment of 50% each in 2017 and 2018

The aggregate compensation of the Board of Management was €11,852 thousand (2015: €9,360 thousand), comprising €2,970 thousand (2015: €2,641 thousand) in non-performance-related components, €6,285 thousand (2015: €5,651 thousand) in performance-related components and €2,597 thousand (2015: €1,068 thousand) in components with a long-term incentive effect. Under the LTSP, members of the Board of Management were granted a total of 1,740,000 rights for 2016 and an additional 1,350,000 rights for 2012 and 1,350,000 rights for 2013. A total of 1,200,000 rights were granted in 2015.

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 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, the company pays certain additional benefits up to a defined ceiling.

LANXESS has established provisions for the future claims of Board of Management members. In 2016, the total service cost recognized under IFRS accounting rules in the consolidated financial statements for this purpose was €1,173 thousand (2015: €1,640 thousand). The present value of the obligations for the members of the Board of Management serving as of December 31, 2016, was €16,033 thousand (2015: €11,903 thousand). Under IFRS accounting principles, the service cost for pension entitlements earned in 2016 and the present value of the obligations, including acquired rights, as of December 31, 2016, amounted to, respectively, €659 thousand and €4,522 thousand (2015: €597 thousand and €2,716 thousand) for Mr. Zachert, €142 thousand and €3,162 thousand (2015: €43 thousand and €2,322 thousand) for Dr. Fink, €228 thousand and €1,607 thousand (2015: €432 thousand and €1,018 thousand) for Mr. Pontzen, and €144 thousand and €6,742 thousand (2015: €151 thousand and €5,847 thousand) for Dr. van Roessel. The service cost for former Board of Management member Dr. Düttmann for his service in 2015 came to €417 thousand.

The net expense for pension entitlements recognized under HGB accounting rules in the 2016 annual financial statements for this purpose was €1,385 thousand (2015: €2,628 thousand). The present value of the obligations for the members of the Board of Management serving as of December 31, 2016, was €11,691 thousand (2015: €10,307 thousand). Under HGB accounting rules, the present value of the obligations, including vested rights, for the members of the Board of Management serving as of December 31, 2016, amounted to, respectively, €3,026 thousand for Mr. Zachert (2015: €2,237 thousand), €2,116 thousand for Dr. Fink (2015: €1,927 thousand), €972 thousand for Mr. Pontzen (2015: €802 thousand) and €5,577 thousand for Dr. van Roessel (2015: €5,341 thousand).

As of December 31, 2016, obligations to former members of the Board of Management totaled €34,497 thousand (2015: €30,318 thousand) under IFRS accounting rules and €26,041 thousand (2015: €26,682 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 two times 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.

Dr. Düttmann resigned from the Board of Management by mutual agreement effective March 31, 2015, and left the company. Up to this time, the contractually agreed benefits were granted and paid, including the variable compensation for fiscal 2015 that had already been earned. At that time, existing LTSP rights were evaluated at €1.00 per right and compensation paid pro rata, depending on the length of the vesting period that had already elapsed. This resulted in an entitlement of €857 thousand. In addition, Dr. Düttmann was granted a severance payment of €3,380 thousand comprising two times the target income, which was the annual base salary plus the APP and LTPB assuming 100% target attainment.

Dr. Breuers left the company on expiration of his service contract effective May 31, 2015. He had already resigned from the Board of Management effective August 5, 2014. The contractually agreed terms of his compensation remained applicable until he left the company. At that time, existing LTSP rights were evaluated at €1.00 per right and compensation paid pro rata, depending on the length of the vesting period that had already elapsed. This resulted in an entitlement of €729 thousand. In addition, Dr. Breuers was granted and paid a severance payment of €1,690 thousand comprising a target income, which was the annual base salary plus the APP and LTPB assuming 100% target attainment.

In 2016, compensation of former members of the Board of Management totaled €1,244 thousand (2015: €3,673 thousand).

Other benefits

In 2016, no member of the Board of Management received 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 2016.

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 2015 and 2016, 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 (Serving Members of the Board of Management as of December 31, 2016)

	Matthias Zachert Chairman of the Board of Management Appointed April 1, 2014				Dr. Hubert Fink Member of the Board of Management Appointed October 1, 2015			
€ thousand	**Target value 2015**	**Target value 2016**	**2016 (min.)**	**2016 (max.)**	**Target value 2015**	**Target value 2016**	**2016 (min.)**	**2016 (max.)**
Annual base salary	1,200	1,200	1,200	1,200	113	450	450	450
Compensation in kind	66	73	73	73	14	53	53	53
Total	**1,266**	**1,273**	**1,273**	**1,273**	**127**	**503**	**503**	**503**
Annual Performance Payment (APP)	**1,500**	**1,500**	**0**	**2,250**	**113**	**450**	**0**	**675**
Multi-year variable compensation	**1,261**	**1,876**	**0**	**5,670**	**152**	**649**	**0**	**1,924**
LTPB (tranche 2014–2015)	–	–	–	–	25	–	–	–
LTPB (tranche 2015–2016)	540	–	–	–	127	–	–	–
LTPB (tranche 2016–2017)	–	540	0	810	–	203	0	304
LTSP 2010–2013 (tranche 2012)	–	356	0	1,620	–	119	0	540
LTSP 2010–2013 (tranche 2013)	–	243	0	1,620	–	81	0	540
LTSP 2014–2017 (tranche 2015)	721	–	–	–	–	–	–	–
LTSP 2014–2017 (tranche 2016)	–	737	0	1,620	–	246	0	540
Total	**4,027**	**4,649**	**1,273**	**9,193**	**392**	**1,602**	**503**	**3,102**
Service cost	597	659	659	659	43	142	142	142
Total compensation	**4,624**	**5,308**	**1,932**	**9,852**	**435**	**1,744**	**645**	**3,244**

Compensation Granted (Serving Members of the Board of Management as of December 31, 2016)

	Michael Pontzen Chief Financial Officer Appointed April 1, 2015				Dr. Rainier van Roessel Member of the Board of Management Appointed January 1, 2007			
€ thousand	**Target value 2015**	**Target value 2016**	**2016 (min.)**	**2016 (max.)**	**Target value 2015**	**Target value 2016**	**2016 (min.)**	**2016 (max.)**
Annual base salary	338	450	450	450	650	650	650	650
Compensation in kind	33	44	44	44	49	50	50	50
Total	**371**	**494**	**494**	**494**	**699**	**700**	**700**	**700**
Annual Performance Payment (APP)	**338**	**450**	**0**	**675**	**650**	**650**	**0**	**975**
Multi-year variable compensation	**253**	**649**	**0**	**1,924**	**640**	**661**	**0**	**1,219**
LTPB (tranche 2014–2015)	76	–	–	–	–	–	–	–
LTPB (tranche 2015–2016)	177	–	–	–	293	–	–	–
LTPB (tranche 2016–2017)	–	203	0	304	–	293	0	439
LTSP 2010–2013 (tranche 2012)	–	119	0	540	–	3	0	0
LTSP 2010–2013 (tranche 2013)	–	81	0	540	–	10	0	0
LTSP 2014–2017 (tranche 2015)	–	–	–	–	347	–	–	–
LTSP 2014–2017 (tranche 2016)	–	246	0	540	–	355	0	780
Total	**962**	**1,593**	**494**	**3,093**	**1,989**	**2,011**	**700**	**2,894**
Service cost	432	228	228	228	151	144	144	144
Total compensation	**1,394**	**1,821**	**722**	**3,321**	**2,140**	**2,155**	**844**	**3,038**

Allocations (Serving Members of the Board of Management as of December 31, 2016)

	Matthias Zachert Chairman of the Board of Management Appointed April 1, 2014		Dr. Hubert Fink Member of the Board of Management Appointed October 1, 2015	
€ thousand	**2015**	**2016**	**2015**	**2016**
Annual base salary	1,200	1,200	113	450
Compensation in kind	66	73	14	53
Total	**1,266**	**1,273**	**127**	**503**
Annual Performance Payment (APP)	**2,250**	**2,190**	**169**	**670**
Multi-year variable compensation	**405**	**788**	**38**	**188**
LTPB (tranche 2013–2014)	–	–	–	–
LTPB (tranche 2014–2015)	405	(11)	38	(1)
LTPB (tranche 2015–2016)	–	799	–	189
LTSP 2010–2013 (tranche 2011)	–	–	–	–
LTSP 2010–2013 (tranche 2012)	–	–	–	–
LTSP 2010–2013 (tranche 2013)	–	–	–	–
LTSP 2014–2017 (tranche 2014)	–	–	–	–
Total	**3,921**	**4,251**	**334**	**1,361**
Service cost	597	659	43	142
Total compensation	**4,518**	**4,910**	**377**	**1,503**

Allocations (Serving Members of the Board of Management as of December 31, 2016)

	Michael Pontzen Chief Financial Officer Appointed April 1, 2015		Dr. Rainier van Roessel Member of the Board of Management Appointed January 1, 2007	
€ thousand	**2015**	**2016**	**2015**	**2016**
Annual base salary	338	450	650	650
Compensation in kind	33	44	49	50
Total	**371**	**494**	**699**	**700**
Annual Performance Payment (APP)	**506**	**661**	**953**	**949**
Multi-year variable compensation	**114**	**260**	**343**	**427**
LTPB (tranche 2013–2014)	–	–	(4)	–
LTPB (tranche 2014–2015)	114	(3)	347	(6)
LTPB (tranche 2015–2016)	–	263	–	433
LTSP 2010–2013 (tranche 2011)	–	–	–	–
LTSP 2010–2013 (tranche 2012)	–	–	–	–
LTSP 2010–2013 (tranche 2013)	–	–	–	–
LTSP 2014–2017 (tranche 2014)	–	–	–	–
Total	**991**	**1,415**	**1,995**	**2,076**
Service cost	432	228	151	144
Total compensation	**1,423**	**1,643**	**2,146**	**2,220**

Compensation Granted (Former Members of the Board of Management as of December 31, 2016)

	Dr. Bernhard Düttmann Chief Financial Officer Resigned March 31, 2015			
€ thousand	**Target value 2015**	**Target value 2016**	**2016 (min.)**	**2016 (max.)**
Annual base salary	163	–	–	–
Compensation in kind	15	–	–	–
Total	**178**	**–**	**–**	**–**
Annual Performance Payment (APP)	**187**	**–**	**–**	**–**
Multi-year variable compensation	**37**	**–**	**–**	**–**
LTPB (tranche 2014–2015)	–	–	–	–
LTPB (tranche 2015–2016)	37	–	–	–
LTPB (tranche 2016–2017)	–	–	–	–
LTSP 2010–2013 (tranche 2012)	–	–	–	–
LTSP 2010–2013 (tranche 2013)	–	–	–	–
LTSP 2014–2017 (tranche 2015)	–	–	–	–
LTSP 2014–2017 (tranche 2016)	–	–	–	–
Total	**402**	**–**	**–**	**–**
Service cost	417	–	–	–
Total compensation	**819**	**–**	**–**	**–**

Allocations (Former Members of the Board of Management as of December 31, 2016)

	Dr. Bernhard Düttmann Chief Financial Officer Resigned March 31, 2015		Dr. Werner Breuers Member of the Board of Management Resigned August 5, 2014	
€ thousand	**2015**	**2016**	**2015**	**2016**
Annual base salary	163	–	–	–
Compensation in kind	15	–	–	–
Total	**178**	**–**	**–**	**–**
Annual Performance Payment (APP)	**165**	**–**	**–**	**–**
Multi-year variable compensation	**1,054**	**–**	**729**	**–**
LTPB (tranche 2013–2014)	(4)	–	–	–
LTPB (tranche 2014–2015)	164	–	–	–
LTPB (tranche 2015–2016)	37	–	–	–
LTSP 2010–2013 (tranche 2011)	305	–	272	–
LTSP 2010–2013 (tranche 2012)	255	–	269	–
LTSP 2010–2013 (tranche 2013)	175	–	188	–
LTSP 2014–2017 (tranche 2014)	122	–	–	–
Total	**1,397**	**–**	**729**	**–**
Service cost	417	–	–	–
Total compensation	**1,814**	**–**	**729**	**–**

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℠ index 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 2016.

The expected compensation payable for the current terms of office of Supervisory Board members was valued at €600 thousand (2015: €1,200 thousand) as of December 31, 2016, 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 in fiscal 2016.

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	**2016**	**240,000**	**–**	**18,000**	**5,000**	**263,000**
	2015	240,000	–	21,000	5,000	266,000
Ralf Sikorski, Vice Chairman (appointed May 13, 2015)	**2016**	**103,388**	**40,000**	**18,000**	**5,000**	**166,388**
	2015	51,068	25,534	13,500	3,192	93,294
Gisela Seidel (resigned May 31, 2016)	**2016**	**49,836**	**16,612**	**7,500**	**2,077**	**76,025**
	2015	105,753	40,000	21,000	5,000	171,753
Ulrich Freese, former Vice Chairman (resigned May 13, 2015)	**2016**	**–**	**–**	**–**	**–**	**–**
	2015	43,726	14,575	7,500	1,822	67,623
Axel Berndt (resigned May 13, 2015)	**2016**	**–**	**–**	**–**	**–**	**–**
	2015	29,151	14,575	7,500	1,822	53,048
Werner Czaplik (appointed May 13, 2015)	**2016**	**80,000**	**40,000**	**16,500**	**5,000**	**141,500**
	2015	51,068	25,534	10,500	3,192	90,294
Dr. Hans-Dieter Gerriets	**2016**	**80,000**	**40,000**	**16,500**	**5,000**	**141,500**
	2015	80,000	40,000	18,000	5,000	143,000
Dr. Heike Hanagarth (appointed July 1, 2016)	**2016**	**40,219**	**–**	**6,000**	**2,514**	**48,733**
	2015	–	–	–	–	–
Dr. Friedrich Janssen	**2016**	**80,000**	**80,000**	**16,500**	**5,000**	**181,500**
	2015	80,000	94,575	21,000	5,000	200,575
Robert J. Koehler (resigned May 13, 2015)	**2016**	**–**	**–**	**–**	**–**	**–**
	2015	29,151	14,575	3,000	1,822	48,548
Rainer Laufs (resigned May 13, 2015)	**2016**	**–**	**–**	**–**	**–**	**–**
	2015	29,151	14,575	7,500	1,822	53,048
Thomas Meiers	**2016**	**80,000**	**40,000**	**16,500**	**5,000**	**141,500**
	2015	80,000	40,000	18,000	5,000	143,000
Claudia Nemat (resigned June 30, 2016)	**2016**	**39,781**	**19,891**	**4,500**	**2,486**	**66,658**
	2015	80,000	25,534	13,500	5,000	124,034
Lawrence A. Rosen (appointed May 13, 2015)	**2016**	**80,000**	**40,000**	**13,500**	**5,000**	**138,500**
	2015	51,068	25,534	6,000	3,192	85,794
Hans-Jürgen Schicker (resigned June 30, 2015)	**2016**	**–**	**–**	**–**	**–**	**–**
	2015	39,671	19,836	9,000	2,479	70,986
Manuela Strauch (appointed July 1, 2015)	**2016**	**80,000**	**40,000**	**13,500**	**5,000**	**138,500**
	2015	40,329	20,164	13,500	2,521	76,514
Ifraim Tairi (appointed July 1, 2016)	**2016**	**46,776**	**15,847**	**9,000**	**2,924**	**74,547**
	2015	–	–	–	–	–
Theo H. Walthie	**2016**	**80,000**	**55,847**	**19,500**	**5,000**	**160,347**
	2015	80,000	40,000	21,000	5,000	146,000
Dr. Matthias L. Wolfgruber (appointed May 13, 2015)	**2016**	**80,000**	**40,000**	**15,000**	**5,000**	**140,000**
	2015	51,068	25,534	9,000	3,192	88,794
Total	**2016**	**1,160,000**	**468,197**	**190,500**	**60,001**	**1,878,698**
	2015	1,161,204	480,545	220,500	60,056	1,922,305

1) Figures exclude value-added tax

REPORT PURSUANT TO SECTION 289, PARAGRAPH 4, AND SECTION 315, PARAGRAPH 4 OF THE GERMAN COMMERCIAL CODE

Pursuant to Section 289, Paragraph 4, Nos. 1 to 9 and Section 315, Paragraph 4, 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, 2016, 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 in the market or via a public tender offer. The Board of Management is authorized to use them for any purpose permitted by law, especially those purposes detailed 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 4 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 the subscription rights of stockholders, the Board of Management will only use the authorizations granted by the Annual Stockholders' Meeting of May 13, 2015, for capital measures under exclusion of the stockholders' subscription rights in the 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 and II

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 on the exclusion of the subscription rights of stockholders for shares from Authorized Capital II, the Board of Management will use the authorizations granted by the Annual Stockholders' Meeting of May 13, 2015, for capital measures under exclusion of the stockholders' subscription rights in the 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.

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 2011 and the €500 million eurobond issued by LANXESS Finance B.V. in fiscal 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 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 €500 million (maturity 2021) and €500 million (maturity 2026), respectively, issued by LANXESS AG in 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 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. In addition, a further bridge loan agreement has been concluded between the company and a syndicate of banks in connection with the acquisition of Chemtura Corporation; the agreed credit line, which has since been reduced to €500 million, can no longer be utilized 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 SECTION 289A OF THE GERMAN COMMERCIAL CODE

The Board of Management and Supervisory Board have issued the corporate governance declaration pursuant to Section 289a of the German Commercial Code (HGB). This has been made available to the stockholders and can be found on our website at *www.lanxess.com* under Investor Relations/Corporate Governance.

REPORT ON RISKS, OPPORTUNITIES AND FUTURE PERSPECTIVES

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

The interest rate turnaround initiated in the United States, although it is gradual, increases the risk of volatile exchange rates. We expect low commodity prices to dent growth in the relevant export countries. An escalation of the crisis in the Middle East could curb global growth in 2017, as could the still unresolved problems in the banking sector and the countries' tight public-sector finances. In Europe, growth may be held back by Brexit and its as yet uncertain economic impact. In the United States, the planned fiscal measures may additionally stimulate growth; on the other hand, we would expect global growth to slow further if protectionist measures were to be put in place, especially in the United States.

In fiscal 2017, we expect moderate growth of 2.5% for the *global economy*, supported mainly by business performance in Asia-Pacific. China should remain the driver of economic expansion in Asia despite a slight weakening of growth there. At 1.5%, growth in EMEA (including Germany) will remain at a low level, particularly in view of Brexit, which will additionally dampen the poor outlook in Europe. In the Americas, we anticipate growth of 2.0% based on high consumer spending.

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

Expected Growth in 2017

Change vs. prior year in real terms (%)[1]	Gross domestic product	Chemical production
Americas	2.0	2.0
EMEA (incl. Germany)	1.5	1.5
Asia-Pacific	4.0	5.0
World	**2.5**	**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 2017

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

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

Future perspectives

Expected earnings position of the LANXESS Group

In fiscal 2017, we expect our existing business to post a slightly positive performance. The forecast moderate growth of the global economy should have a corresponding effect on our earnings performance.

For the Advanced Intermediates segment, we expect business in 2017 to be stable overall at the prior-year level.

In our Performance Chemicals segment, we anticipate a slight improvement in business performance. We also expect a positive contribution in 2017 from the Clean and Disinfect specialties business acquired from Chemours at the end of August 2016.

For our High Performance 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 predicting 2017 performance at the prior-year level.

We believe business will remain challenging for our ARLANXEO segment in 2017. The ongoing price pressure in our EPDM rubber business will persist in 2017 due to existing overcapacities, though we expect a moderate improvement for our butyl rubber products. Overall, we expect a slight deterioration in fiscal 2017. The U.S. dollar is the key currency for our rubber business and we expect its average price to be on a par with the prior year.

In the Reconciliation segment, we anticipate lower expenses for currency hedging than in the prior year.

Against the background of the expected performance of our segments, we predict that EBITDA pre exceptionals for the full year 2017 will be slightly higher compared with the prior year. This takes account of the anticipated cost savings from our realignment and a contribution from the acquired Chemours Clean and Disinfect specialties business.

For LANXESS, fiscal 2017 will be marked by integration and the ongoing strategic realignment of the company, especially after closing the acquisition of U.S. chemical company Chemtura, which is expected by mid-2017 and would make an additional contribution to the expected earnings position in 2017 described here. Moreover, we will continue to pursue the organic growth projects we announced back in 2015.

We anticipate moderate increases in procurement prices especially for petrochemical raw materials compared with 2016. We expect a continuation of the volatility in raw material prices that has now been ongoing for several years and is in some cases substantial.

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

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 €4.3 billion in cash and undrawn credit lines as of the end of 2016, as described under "Financial condition," we have a very good liquidity and financing position. We have thus secured the liquidity needed in the short term for the planned acquisition of Chemtura as well as the entrepreneurial flexibility required in the long term to implement our strategy.

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. At the end of 2015, we already announced capital expenditures of around €60 million to construct two new production lines for our Saltigo business unit at the Central Organics Pilot Plant (ZeTO) in Leverkusen, Germany. They are scheduled to start up at the end of 2017. In the current year, we expect total cash outflows for capital expenditures of around €450 million to €500 million. 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. Financing for the Chemtura acquisition had already been secured in 2016. In 2017, therefore, we anticipate that LANXESS will be able to cover the acquisition of Chemtura and capital expenditures from liquidity and existing credit lines. The same applies to the expected dividend payment. In 2017, no significant financing instruments will be maturing and require refinancing. We will continue our ongoing efforts aimed at securing long-term funding as part of a conservative financing policy.

Expected earnings position of LANXESS AG

In fiscal 2017, we expect the financial statements of LANXESS AG to show substantially lower net income than in 2016. The prior year was influenced by special effects resulting from the establishment of ARLANXEO, a merger and changes in commercial law concerning the valuation of pension obligations. 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. We expect the net interest position to decline on account of the changed financing structure. 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 26, 2017, that a dividend of €0.70 per share be declared for fiscal year 2016.

Summary of the Group's projected performance

We anticipate slightly positive business development in the current year.

Following the planned acquisition of U.S. chemical company Chemtura, fiscal 2017 at LANXESS will be characterized by integration and the ongoing strategic realignment of the company We will also drive forward organic growth projects.

We assume a slightly positive development of EBITDA pre exceptionals for the full year 2017.

We will be continuing the strategic realignment of the Group in 2017 with the aim of achieving a more stable and less cyclical business profile.

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 opportunity and risk management system is to safeguard the company's existence for the long term and ensure its successful ongoing development by identifying opportunities and risks 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 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 or other management levels.

Roles of key organizational units

Our business units each 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 Controlling Group Function is responsible for collecting and aggregating key information across the Group at the following intervals:

- Twice per year during the intrayear forecasting process
- Once per year as part of the budget and planning process for the subsequent year and the medium-term forecast horizon

The Corporate Development Group Function systematically analyzes and measures significant and strategic opportunities and risks with the goal of ensuring the Group's long-term strategy.

Transactions particularly for the transfer of financial but also operating risk (hedging transactions or insurance) are managed centrally by the Treasury & Investor Relations Group Function. This is explained in "Opportunities and risks of future development."

Due to the highly integrated nature of our general business processes, we have specialized committees composed of representatives of the business units and Group functions which deal with issues concerning the Group's opportunities and risks. This enables us to react quickly and flexibly to changing situations and their influence on the company.

In addition, a Risk Committee chaired by the Chief Financial Officer analyzes the material risks and their development for their potential impact on the company as a whole. The Risk Committee brings together representatives from selected Group functions to analyze existing measures to counter risks, initiate additional measures, define Group-wide risk management standards and guidelines and, if necessary, initiate further analyses of individual opportunities and risks.

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 countermeasures. In addition, those risks must be reported which have an anticipated impact that was reduced by more than €10 million through the implementation of countermeasures. 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 €10 million after the implementation of countermeasures. In 2016, there was no cause for immediate reporting of this kind.

The reported opportunities and risks are collected in a central database and regularly analyzed for the Board of Management and Supervisory Board. This ensures that when new opportunities and risks arise or when existing ones change substantially, the necessary information can be communicated in a timely manner 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 described by scenario-based fluctuations in planning parameters (exchange rates, raw material prices, energy prices and economic development assumptions). 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 half-year financial statements 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 period under review. 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 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 the table below:

Categories
Procurement markets
Human resources
Plant operations and hazards
Corporate strategy
Sales markets
Finance
Legal, regulatory and political environment

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. Many agreements with customers also contain price escalation clauses. 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 (see also "Financial markets"). Additionally, we are constantly looking for ways to use our resources more efficiently so that we can offset higher costs by raising productivity. 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. If we were to be forced to utilize an alternative source of supply, this could result in, for example, higher procurement prices or additional transportation costs.

Human resources

The risk of industrial action resulting from disputes 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 to the working world from globalization and increasing digitalization, we make continuous use of existing dialogue platforms such as the European Forum, which brings together the works councils in Europe. We also actively seek dialogue with the representatives of our employees, the trade unions and other interest groups in the other regions in which we operate, particularly concerning corporate acquisitions and integration.

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. We continue to invest in the next generation of employees, either by increasing the number of training opportunities in Germany or by offering internship programs and scholarships for gifted students. Our Corporate Trainee Program has also proved its worth in fostering upcoming management talents.

The growing lack particularly of *skilled employees* in our markets is a problem for us in Germany especially. That applies to specific engineering qualifications but also to individual specialist careers. A forward-looking human resources policy will therefore remain one focus, which is evidenced by regular HR development conferences, for example. In line with our needs, we continue to foster our 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. Back in 2011, the Board of Management established the extensive "Xcare" demographic program to deliver a structured approach to countering the risk presented by a lack of skilled employees. At the end of 2015, aware that the steps already taken might not be sufficient to adequately counter demographic risk, we collaborated with the businesses to launch a range of new initiatives that were given greater focus in the reporting year and are now being gradually implemented.

Plant operations and hazards

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.

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.

Our *information technology* (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 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. All of these can cause serious business interruptions. 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 inform the users of our IT systems about IT risks, appropriate rules of conduct and preventive measures.

Corporate strategy

We actively pursue the strategic optimization of the enterprise. Our efforts include ongoing efficiency enhancement, 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 combined 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. 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.

Our product portfolio is systematically aligned with key global trends that promise continuous growth in the coming years. With our products, we offer innovative solutions for these trends and generate recognizable added value for our customers. We are successfully positioned in those markets in which our product portfolio will enable us to particularly benefit from these trends in the medium and long term.

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 agreements with the sellers. Insufficient *integration* of acquired companies or businesses can result in expected developments not materializing. 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.

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.

Sales markets

Our company is inherently exposed to general *economic developments* and to political and geopolitical change in the countries and regions in which we operate. 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 combined 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 capacities, 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 business units, 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	Counter-party risks	Capital investments	Insurance
Currencies	Availability of cash	Customers	Investments in pension assets	Shortfall in cover
Interest rates	Access to multi- and bilateral capital markets	Banks		
Raw materials				
Energies				

In regular strategy meetings, the Financial Risk Committee chaired by the Chief Financial Officer 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 2017. 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 2017 and 2018 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.

Raw materials/energies

In the course of its business operations, the LANXESS Group is exposed to changes in the market prices for energies and raw materials. As a rule, these changes are passed on to customers. Where certain market-price risks for energies 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. In February 2015, its original term was extended by one year to February 2020. In addition to credit facilities, the Group has short-term liquidity reserves of €395 million in the form of cash and cash equivalents and highly liquid investments in AAA-rated money market funds. Furthermore, as of the reporting date, LANXESS had bilateral investments at banks, money market funds and commercial paper amounting to €2,125 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.

Insurance

The LANXESS Group carries insurance cover against material risks such as those arising from property damage, business interruption and product liability. If a loss event occurs, LANXESS must therefore pay only those damages in excess of the deductible. However, there is a residual risk of events that are not covered by the insurance or which result in damages in excess of the cover guaranteed by the insurer.

Legal, regulatory and political environment

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 main risks LANXESS has identified are those relating to antitrust legislation, plant safety and environmental protection, foreign trade legislation and corruption. 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 about compliance can be found in the Corporate Governance Report and in the “Compliance as an integral component” section of this opportunity and risk report.

Regulatory measures may lead to the tightening of safety, quality and environmental regulations and standards in different areas. These may result in additional 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 and 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.

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.

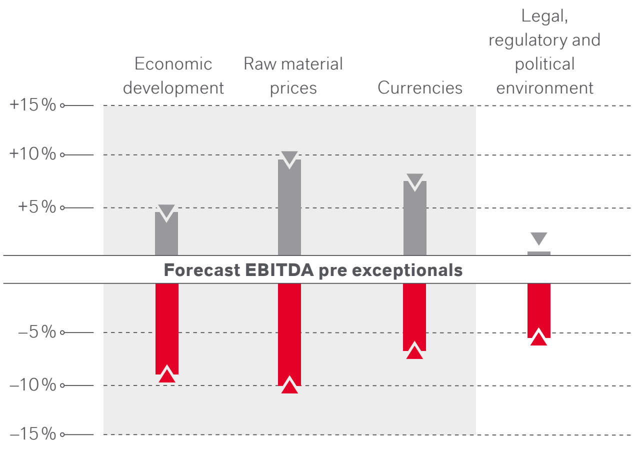
Significance of opportunities and risks and result of opportunity and risk assessment

The opportunities and risks of future development that we identify are categorized and grouped, as described above. Their significance lies in their potential impact on planned EBITDA pre exceptionals. 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 economic developments, raw material prices and currency categories as well as the legal, regulatory and political environment group were considered to be of medium to high significance. Based on the scenarios applied or the assumed probability of occurrence, these categories and this group could produce a positive or negative deviation of up to 10 % from our projected EBITDA pre exceptionals, which is our key controlling parameter. The legal, regulatory and political environment group was particularly influenced by opportunities and risks in the energy and environmental policy category. Opportunities and risks in other categories – such as legal risks – are of very little significance.

There were no changes to the categories for the 2017 planning year.

Opportunity and Risk Profile[1)]
%



1) Event- and distribution-based opportunities and risks in line with assumed scenarios; on account of the interactions between the various categories, the effects of the opportunities and risks may not be added.

In light of its extensive global activities and its dependence on raw materials characterized by volatile price trends, ARLANXEO especially may be vulnerable to these risks, which we seek to mitigate by means of suitable countermeasures.

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 three-phase “Let’s LANXESS again” program for the global realignment of the LANXESS Group initiated in 2014 gives us the headroom which will enable us to remain effective and competitive even in the evolving operating environment (see the “Strategy” section in this combined management report). In addition, the realignment will allow us to leverage strategic and operational opportunities and to make maximum use of growth potential.

Despite mixed economic developments across regions and sectors, our risk exposure during the reporting year was not fundamentally or materially different from our risk exposure during the previous year due to our broadly diversified product and customer portfolios. However, with the acquisition of the Chemours Clean and Disinfect specialties business completed in the reporting year, we further expanded our position in mid-sized and less cyclical markets with a high margin and good growth prospects. With the planned acquisition of U.S. chemical company Chemtura we are seeking to build on our additives business and become one of the world's major actors in the growing market for flame retardant and lubricant additives.

We point to the intense competitive pressure still facing our synthetic rubber businesses. Within the context of our realignment, we have found a strong partner for this in Saudi Aramco and together we have successfully launched the ARLANXEO operation.

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 have become somewhat less reliable due to the changes in our procurement and customer markets.

The economic ramifications of Brexit and future U.S. economic policy represent uncertainties that are 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, 2015	Dec. 31, 2016
ASSETS			
Intangible assets	(1)	300	494
Property, plant and equipment	(2)	3,447	3,519
Investments accounted for using the equity method	(3)	0	0
Investments in other affiliated companies	(4)	12	12
Non-current derivative assets	(5)	1	1
Other non-current financial assets	(6)	21	19
Non-current income tax receivables	(7)	11	7
Deferred taxes	(29)	361	442
Other non-current assets	(8)	27	25
Non-current assets		**4,180**	**4,519**
Inventories	(9)	1,349	1,429
Trade receivables	(10)	956	1,088
Cash and cash equivalents		366	355
Near-cash assets	(11)	100	40
Current derivative assets	(5)	14	65
Other current financial assets	(6)	4	2,130
Current income tax receivables	(7)	44	67
Other current assets	(12)	206	184
Current assets		**3,039**	**5,358**
Total assets		**7,219**	**9,877**
EQUITY AND LIABILITIES			
Capital stock and capital reserves		1,317	1,317
Other reserves		1,313	1,257
Net income		165	192
Other equity components		(485)	(214)
Equity attributable to non-controlling interests		13	1,176
Equity	(13)	**2,323**	**3,728**
Provisions for pensions and other post-employment benefits	(14)	1,215	1,249
Other non-current provisions	(15)	271	319
Non-current derivative liabilities	(5)	19	7
Other non-current financial liabilities	(16)	1,258	2,734
Non-current income tax liabilities	(17)	19	31
Other non-current liabilities	(18)	108	93
Deferred taxes	(29)	46	83
Non-current liabilities		**2,936**	**4,516**
Other current provisions	(15)	411	406
Trade payables	(19)	779	889
Current derivative liabilities	(5)	100	42
Other current financial liabilities	(16)	443	78
Current income tax liabilities	(17)	85	44
Other current liabilities	(18)	142	174
Current liabilities		**1,960**	**1,633**
Total equity and liabilities		**7,219**	**9,877**

Income Statement
LANXESS Group

€ million	Note	2015	2016
Sales	(21)	**7,902**	**7,699**
Cost of sales	(22)	(6,154)	(5,945)
Gross profit		**1,748**	**1,754**
Selling expenses	(23)	(759)	(781)
Research and development expenses	(24)	(130)	(131)
General administration expenses	(25)	(284)	(303)
Other operating income	(26)	207	147
Other operating expenses	(27)	(367)	(222)
Operating result (EBIT)		**415**	**464**
Income from investments accounted for using the equity method		0	0
Interest income		4	9
Interest expense		(70)	(72)
Other financial income and expense		(61)	(62)
Financial result	(28)	**(127)**	**(125)**
Income before income taxes		**288**	**339**
Income taxes	(29)	(121)	(144)
Income after income taxes		**167**	**195**
of which attributable to non-controlling interests		2	3
of which attributable to LANXESS AG stockholders [net income]		165	192
Earnings per share (undiluted/diluted) (€)	**(30)**	**1.80**	**2.10**

Statement of Comprehensive Income
LANXESS Group

€ million	2015	2016
Income after income taxes	**167**	**195**
Items that will not be reclassified subsequently to profit or loss		
Remeasurements of the net defined benefit liability for post-employment benefit plans	83	(233)
Income taxes	(24)	75
	59	**(158)**
Items that may be reclassified subsequently to profit or loss if specific conditions are met		
Exchange differences on translation of operations outside the eurozone	(15)	179
Financial instruments	(17)	68
Income taxes	5	(20)
	(27)	**227**
Other comprehensive income, net of income tax	**32**	**69**
Total comprehensive income	**199**	**264**
of which attributable to non-controlling interests	2	56
of which attributable to LANXESS AG stockholders	197	208

Statement of Changes in Equity
LANXESS Group

€ million	Capital stock	Capital reserves	Other reserves	Net income (loss)	Other equity components – Currency translation adjustment	Other equity components – Financial instruments	Equity attributable to LANXESS AG stockholders	Equity attributable to non-controlling interests	Equity
Dec. 31, 2014	**91**	**1,226**	**1,253**	**47**	**(407)**	**(51)**	**2,159**	**2**	**2,161**
Allocations to retained earnings			47	(47)			0		0
Transactions with owners							0	9	9
Dividend payments			(46)				(46)	0	(46)
Total comprehensive income			59	165	(15)	(12)	197	2	199
Income after income taxes				*165*			*165*	*2*	*167*
Other comprehensive income, net of income tax			*59*		*(15)*	*(12)*	*32*	*0*	*32*
Remeasurements of the net defined benefit liability for post-employment benefit plans			*83*				*83*		*83*
Exchange differences on translation of operations outside the eurozone					*(15)*		*(15)*	*0*	*(15)*
Financial instruments						*(17)*	*(17)*		*(17)*
Income taxes on other comprehensive income			*(24)*			*5*	*(19)*		*(19)*
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**

Statement of Cash Flows
LANXESS Group

€ million	Note	2015	2016
Income before income taxes		**288**	**339**
Amortization, depreciation, write-downs and reversals of impairment charges of intangible assets, property, plant and equipment		418	481
Gains on disposals of intangible assets and property, plant and equipment		(42)	0
Income from investments accounted for using the equity method		0	0
Financial losses		66	56
Income taxes paid		(98)	(184)
Changes in inventories		55	(45)
Changes in trade receivables		64	(96)
Changes in trade payables		(26)	94
Changes in other assets and liabilities		(33)	44
Net cash provided by operating activities	(37)	**692**	**689**
Cash outflows for purchases of intangible assets and property, plant and equipment		(434)	(439)
Cash outflows for financial assets		(11)	(2,125)
Cash inflows from financial assets		–	66
Cash outflows for the acquisition of subsidiaries and other businesses, less acquired cash and cash equivalents		–	(198)
Cash inflows from sales of intangible assets and property, plant and equipment		45	7
Interest and dividends received		–	10
Cash outflows for external funding of pension obligations (CTAs)		–	(200)
Net cash used in investing activities	(37)	**(400)**	**(2,879)**
Cash inflows from non-controlling interests		9	1,194
Proceeds from borrowings		78	1,529
Repayments of borrowings		(298)	(422)
Interest paid and other financial disbursements		(76)	(73)
Dividend payments		(46)	(55)
Net cash provided by (used in) financing activities	(37)	**(333)**	**2,173**
Change in cash and cash equivalents from business activities		**(41)**	**(17)**
Cash and cash equivalents as of January 1		418	366
Exchange differences and other changes in cash and cash equivalents		(11)	6
Cash and cash equivalents as of December 31	(37)	**366**	**355**

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 2016 were prepared by the Board of Management of LANXESS AG and authorized for submission to the Supervisory Board on March 1, 2017. 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, 2016, 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 315a, Paragraph 1 of the German Commercial Code (HGB).

The mandatory first-time application of the following financial reporting standards and interpretations in 2016 currently has no impact, or no material impact, on the LANXESS Group:

Standard/Interpretation	
IAS 19	Defined Benefit Plans: Employee Contributions – Amendments to IAS 19
Various IAS and IFRS	Annual Improvements to the International Financial Reporting Standards, 2010–2012 Cycle
IFRS 11	Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11
IAS 16, IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38
IAS 16, IAS 41	Agriculture: Bearer Plants – Amendments to IAS 16 and IAS 41
Various IAS and IFRS	Annual Improvements to the International Financial Reporting Standards, 2012–2014 Cycle
IFRS 10, IFRS 12, IAS 28	Investment Entities – Applying the Consolidation Exception – Amendments to IFRS 10, IFRS 12 and IAS 28
IAS 1	Disclosure Initiative – Amendments to IAS 1

FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET MANDATORY

In 2016, 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 IASB published the final version of IFRS 9. This contains revised regulations for classifying and measuring financial assets and rules on the impairment of financial instruments. Beside already incurred losses, the expected loss model is used to anticipate and recognize expected future losses and to set up provision for them. 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. Earlier application is permitted. The LANXESS Group will apply this standard prospectively from January 1, 2018.

In 2016, the LANXESS Group set up a project on the introduction of IFRS 9. Based on the present status of this project, the following effects are expected:

› The analysis of the *classification and measurement of financial assets* is at the finalization stage. Neither the new classification of financial assets nor the fair value measurement of equity instruments is expected to have a material impact on accounting.
› Implementation of the new rules on the *impairment of financial instruments* requires the development of an expected loss model based on historical losses and future loss expectations. The concept for the expected loss model is still at the development stage. A reliable estimate of the expected impact can only be made following technical implementation of the concept.
› Implementation of the new requirements for *hedge accounting* mainly relates to currency hedges. The concept to implement the new principles is still at the development stage. Consequently, a reliable estimate of the expected impact can only be made following technical impact of the concept. In general, separate designation and measurement of individual components of forward rates and the exclusion of individual components is expected to lead to higher levels of ineffectiveness.

Revenue from contracts with customers

The IASB published the new standard IFRS 15 on May 28, 2014. It 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 identification of 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 amounts 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 the identification of performance obligations, the definition of principal versus agent, and recognition of license revenues. The E.U. endorsed the standard in September 2016 but has not yet endorsed the clarifications issued in April 2016.

In 2015, the LANXESS Group set up a project on the introduction of IFRS 15. This analyzed which business models and areas of the company are affected by the new requirements of IFRS 15. A more detailed analysis was then performed of contracts and data for these areas and a concept for implementation was developed. This is currently being finalized. Practical implementation and any necessary IT adjustments will be undertaken in fiscal 2017. The standard will initially be applied as of January 1, 2018, using the simplified retrospective approach.

Based on the analyses performed, the following principal effects are expected compared with the present method of revenue recognition:

› 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 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 may result in a shift in the timing of revenues, which would be reflected as contract liabilities. By contrast, under the present method, revenue is recognized on the basis of the agreed selling price. Based on the present status of the project, this will affect some consolidated sales in the Advanced Intermediates, ARLANXEO and Performance Chemicals segments.
› 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 created 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. Based on the present status of the project, this will affect some consolidated sales in the Advanced Intermediates segment.

Reliable quantification of the shift in the timing of revenue recognition for these two business models will only be possible once technical implementation of the concept has been completed.

› All segments use a business model where the *sale of products includes organizing freight services.* Under IFRS 15, the timing of revenue recognition is based on the transfer of control to the customer. Based on the present status of the analysis of the defined criteria, this will probably shift revenue recognition to completion of the freight service, which means the freight service would not be treated as a distinct performance obligation. This is expected to have a one-time effect as of the date of initial application, i.e. January 1, 2018, because the impact on subsequent periods would be of the same order of magnitude.

Leasing

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 recognized as current expenses. 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. It has not yet been endorsed by the E.U. The LANXESS Group will probably apply the new standard from January 1, 2019.

In 2016, the LANXESS Group set up a project on the introduction of IFRS 16. Initial analyses of the impact have been performed at Group level and possible technical solutions have been evaluated. If IFRS 16 had been applicable as of January 1, 2017, 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 apply the options. The analysis of contracts and implementation of the technical solutions are scheduled to start in 2017.

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
IAS 12	Income Taxes – Amendments to IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses	Jan. 19, 2016	2017	no
IAS 7	Statement of Cash Flows – Amendments to IAS 7 – Disclosure Initiative	Jan. 29, 2016	2017	no
IFRS 2	Share-based Payment – Amendments to IFRS 2 – Classification and Measurement	June 20, 2016	2018	no
IFRS 4	Insurance Contracts – Applying IFRS 9 “Financial Instruments” with IFRS 4 “Insurance Contracts”	Sept. 12, 2016	–	no
Various IAS and IFRS	Annual Improvements to the International Financial Reporting Standards, 2014–2016 Cycle	Dec. 8, 2016	2017/2018	no
IFRIC 22	Foreign Currency Transactions and Advance Consideration	Dec. 8, 2016	2018	no
IAS 40	Investment Property – Amendments to IAS 40 – Transfers of Investment Property	Dec. 8, 2016	2018	no

CHANGE OF PRESENTATION

To enhance transparency and allow more appropriate allocation to the individual categories of the statement of cash flows, from 2016 cash outflows for external funding of pension liabilities through contractual trust arrangements (CTA) are no longer allocated to cash flows for operating activities. Instead, they are allocated to cash flows for investing activities in line with their nature as reinsurance and thus investing activities.

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, 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 immediately recognized in profit or loss after the purchase price allocation has been re-examined.

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		2015	2016	2015	2016
Argentina	ARS	14.10	16.70	10.28	16.33
Brazil	BRL	4.25	3.44	3.69	3.86
China	CNY	7.06	7.32	6.97	7.35
United Kingdom	GBP	0.73	0.86	0.73	0.82
India	INR	72.02	71.60	71.19	74.34
Japan	JPY	131.07	123.40	134.31	120.29
Canada	CAD	1.51	1.42	1.42	1.47
Singapore	SGD	1.54	1.52	1.53	1.53
South Africa	ZAR	16.95	14.46	14.17	16.27
United States	USD	1.09	1.05	1.11	1.11

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 2016 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 amounts 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. It is tested for impairment 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 allowances are recognized at cost. Allowances allocated free of charge by the German Emissions Trading Authority (DEHSt) or comparable authorities in other European countries are capitalized at a value of zero.

Property, plant and equipment

Property, plant and equipment is carried at the cost of acquisition or construction less usage-based depreciation. LANXESS does not use the revaluation model. Write-downs are recognized for any reduction in value that goes beyond normal depreciation. In compliance with IAS 36, impairment charges are measured by comparing the carrying amounts 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 for them no longer apply, provided that this does not cause the carrying amounts 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 decommission 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 by the straight-line method based on the following useful lives, which are applied uniformly throughout the Group:

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

Leasing

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 addition. 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 the inception of the lease or the present value of the minimum lease payments, whichever is lower. Thereafter 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 current expenses.

Property, plant and equipment also include 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 simultaneously to a financial asset for one party and a financial liability or equity instrument for another. 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 from them 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 affiliated companies and the 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 non-derivative 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. That of all other liabilities is determined by discounting them 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.

Most of the derivative financial instruments used by LANXESS are 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 consumed during 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, where these are attributable to production.

It also includes expenses for company pension plans, corporate welfare facilities and discretionary employee 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 using long-term production processes.

Given the production and distribution sequences characteristic 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 in view of 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. Where the projected obligation alters as the time of performance approaches (interest effect), the related expense is recognized 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.

Provisions are established for restructuring if there is a legal or constructive obligation to do so on the basis of a detailed restructuring plan adopted at the management level authorized to decide on this, and the employees affected or their representatives have been informed. Such provisions contain the expenses that are directly allocable to the restructuring measures, are necessary to implement these measures and not related 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 redemption 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.

The LANXESS Group does not have long-term production orders. Accordingly, the percentage-of-completion method is not applied to determine when revenues are realized.

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.

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.

As of January 1, 2015, the Butyl Rubber and Performance Butadiene Rubbers business units were combined to form the Tire & Specialty Rubbers business unit, the High Performance Elastomers and Keltan Elastomers business units were combined as High Performance Elastomers, and the antioxidants and accelerators product lines of the former Rubber Chemicals business unit were integrated into the Advanced Industrial Intermediates business unit. For impairment testing of assets, the LANXESS Group defines its business units as cash-generating units, with the exception of the following cash-generating units which were defined in connection with the reorganization of the LANXESS Group in 2015: Butyl Rubber, Performance Butadiene Rubbers, High Performance Elastomers, Keltan Elastomers, Advanced Industrial Intermediates, and Antioxidants & Accelerators.

If there is reason to suspect impairment of non-current assets below the level of the cash-generating units, impairment testing is performed at this level and impairment charges or reversals of impairment charges are recognized in profit or loss where necessary.

Cash-generating units to which goodwill is allocated are tested annually for impairment – or more frequently if events or changes in circumstances indicate a possible impairment. The carrying amount of each cash-generating unit, including the goodwill allocated to it, is compared with its recoverable amount. For the impairment test on goodwill in the Tire & Specialty Rubbers business unit in 2016, 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.

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. 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 2015 and 2016 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 the need arises (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 2016 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 5.8% (2015: 6.6%), while the impairment tests as of the closing date are based on a discount rate after taxes of 6.4%. The impairment tests of the cash-generating units showed no need for the recognition of impairment charges in fiscal 2015 and 2016. Compared with the prior year, no need for reversals of impairment charges recognized for assets in previous years was identified in fiscal 2016.

In 2015, the LANXESS Group and Aramco Overseas Holdings Coöperatief U.A., The Hague, Netherlands, a subsidiary of Saudi Aramco, agreed to enter into a strategic alliance for synthetic rubber, named ARLANXEO, in which each party holds a 50% interest. On the basis of the agreement, the recoverable amount of the cash-generating units that belong to ARLANXEO – Butyl Rubber, Performance Butadiene Rubbers, High Performance Elastomers and Keltan Elastomers – was valued at €2.75 billion in 2015. This was allocated among the four cash-generating units on the basis of the respective fair value less costs of disposal. The recoverable amount of the *High Performance Elastomers* cash-generating unit, which is active in the production and marketing of synthetic rubbers with special technical properties for processing industries, especially automotive, construction and engineering, was valued at €464 million on the basis of future anticipated business development. In the ARLANXEO segment (2015: Performance Polymers segment), impairment testing resulted in a reversal of less than €1 million of the impairment charge on intangible assets and of €37 million of the impairment charge on property, plant and equipment. The *Antioxidants & Accelerators* cash-generating unit in the Advanced Intermediates segment was formed as a result of the reorganization of the LANXESS Group effective January 1, 2015, through the integration of the antioxidants and accelerators product lines of the former Rubber Chemicals business unit into the Advanced Industrial Intermediates business unit. As a result of the reorganization, the cost structures were optimized in 2015, and a recoverable amount of €154 million was calculated. This led to a reversal of impairment charges recognized on assets in previous years of €2 million pertaining to property, plant and equipment and €17 million pertaining to intangible assets. 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 reversal of the impairment charges was limited to the carrying amount that would have existed if the impairment had not been recognized and was reflected in other operating income in the income statement and in the respective segments in the segment reporting for 2015.

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.

In fiscal 2016, 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 and tested for impairment as of the reporting date. As a result of the newly acquired goodwill and currency effects, the goodwill of the Material Protection Products business unit increased to €125 million (2015: €28 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.

Further significant goodwill of €76 million (2015: €62 million) relates to the Tire & Specialty Rubbers business unit. The change in goodwill compared with the previous year is attributable to currency effects. The Rhein Chemie Additives business unit has goodwill of €21 million (2015: €21 million) and the High Performance Materials business unit carries goodwill of €18 million (2015: €18 million).

Information on calculating the net cash flows can be found in this chapter and the previous chapter. The Material Protection Products business unit is dependent on the development of various industries, while the Tire & Specialty Rubbers business unit is dependent in large part on market developments in the tire and automotive industries, and the Rhein Chemie Additives business unit primarily on development in various processing industries. The High Performance Materials business unit is influenced primarily by market development in the automotive industry. 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. Bearing in mind the acquisition of the Clean and Disinfect specialties business of the U.S. chemical company Chemours, average annual sales growth of 5% (2015: 4%) is assumed 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 5% (2015: 2%). Average annual sales growth of 4% (2015: 4%) is assumed for the Rhein Chemie Additives cash-generating unit, and 2% (2015: 1%) 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 are assumed for the steady state for the Leather, Keltan Elastomers and Butyl Rubber cash-generating units in the perpetual annuity calculation. In 2015, in view of the overcapacities for synthetic rubbers in the detailed planning period, it was expected that the Tire & Synthetic Rubbers business unit would achieve higher EBITDA for the perpetual annuity in the long term than in the last planning year due to the anticipated increase in demand, especially for higher-quality rubber products.

The impairment test performed on goodwill items in 2015 and 2016 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. The LANXESS Group performed sensitivity analyses on all provisions existing as of December 31, 2016, 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 pension 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.

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. The first-time consolidation of business operations also involves estimation uncertainties and the exercise of discretion in determining the fair values of the acquired assets and assumed liabilities.

COMPANIES CONSOLIDATED

The consolidated financial statements of the LANXESS Group include the parent company LANXESS AG and all domestic and foreign affiliates.

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	EMEA (excl. Germany)	Germany	North America	Latin America	Asia-Pacific	**Total**
Fully consolidated companies (incl. parent company)						
Jan. 1, 2016	21	10	4	5	17	57
Additions	2		3		1	6
Retirements						0
Mergers		(1)				(1)
Changes	1					1
Dec. 31, 2016	**24**	**9**	**7**	**5**	**18**	**63**
Consolidated associates and jointly controlled entities						
Jan. 1, 2016		2				2
Additions						0
Retirements						0
Mergers						0
Changes						0
Dec. 31, 2016	**0**	**2**	**0**	**0**	**0**	**2**
Non-consolidated companies						
Jan. 1, 2016	3	1	1	3	1	9
Additions		1	1		1	3
Retirements	(1)					(1)
Mergers						0
Changes	(1)					(1)
Dec. 31, 2016	**1**	**2**	**2**	**3**	**2**	**10**
Total						
Jan. 1, 2016	24	13	5	8	18	68
Additions	2	1	4		2	9
Retirements	(1)					(1)
Mergers		(1)				(1)
Changes						0
Dec. 31, 2016	**25**	**13**	**9**	**8**	**20**	**75**

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The LANXESS Group and Aramco Overseas Holdings Coöperatief U.A., The Hague, Netherlands, a subsidiary of Saudi Aramco, have formed a strategic alliance for the synthetic rubber business named ARLANXEO in which each party holds a 50% interest. Financial closing of the transaction took place on April 1, 2016. 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.

In connection with the structuring of the strategic alliance, legal entities were renamed and new legal entities were established.

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.

Also consolidated in the EMEA (excluding Germany) region are the structured entities Dirlem (Pty) Ltd., Modderfontein, South Africa, and Rustenburg Chrome Employees Empowerment Trust, Modderfontein, South Africa. The purpose of these structured entities is to ensure employee participation in the company in accordance with South Africa's Black Economic Empowerment legislation. LANXESS exercises control because the principal business activities were defined by LANXESS when the structured entities were established. LANXESS guarantees the value of the interests in LANXESS Chrome Mining (Pty.) Ltd., Modderfontein, South Africa, held and managed by these structured entities. This does not entail any material risks for the LANXESS Group.

DuBay Polymer GmbH, Hamm, Germany, is included in the consolidated financial statements as a joint operation on a pro rata basis in accordance with IFRS 11 because the partners exercise joint control and purchase most of its output between them. The interest held by LANXESS in this company's 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.

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].

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.

In the reporting period Rhein Chemie Rheinau GmbH, Mannheim, Germany, was merged with LANXESS Deutschland GmbH, Cologne, Germany. The non-consolidated company LANXESS Mining (Proprietary) Ltd., Modderfontein, South Africa, was liquidated. Further, Sechste LXS GmbH, Cologne, Germany, LANXESS Thai Co., Ltd., Bangkok, Thailand, and LANXESS Additives Inc., Wilmington, United States, were established.

Cash transfers from companies in Argentina, Brazil, China, India, Russia, South Africa and South Korea are subject to restrictions as a result of regulated capital markets. These affect approximately 20% (2015: 10%) 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 LANXESS Group acquired the Clean and Disinfect specialties business of U.S. chemical company Chemours effective August 31, 2016. In this connection, LANXESS acquired all shares in Antec International Ltd., Sudbury, Suffolk, United Kingdom; International Dioxcide Inc., North Kingstown, United States; and Chemours Jersey Ltd., St Helier, Jersey, and a production site in Memphis, United States. Initial consolidation took place as of this date. The preliminary purchase price of around €200 million was paid out of existing liquidity. The new business was allocated to the Material Protection Products business unit in the Performance Chemicals segment. As well as expanding this business unit's active ingredient portfolio, it extends the veterinary disinfection value chain through to the end market.

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.

Since the acquisition date, the new business has contributed sales of €28 million and has not had a material impact on the earnings of the LANXESS Group. The earnings contribution was influenced by remeasurement effects in connection with the purchase price allocation. If the business had been acquired as of January 1, 2016, the contribution to LANXESS Group sales would have been approximately €62 million higher compared with the acquisition date, while the contribution to Group earnings would have been around €5 million higher.

The goodwill of €93 million resulting from the acquisition reflects, in particular, additional business opportunities with existing and new customers, primarily in Asia and North America. Approximately €69 million of the goodwill of €93 million is expected to be tax-deductible. Transaction costs of approximately €3 million in connection with the acquisition are included in other operating expenses.

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	94
Property, plant and equipment	16
Inventories	9
Trade receivables	10
Other assets	3
Total assets	**132**
Non-current liabilities	16
Current liabilities	9
Total liabilities	**25**
Net acquired assets (excl. goodwill)	**107**
Cost of acquisition	**200**
Goodwill	**93**

Other information on companies consolidated

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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 %
Fully consolidated companies	
Germany	
LANXESS AG, Cologne	–
ARLANXEO Deutschland GmbH, Dormagen	100
Bond-Laminates GmbH, Brilon	100
IAB Ionenaustauscher GmbH Bitterfeld, Greppin	100
LANXESS Accounting GmbH, Cologne	100
LANXESS Buna GmbH, Marl	100
LANXESS Deutschland GmbH, Cologne	100
LANXESS Distribution GmbH, Leverkusen	100
Saltigo GmbH, Leverkusen	100
EMEA (excluding Germany)	
Antec International Ltd., Sudbury, Suffolk, U.K.	100
ARLANXEO Belgium N.V., Zwijndrecht, Belgium	100
ARLANXEO Elastomères S.A.S., Lillebonne, France	100
ARLANXEO Emulsion Rubber S.A.S., La Wantzenau, France	100
ARLANXEO Holding B.V., Sittard-Geleen, 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
Europigments, S.L., Barcelona, Spain	52
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	100
LANXESS Epierre SAS, Epierre, France	100
LANXESS Kimya Ticaret Limited Şirketi, Istanbul, Turkey	100
LANXESS Limited, Newbury, U.K.	100
LANXESS N.V., Antwerp, Belgium	100
LANXESS S.A.S., Courbevoie, France	100
LANXESS S.r.l., Milan, Italy	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, U.K.	100

GRI
G4–17

Company Name and Domicile

	Interest held %
Fully consolidated companies	
North America	
ARLANXEO Canada Inc., Sarnia, Canada	100
ARLANXEO USA Holdings Corp., Pittsburgh, U.S.A.	100
ARLANXEO USA LLC, Pittsburgh, U.S.A.	100
International Dioxcide Inc., North Kingstown, U.S.A.	100
LANXESS Corporation, Pittsburgh, U.S.A.	100
LANXESS Sybron Chemicals Inc., Birmingham, U.S.A.	100
Sybron Chemical Holdings Inc., Wilmington, U.S.A.	100
Latin America	
ARLANXEO Brasil S.A., Duque de Caxias, Brazil	100
LANXESS Industria de Produtos Quimicos e Plasticos Ltda., São Paulo, Brazil	100
LANXESS S.A. de C.V., Mexico City, Mexico	100
LANXESS S.A., Buenos Aires, Argentina	100
Rhein Chemie Uruguay S.A., Colonia, Uruguay	100
Asia-Pacific	
ARLANXEO High Performance Elastomers (Changzhou) Co., Ltd., Changzhou, China	100
ARLANXEO Singapore Pte. Ltd., Singapore	100
ARLANXEO-TSRC (Nantong) Chemical Industrial Co., Ltd., Nantong, China	50
LANXESS Elastomers Trading (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 Chemical (China) Co., Ltd., Shanghai, China	100
LANXESS Hong Kong Limited, Hong Kong	100
LANXESS India Private Ltd., Thane, India	100
LANXESS K.K., Tokyo, Japan	100
LANXESS Korea Limited, Seoul, South Korea	100
LANXESS Pte. Ltd., Singapore	100
LANXESS PTY Ltd., Lidcombe, Australia	100
LANXESS Shanghai Pigments Co., Ltd., Shanghai, China	100
LANXESS Specialty Chemicals Co., Ltd., Shanghai, China	100
LANXESS (Wuxi) High Performance Composite Materials Company Limited, Wuxi, China	100
Rhein Chemie (Qingdao) Co., Ltd., Qingdao, China	90
Jointly controlled entity	
Germany	
DuBay Polymer GmbH, Hamm	50
Associate accounted for using the equity method	
Germany	
Currenta GmbH & Co. OHG, Leverkusen	40

Company Name and Domicile

	Interest held %
Structured entities	
EMEA (excluding Germany)	
Dirlem (RF) (Pty) Ltd., Modderfontein, South Africa	49
Rustenburg Chrome Employees Empowerment Trust, Modderfontein, South Africa	0
Non-consolidated immaterial subsidiaries	
Germany	
LANXESS Middle East GmbH, Cologne	100
Sechste LXS GmbH, Cologne	100
EMEA (excluding Germany)	
W. Hawley & Son Ltd., Newbury, U.K.	100
North America	
LANXESS Additives Inc., Wilmington, U.S.A.	100
LANXESS Energy LLC, Wilmington, U.S.A.	100
Latin America	
Comercial Andinas Ltda., Santiago, Chile	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	39

NOTES TO THE STATEMENT OF FINANCIAL POSITION

1 | Intangible Assets

Changes in intangible assets were as follows:

Changes in Intangible Assets in 2015

€ million	Acquired goodwill	Other intangible assets	Advance payments	Total
Cost of acquisition or generation, Dec. 31, 2014	164	361	28	553
Acquisitions	–	–	–	0
Capital expenditures	–	6	14	20
Disposals	–	(2)	–	(2)
Reclassifications	–	6	(6)	0
Exchange differences	(16)	(3)	0	(19)
Cost of acquisition or generation, Dec. 31, 2015	**148**	**368**	**36**	**552**
Accumulated amortization and write-downs, Dec. 31, 2014	(13)	(220)	0	(233)
Amortization and write-downs in 2015	–	(31)	0	(31)
of which write-downs	–	0	–	0
Reversals of impairment charges	–	2	–	2
Disposals	–	2	–	2
Reclassifications	–	0	0	0
Exchange differences	1	7	–	8
Accumulated amortization and write-downs, Dec. 31, 2015	**(12)**	**(240)**	**0**	**(252)**
Carrying amounts, Dec. 31, 2015	**136**	**128**	**36**	**300**

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**

The changes due to acquisitions in fiscal 2016 relate to the acquisition of the Clean and Disinfect specialties business of U.S. chemical company Chemours. In the previous year, reversals of impairment charges on other intangible assets related to impairment charges recognized on assets of the cash-generating units in previous years.

2 | Property, Plant and Equipment

Changes in property, plant and equipment were as follows:

Changes in Property, Plant and Equipment in 2015

€ 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, 2014	1,587	6,852	316	861	9,616
Acquisitions	–	–	–	–	0
Capital expenditures	40	155	23	219	437
Disposals	(27)	(123)	(17)	(2)	(169)
Reclassifications	220	567	15	(802)	0
Exchange differences	1	27	(1)	35	62
Cost of acquisition or construction, Dec. 31, 2015	**1,821**	**7,478**	**336**	**311**	**9,946**
Accumulated depreciation and write-downs, Dec. 31, 2014	(965)	(5,041)	(231)	(46)	(6,283)
Depreciation and write-downs in 2015	(55)	(346)	(38)	(4)	(443)
of which write-downs	(1)	(18)	(2)	(4)	(25)
Reversals of impairment charges	21	30	1	2	54
Disposals	27	122	17	2	168
Reclassifications	(11)	(33)	1	43	0
Exchange differences	4	0	0	1	5
Accumulated depreciation and write-downs, Dec. 31, 2015	**(979)**	**(5,268)**	**(250)**	**(2)**	**(6,499)**
Carrying amounts, Dec. 31, 2015	**842**	**2,210**	**86**	**309**	**3,447**

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**

The changes due to acquisitions in fiscal 2016 relate to the acquisition of the Clean and Disinfect specialties business of U.S. chemical company Chemours.

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 2015 related to impairment charges recognized in previous years on assets of the cash-generating units.

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, 2015 Gross carrying amount	Dec. 31, 2015 Net carrying amount	Dec. 31, 2016 Gross carrying amount	Dec. 31, 2016 Net carrying amount
Buildings	3	2	4	2
Technical equipment and machinery	91	60	88	56
Fittings and equipment	18	9	19	10
	112	**71**	**111**	**68**

Directly attributable borrowing costs of €2 million (2015: €6 million) were capitalized. An average cost of debt for the LANXESS Group of 3.5 % in 2016 (2015: 3.1 %) 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	2015	2016
Sales	1,251	1,212
Operating result (EBIT)	75	110
Income after income taxes	27	81
Other comprehensive income, net of income tax	53	(57)
Total comprehensive income	80	24

Data from the Statement of Financial Position

€ million	Dec. 31, 2015	Dec. 31, 2016
Non-current assets	662	739
Current assets	526	582
Total assets	**1,188**	**1,321**
Non-current liabilities	1,026	1,106
Current liabilities	272	307
Total liabilities	**1,298**	**1,413**
Equity	**(110)**	**(92)**
Adjustment of LANXESS's interest and equity valuation	56	45
Pro rata loss not recognized in consolidated financial statements	54	47
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 losses amounting to €47 million (2015: €54 million) was not recognized in the consolidated financial statements. This loss declined by a net amount of €7 million in the reporting period due to income of €32 million, which was countered primarily by a loss of €23 million that was recognized in other comprehensive income and would not subsequently be reclassified to profit or loss. In the previous year, the unrecognized loss declined by €32 million due to income of €11 million and gains of €21 million recognized in other comprehensive income.

4 | Investments in Other Affiliated Companies

This item contains interests in other affiliated companies totaling €12 million (2015: €12 million).

As of December 31, 2016, all the other investments classified as available-for-sale financial assets – apart from the shares in BioAmber Inc., Minneapolis, United States – 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 dispose of these investments.

5 | Derivative Financial Instruments

The derivative financial instruments held by the LANXESS Group comprise forward exchange contracts and forward commodity contracts. They are capitalized in the consolidated financial statements for fiscal 2016 at a total fair value of €66 million (2015: €15 million). Instruments with a negative fair value totaling €49 million (2015: €119 million) are recognized as liabilities.

Derivative Financial Instruments

€ million	Dec. 31, 2015 Notional amount	Positive fair values	Negative fair values
Current forward exchange contracts	2,334	14	(100)
Non-current forward exchange contracts	463	1	(19)
Current forward commodity contracts	–	–	–
	2,797	**15**	**(119)**

Derivative Financial Instruments

€ million	Dec. 31, 2016 Notional amount	Positive fair values	Negative fair values
Current forward exchange contracts	2,725	65	(42)
Non-current forward exchange contracts	121	1	(7)
Current forward commodity contracts	4	0	–
	2,850	**66**	**(49)**

Cash flow hedges

As of December 31, 2016, the unrealized losses recognized in other comprehensive income in 2016 or earlier periods from currency hedging contracts that qualify for hedge accounting amounted to €14 million (2015: €62 million). In 2016, €36 million was reclassified from equity to profit or loss due to the realization of the hedged transactions and recognized as a loss (2015: €102 million). Currency hedging contracts concluded to hedge future sales in foreign currencies had a total notional amount of €452 million (2015: €1,268 million). As of December 31, 2016, these contracts had positive fair values of €7 million (2015: €4 million) and negative fair values of €26 million (2015: €91 million). Contracts with a total notional amount of €357 million (2015: €881 million) were due within one year. The hedged cash flows will be realized within the next two years.

The LANXESS Group expects that, of the unrealized losses on currency hedges recognized in other comprehensive income in 2016, €12 million will be reclassified from equity to profit or loss in 2017 and €2 million in 2018 (2015: €54 million in 2016 and €8 million in 2017).

Forward commodity contracts

The unrealized gains recognized in other comprehensive income in fiscal 2016 for forward commodity transactions that qualify for hedge accounting amounted to €0 million. The notional amount of the forward commodity contracts held for hedging purposes was €4 million and they had a positive fair value of €0 million on December 31, 2016. The contracts were due within one year and the hedged cash flows will be realized within the next year. There were no forward commodity contracts in the previous year.

Information on 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, 2015 Non-current	Current	Total
Available-for-sale financial assets	1	0	1
Other financial receivables	20	4	24
	21	**4**	**25**

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**

The other non-current financial receivables mainly comprise loans granted to site service providers. The increase in available-for-sale financial assets and current financial receivables mainly relates to the investment of liquid funds in connection with the issue of bonds. Write-downs of other financial assets amounted to €0 million, as in the previous year. They related to other financial assets that have been written down entirely.

7 | Non-Current and Current Income Tax Receivables

The non-current income tax receivables amounting to €7 million (2015: €11 million) mainly comprise minimum tax payments already made that are offsettable in the future.

The increase in current income tax receivables to €67 million (2015: €44 million) mainly results from prepayment of taxes and from receivables relating to disputed tax issues where reimbursement is considered probable.

8 | Other Non-Current Assets

Other non-current assets are carried at amortized cost less any write-downs. No write-downs were made in 2015 or 2016.

The other non-current assets amounting to €25 million (2015: €27 million) mainly include periodic accruals and other reimbursement claims.

9 | Inventories

The inventories of the LANXESS Group comprised:

Inventories

€ million	Dec. 31, 2015	Dec. 31, 2016
Raw materials and supplies	257	275
Work in process, finished goods and merchandise	1,092	1,154
	1,349	**1,429**

Inventories of €210 million (2015: €216 million) are reflected at net realizable value.

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

Write-Downs of Inventories

€ million	2015	2016
January 1	(127)	(107)
Additions charged as expenses	(70)	(49)
Reversals/utilization	92	53
Changes in scope of consolidation	0	–
Exchange differences	(2)	(1)
December 31	**(107)**	**(104)**

10 | Trade Receivables

All trade receivables – totaling €1,088 million (2015: €956 million) – are due within one year. Of the trade receivables, €3 million (2015: €8 million) pertained to investments accounted for using the equity method and €1,085 million (2015: €948 million) pertained to other customers.

Trade receivables as of December 31, 2016, are stated after write-downs of €17 million (2015: €16 million) on gross receivables of €19 million (2015: €17 million).

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

Write-Downs of Trade Receivables

€ million	2015	2016
January 1	(17)	(16)
Additions charged as expenses	(4)	(4)
Reversals/utilization	4	4
Exchange differences	1	(1)
December 31	**(16)**	**(17)**

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

Maturity Structure of Past-Due Trade Receivables

€ million	Dec. 31, 2015	Dec. 31, 2016
Carrying amount	956	1,088
of which neither impaired nor past due	858	954
of which unimpaired but past due by		
up to 30 days	76	109
between 31 and 60 days	11	12
between 61 and 90 days	2	4
more than 90 days	8	7

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 €40 million (2015: €100 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 €184 million (2015: €206 million) are stated at amortized cost less any write-downs, which amounted to €1 million in the reporting period (2015: €0 million). They principally comprise miscellaneous claims for tax refunds amounting to €145 million (2015: €137 million), mainly pertaining to sales taxes, and other reimbursement claims from goods and service transactions totaling €30 million (2015: €50 million). The year-on-year decline is mainly attributable to settlement of a receivable relating to site services in Germany.

13 | Equity

Capital stock

The capital stock of LANXESS AG amounted to €91,522,936 as of December 31, 2016, 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, 2016, 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). Stockholders are generally entitled to subscription rights when Authorized Capital I and II are utilized. However, these rights can be excluded in certain cases which are defined in Section 4, Paragraphs 2 and 3 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 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 and II have not yet been utilized.

Conditional capital

As of December 31, 2016, 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 4 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 €56 million decrease in other reserves to €1,257 million was principally attributable to the reduction in retained earnings from €1,154 million to €1,098 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 eurozone and remeasurements of derivatives for purposes of cash flow hedge accounting.

Non-controlling interests

In connection with the establishment of the ARLANXEO strategic alliance as of April 1, 2016, the interest held by Aramco Overseas Holdings Coöperatief U.A., The Hague, Netherlands, a subsidiary of Saudi Aramco, in ARLANXEO is reflected in non-controlling interests.

This global subgroup, whose parent company is ARLANXEO Holding B.V., Sittard-Geleen, 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
Interest held	50
Proportional voting rights	50

Data from Income Statement and Statement of comprehensive Income

€ million	2016
Sales	2,087
Income after income taxes	6
Other comprehensive income, net of income tax	105
Total comprehensive income	111
Income after income taxes attributable to non-controlling interests	3

Data from Statement of Financial Position

€ million	Dec. 31, 2016
Non-current assets	2,070
Current assets	1,369
Total assets	**3,439**
Non-current liabilities	347
Current liabilities	760
Total liabilities	**1,107**
Equity attributable to non-controlling interests	1,170
Dividend attributable to non-controlling interests	–

Data from Statement of Cash Flows

€ million	2016
Net cash provided by operating activities	204
Net cash used in investing activities	(159)
Net cash used in financing activities	(19)
Change in cash and cash equivalents from business activities	**26**

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.

The transaction with owners totaling €1,196 million is preliminary and may still change when the final purchase price is determined.

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 2016. 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 2016 totaled €49 million (2015: €48 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 (2015: €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 and Brazil.

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).

In Canada, 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 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 and Brazil, it is mandatory to primarily finance pension obligations through pension funds. Allocations to pension funds in these countries 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.

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. These mainly relate to defined benefit plans in Brazil. The respective calculations are based on actuarial valuations.

In 2016, total expenses of €74 million (2015: €76 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	**2015**	**2016**	**2015**	**2016**
Operating result				
Current service cost	39	35	1	6
Past service cost	0	1	0	0
Gains/losses from settlements	0	–	–	–
Administration expenses/taxes	1	0	0	0
Actuarial gains/losses from changes in financial assumptions	–	–	0	0
Financial result				
Net interest	31	28	4	4
Amounts recognized in profit or loss	**71**	**64**	**5**	**10**

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, 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 2016:

Amounts Recognized in Other Comprehensive Income

	Pension plans		Other post-employment benefit plans	
€ million	**2015**	**2016**	**2015**	**2016**
Return on plan assets excluding amounts included in interest	(56)	(5)	0	0
Actuarial gains/losses from changes in demographic assumptions	0	(1)	0	0
Actuarial gains/losses from changes in financial assumptions	81	(247)	9	(5)
Actuarial gains/losses from experience adjustments	17	(17)	5	1
Changes in effects of the asset ceiling	20	41	–	–
Changes in effects of minimum funding requirements	7	0	–	–
Amounts recognized in other comprehensive income	**69**	**(229)**	**14**	**(4)**

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	**2015**	**2016**	**2015**	**2016**
Net defined benefit liability, January 1	1,130	1,091	160	124
Amounts recognized in profit or loss	71	64	5	10
Amounts recognized in other comprehensive income	(69)	229	(14)	4
Employer contributions	(14)	(234)	(1)	0
Benefits paid	(24)	(27)	(23)	(23)
Business combinations	0	1	0	0
Exchange differences	(3)	5	(3)	5
Net defined benefit liability, December 31	**1,091**	**1,129**	**124**	**120**
Amounts recognized in the statement of financial position				
Receivables from pension obligations	0	0	–	–
Provisions for pensions and other post-employment benefits	1,091	1,129	124	120
Net defined benefit liability, December 31	**1,091**	**1,129**	**124**	**120**

The expected cash outflows for employer contributions and benefit payments in 2017 are €26 million and €51 million, respectively, based on year-end 2016 exchange rates. In the previous year, the expected cash outflows for employer contributions and benefit payments in 2015 were €15 billion and €48 million, respectively, based on exchange rates at year end 2015.

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	**2015**	**2016**	**2015**	**2016**
Defined benefit obligation				
Defined benefit obligation, January 1	2,178	2,017	166	131
Current service cost	39	35	1	6
Interest expense	88	90	4	4
Actuarial gains/losses from changes in demographic assumptions	0	1	0	0
Actuarial gains/losses from changes in financial assumptions	(81)	247	(9)	5
Actuarial gains/losses from experience adjustments	(17)	17	(5)	(1)
Past service cost	0	1	0	0
Gains from settlements	(1)	–	–	–
Employee contributions	2	2	–	–
Benefits paid	(85)	(82)	(23)	(23)
Disbursements for settlements	–	–	0	–
Business combinations	0	2	0	0
Other additions	1	0	–	–
Administration expenses/taxes	(1)	(1)	0	0
Exchange differences	(106)	93	(3)	5
Defined benefit obligation, December 31	**2,017**	**2,422**	**131**	**127**

Of the defined benefit obligation for pensions, Germany accounts for 60% (2015: 61%), Canada for 20% (2015: 22%) and Brazil for 15% (2015: 11%).

The other post-employment benefit obligations comprise €67 million (2015: €58 million) for the reimbursement of health care costs and €60 million (2015: €73 million) for miscellaneous other benefit commitments. The actuarial gains and losses from changes in demographic assumptions in 2016 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 2016, 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.

Gains from settlements in the previous year resulted from the closure of defined benefit pension plans in Spain as a result of their conversion into defined contribution plans.

The effects shown under business combinations in 2016 relate to the acquisition of the Clean and Disinfect specialties business of the U.S. chemical company Chemours, which was closed on August 31, 2016, and contain 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 and the Brazilian real.

The change in external plan assets is shown in the following table:

Changes in External Plan Assets

	Pension plans		Other post-employment benefit plans	
€ million	**2015**	**2016**	**2015**	**2016**
Plan assets at fair value				
Plan assets, January 1	1,125	970	6	7
Interest income	64	67	0	0
Return on plan assets excluding amounts included in interest	(56)	(5)	0	0
Losses from settlements	(1)	–	–	–
Employer contributions	14	234	1	0
Employee contributions	2	2	–	–
Benefits paid	(61)	(55)	0	0
Disbursements for settlements	–	–	–	–
Business combinations	0	1	0	0
Other additions	1	–	–	–
Costs of managing plan assets/taxes	(2)	(1)	0	0
Exchange differences	(116)	91	0	0
Plan assets, December 31	**970**	**1,304**	**7**	**7**

Of the plan assets, Canada accounts for 34 % (2015: 42 %), Brazil for 26 % (2015: 27 %) and Germany for 33 % (2015: 23 %).

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 €34 million in 2016 (2015: €14 million). External funding where LANXESS can assert reimbursement claims mainly pertains to LANXESS Pension Trust e. V. Additional funding of €200 million was provided to LANXESS Pension Trust e.V in 2016. No additional funding was provided in the previous year.

Losses from settlements in the previous year resulted from the closure of defined benefit pension plans in Spain as a result of their conversion into defined contribution plans.

The effects shown under business combinations in 2016 relate to the acquisition of the Clean and Disinfect specialties business of the U.S. chemical company Chemours, which was closed on August 31, 2016, and contain benefit obligations for employees in India and Switzerland.

The exchange differences pertaining to plan assets mainly resulted from changes in the exchange rates for the Canadian dollar and the Brazilian real.

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

	Effects of the asset ceiling		Minimum funding requirements	
€ million	**2015**	**2016**	**2015**	**2016**
January 1	59	33	18	11
Interest expense	6	5	1	0
Additions (deductions)	(20)	(41)	(7)	0
Exchange differences	(12)	3	(1)	0
December 31	**33**	**0**	**11**	**11**

Changes in the effects of the asset ceiling mainly relate to the Brazilian defined benefit pension plans, while changes in minimum funding requirements relate to the Canadian plans.

The fair value of plan assets comprises:

Breakdown of Plan Assets as of December 31

€ million	2015	2016
Cash and cash equivalents	8	17
of which quoted in an active market	8	17
Equity instruments	156	190
of which quoted in an active market	105	131
Government bonds	370	393
of which quoted in an active market	370	393
Corporate bonds	230	232
of which quoted in an active market	186	197
Investment funds	122	375
of which quoted in an active market	101	329
Real estate	26	32
of which quoted in an active market	0	0
Insurance contracts	61	68
of which quoted in an active market	2	1
Other	4	4
of which quoted in an active market	3	4
	977	1,311

The plan assets do not include any real estate used by the company. Financial instruments owned by the company account for approximately 3% (2015: 0%) 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	
%	2015	2016	2015	2016
Discount rate	4.40	3.78	3.09	3.22
Germany	3.00	2.00	0.41	0.20
Canada	3.75	3.50	4.00	3.50
Brazil	14.25	12.25	14.25	12.25

The following weighted valuation assumptions were used for the other parameters:

Valuation Assumptions as of December 31

	Pension plans		Other post-employment benefit plans	
%	2015	2016	2015	2016
Expected salary increases	3.2	3.3	4.5	3.5
Expected benefit increases	2.2	2.0	–	–
Expected increases in medical costs	–	–	6.6	6.6
Expected long-term increases in medical costs	–	–	5.1	5.2

The assumptions are weighted on the basis of the defined benefit obligation at year end. The discount rates used for Germany and Canada 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 15 years (2015: 16 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	
%	**2015**	**2016**	**2015**	**2016**
Discount rate				
+0.5 %-pt.	(7.6)	(7.9)	(2.9)	(3.5)
–0.5 %-pt.	8.8	9.0	3.1	3.8
Expected salary increases				
+0.25 %-pt.	0.5	0.5	0.2	0.3
–0.25 %-pt.	(0.4)	(0.5)	(0.2)	(0.2)
Expected benefit increases				
+0.25 %-pt.	4.0	4.5	–	–
–0.25 %-pt.	(3.8)	(4.3)	–	–
Mortality				
–10 %	2.6	2.7	0.6	0.8
Expected increases in medical costs				
+1 %-pt.	–	–	2.9	3.7
–1 %-pt.	–	–	(2.7)	(3.5)

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 (2015: 17 years). This figure was based on weighted average durations of 21 years (2015: 20 years) for Germany, 13 years (2015: 13 years) for Canada and 9 years (2015: 9 years) for Brazil. The weighted average duration of the defined benefit obligations for other post-employment benefits was 9 years (2015: 7 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	**2015**	**2016**	**2015**	**2016**
Funded status				
Defined benefit obligation for funded plans	1,643	1,949	12	11
External plan assets	(970)	(1,304)	(7)	(7)
Underfunding of funded plans	**673**	**645**	**5**	**4**
Defined benefit obligation for unfunded plans	374	473	119	116
Funded status, December 31	**1,047**	**1,118**	**124**	**120**

15 | Other Non-Current and Current Provisions

As of December 31, 2016, the LANXESS Group had other current provisions of €406 million (2015: €411 million) and other non-current provisions of €319 million (2015: €271 million). The maturity structure of other provisions is shown in the following table:

Other Provisions

€ million	Dec. 31, 2015				Dec. 31, 2016			
	Up to 1 year	1–5 years	Over 5 years	Total	Up to 1 year	1–5 years	Over 5 years	Total
Personnel	177	48	36	261	197	76	41	314
Environmental protection	18	29	66	113	22	30	76	128
Trade-related commitments	83	7	–	90	90	9	–	99
Restructuring	42	13	9	64	15	12	4	31
Miscellaneous	91	45	18	154	82	35	36	153
	411	**142**	**129**	**682**	**406**	**162**	**157**	**725**

The total of other provisions increased from €682 million to €725 million in 2016. The changes in other provisions were as follows:

Changes in Other Provisions in 2016

€ million	Jan. 1, 2016	Additions	Interest effect	Utilization	Reversals	Exchange differences	Dec. 31, 2016
Personnel	261	221	2	(168)	(12)	10	314
Environmental protection	113	15	2	(6)	(5)	9	128
Trade-related commitments	90	57	2	(42)	(9)	1	99
Restructuring	64	5	0	(29)	(10)	1	31
Miscellaneous	154	74	2	(28)	(58)	9	153
	682	**372**	**8**	**(273)**	**(94)**	**30**	**725**

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 2010 and 2014. Under the LTSP 2010–2013 program introduced in 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 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 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

%	2015	2016
Expected share price volatility	31.0	29.0
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}	64.0	65.0
Expected volatility of MSCI World Chemicals Index	13.0	13.0
Correlation between LANXESS stock and MSCI World Chemicals Index	56.0	57.0

The relevant risk-free interest rate in 2016 was minus 0.65% (2015: 0.01%).

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 in the past four years.

The following table provides information on the tranches outstanding as of December 31, 2016:

Long Term Stock Performance Plan

	LTSP 2010–2013				LTSP 2014–2017		
	Tranche 2010	Tranche 2011	Tranche 2012	Tranche 2013	Tranche 2014	Tranche 2015	Tranche 2016
Duration	7 years	7 years	9 years	9 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, 2017	Jan. 31, 2018	Jan. 31, 2019	Jan. 31, 2020
Initial LANXESS share price	€27.28	€55.60	€44.54	€63.25	€47.41	€35.04	€38.39
Initial Dow Jones STOXX 600 Chemicals[SM] price	432.44 points	564.17 points	533.45 points	665.98 points	–	–	–
Initial MSCI World Chemicals Index price	–	–	–	–	238.07 points	254.06 points	233.45 points
Fair value per right as of December 31, 2015	€0.27	€0.03	€0.12	€0.10	€0.80	€1.29	–
Fair value per right as of December 31, 2016	–	€0.10	€0.44	€0.30	€1.55	€1.86	€1.53
Change in number of outstanding rights							
Outstanding rights as of January 1, 2016	10,979	6,358,816	7,093,999	8,025,905	9,925,833	10,892,535	–
Rights granted	–	–	1,350,000[1]	1,350,000[2]	0	0	11,682,506
Rights exercised	10,979	–	–	–	–	–	–
Rights compensated	–	197,099	208,622	219,511	280,437	281,011	102,343
Rights forfeited	–	187,472	402,213	425,590	257,590	415,422	172,291
Outstanding rights as of December 31, 2016	**0**	**5,974,245**	**7,833,164**	**8,730,804**	**9,387,806**	**10,196,102**	**11,407,872**

1) Lock-up period for personal investment shares for newly granted rights until January 31, 2021
2) Lock-up period for personal investment shares for newly granted rights until January 31, 2022

LANXESS shares were trading at €62.35 at year end 2016. The Dow Jones STOXX 600 Chemicals[SM] benchmark index stood at 857.41 points, while the MSCI World Chemicals Index was 272.85 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 2016 was €22 million (2015: €9 million). The extension of the exercise period for the 2012 and 2013 tranches of the LTSP 2010–2013 compensation program did not have any material effect on expenses or the level of provisions. A provision of €30 million existed as of December 31, 2016 (2015: €8 million). In 2016, 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 United States, 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.

Trade-related commitments

Provisions for trade-related commitments mainly relate to energy and waste disposal services that have not been billed. They also comprise provisions for impending losses and onerous contracts, rebates, customer discounts and product returns.

Provisions for restructuring

Provisions for restructuring totaled €31 million on December 31, 2016 (2015: €64 million), comprising €12 million (2015: €29 million) for human resources measures, €14 million (2015: €17 million) for environmental protection measures and €5 million (2015: €18 million) for other expenses.

Sundry provisions

The sundry 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, 2015

	Current	Non-current					
€ million	2016	2017	2018	2019	2020	> 2020	Total
Bonds	200	–	499	–	–	693	1,192
Liabilities to banks	208	–	–	–	–	–	0
Liabilities under finance leases	10	8	7	6	6	34	61
Other primary financial liabilities	25	3	0	0	0	2	5
	443	**11**	**506**	**6**	**6**	**729**	**1,258**

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**

The following bonds were outstanding on December 31, 2016:

Bonds

Issuance	Nominal amount € million	Carrying amount € million	Interest rate %	Maturity
May 2011	500	499	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	496	0.250	October 2021
October 2016	500	492	1.000	October 2026
December 2016	500	489	4.500	December 2076

The €200 million bond issued in 2009 was redeemed in September 2016. In addition, bonds with a total nominal value of €1.5 billion were issued in fiscal 2016.

The weighted average interest rate for the LANXESS Group's financial liabilities denominated in euros and other currencies at year end was 2.7% (2015: 3.8%).

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 €92 million (2015: €95 million), including €22 million (2015: €24 million) in interest, are to be made to the respective lessors in future years.

Other primary financial liabilities include accrued interest of €23 million (2015: €24 million) on financial liabilities. Of this amount, €23 million (2015: €22 million) relates to the above-mentioned 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, 2015		
	Non-current	Current	Total
Provisions	19	72	91
Payables	–	13	13
	19	85	104

Income Tax Liabilities

€ million	Dec. 31, 2016		
	Non-current	Current	Total
Provisions	31	39	70
Payables	–	5	5
	31	44	75

The decrease in provisions for income tax liabilities was mainly due to tax payments in Germany for previous years.

18 | Other Non-Current and Current Liabilities

At year end the other non-current liabilities comprised:

Other Non-Current Liabilities

€ million	Dec. 31, 2015	Dec. 31, 2016
Asset subsidies granted by third parties	96	81
Social security liabilities	5	5
Payroll liabilities	3	1
Miscellaneous liabilities	4	6
	108	93

The asset subsidies granted by third parties include, to a small extent, 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, 2015	Dec. 31, 2016
Payroll liabilities	25	38
Other tax liabilities	42	38
Social security liabilities	21	26
Miscellaneous liabilities	54	72
	142	174

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, 2016. There were no liabilities to this company in the previous year.

19 | Trade Payables

Trade accounts are payable mainly to third parties. As in the previous year, the entire amount totaling €889 million (2015: €779 million) is due within one year.

Trade payables of €131 million (2015: €120 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 €758 million (2015: €659 million) relate to other suppliers.

20 | Further Information on Liabilities

Of the total liabilities, €1,716 million (2015: €733 million) have maturities of more than five years.

NOTES TO THE INCOME STATEMENT

21 | Sales

Sales, which amounted to €7,699 million (2015: €7,902 million), mainly comprise goods sold less discounts and rebates.

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	2015	2016
Expenses for raw materials and merchandise	3,451	3,325
Direct manufacturing and other production costs	2,703	2,620
	6,154	**5,945**

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	2015	2016
Marketing costs	459	481
Outward freight charges and other selling expenses	300	300
	759	**781**

The selling expenses mainly comprise those for the internal and external marketing and sales organization, freight charges, warehousing, packaging and the provision of advice to customers.

24 | Research and Development Expenses

The research and development expenses of €131 million (2015: €130 million) mainly include the costs incurred to gain new scientific and technical knowledge, expenses relating to the search for alternative products and production processes, and costs for applying the results of research.

25 | General Administration Expenses

The general administration expenses, amounting to €303 million (2015: €284 million), comprise costs not directly related to operational business processes and the costs for the country organizations.

26 | Other Operating Income

Other Operating Income

€ million	2015	2016
Income from non-core business	78	73
Income from the reversal of provisions	3	31
Exceptional items	99	6
Income from reversals of write-downs of receivables and other assets	3	4
Gains from the disposal of non-current assets	1	2
Miscellaneous operating income	23	31
	207	**147**

The exceptional items contain income from the reversal of provisions for restructuring established as exceptional items in previous years. Based on economic relevance, they comprise €5 million allocated to the cost of sales and €1 million allocated to other operating expenses.

In the previous year, the exceptional items contained income of €56 million from the reversal of impairment charges recognized on cash-generating units in previous years and related to the former Performance Polymers segment and to the Advanced Intermediates segment. They were principally allocated to the cost of sales. In addition, the exceptional items included gains from the disposal of assets totaling €43 million. In line with their economic relevance, these were allocated to other operating income.

27 | Other Operating Expenses

Other Operating Expenses

€ million	2015	2016
Expenses for non-core business	70	67
Exceptional items	106	56
Expenses for hedging with derivative financial instruments	143	50
Write-downs of trade receivables and other current assets	4	4
Losses from the disposal of non-current assets	0	1
Miscellaneous operating expenses	44	44
	367	**222**

Of the exceptional items of €56 million (2015: €106 million), €7 million (2015: €65 million) was allocable to the cost of sales in line with its economic relevance, while €3 million (2015: €7 million) was allocable to selling expenses, €2 million (2015: €2 million) to research and development expenses, €10 million (2015: €10 million) to general administration expenses and €34 million (2015: €22 million) to miscellaneous operating expenses.

In both 2016 and 2015, the exceptional items mainly related to the strategic realignment of the LANXESS Group.

28 | Financial Result

The financial result is comprised as follows:

Financial Result

€ million	2015	2016
Income from investments accounted for using the equity method	**0**	**0**
Interest income	4	9
Interest expense	(70)	(72)
Net interest expense	**(66)**	**(63)**
Interest expense from compounding interest-bearing provisions	(46)	(40)
Net exchange loss	(16)	(24)
Miscellaneous financial expense and income	0	(5)
Dividends and income from other affiliated companies	1	7
Other financial income and expense	**(61)**	**(62)**
Financial result	**(127)**	**(125)**

Interest expense includes in particular payments of bond interest. The amount recognized has been adjusted for capitalized borrowing costs of €2 million (2015: €6 million). The interest portion of the lease payments under finance leases, amounting to €4 million (2015: €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	2015	2016
Current taxes	(109)	(141)
Deferred taxes resulting from		
temporary differences	21	2
statutory changes in tax rates	0	0
loss carryforwards	(33)	(5)
Income taxes	**(121)**	**(144)**

The actual tax expense for 2016 was €144 million (2015: €121 million). This was €35 million (2015: €29 million) more than the expected tax expense of €109 million (2015: €92 million).

In calculating the expected tax expense for the LANXESS Group, the aggregated income tax rate of 32.3% (2015: 32.1%) 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 increase in the aggregated income tax rate was mainly due to changes in trade tax multipliers.

The reconciliation of the expected tax result to the actual tax result is as follows:

Reconciliation to Actual Tax Result

€ million	2015	2016
Income before income taxes	288	339
Aggregated income tax rate of LANXESS AG	32.1%	32.3%
Expected tax result	(92)	(109)
Tax difference due to differences between local tax rates and the hypothetical tax rate	8	(17)
Reduction in taxes due to		
tax-free income and reduction of tax bases	4	5
utilization of unrecognized loss carryforwards	1	–
Increase in taxes due to non-tax-deductible expenses	(5)	(6)
Other tax effects	(37)	(17)
Actual tax result	**(121)**	**(144)**
Effective tax rate	42.0%	42.5%

As in the previous year, the other tax effects of minus €17 million (2015: minus €37 million) mainly comprise income taxes for previous years and unrecognized deferred taxes on tax losses.

The deferred tax assets and liabilities are allocable to the various items of the statement of financial position as follows:

Deferred Taxes

	Dec. 31, 2015		Dec. 31, 2016	
€ million	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible assets	15	37	26	63
Property, plant and equipment	18	139	19	134
Inventories	35	5	33	3
Receivables and other assets	9	21	15	20
Pension provisions	220	0	292	0
Other provisions	105	11	104	8
Liabilities	58	0	32	1
Loss carryforwards	68	–	67	–
	528	**213**	**588**	**229**
of which non-current	321	176	404	197
Set-off	(167)	(167)	(146)	(146)
	361	**46**	**442**	**83**

The change in deferred taxes is calculated as follows:

Changes in Deferred Taxes

€ million	2015	2016
Deferred taxes, January 1	359	315
Tax income/expense recognized in the income statement	(12)	(3)
Changes in scope of consolidation	–	(15)
Deferred taxes recognized in other comprehensive income	(18)	53
Exchange differences	(14)	9
Deferred taxes, December 31	**315**	**359**

The deferred taxes recognized in other comprehensive income comprised €72 million (2015: minus €23 million) relating to remeasurements of the net defined benefit liability for post-employment benefit plans and minus €19 million (2015: €5 million) relating to financial instruments. In addition, other comprehensive income contains current taxes of €2 million (2015: minus €1 million).

Deferred tax assets of €156 million (2015: €324 million), which exceed the reversal of taxable temporary differences, relate to tax jurisdictions in which losses were recorded in 2016 or 2015. In 2015, they included deferred tax assets of €224 million for the German tax entity, which reported a loss in 2014, primarily due to the exceptional items in connection with the "Advance" and "Let's LANXESS again" realignment programs. 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 €67 million (2015: €68 million) were recognized on the €237 million (2015: €231 million) in tax loss carryforwards that represent income likely to be realized in the future. This amount included deferred taxes of €35 million (2015: €45 million) on loss carryforwards with an unlimited carryforward period.

Deferred taxes were not recognized for €255 million (2015: €226 million) of tax loss carryforwards. Of this amount, €130 million (2015: €105 million) can theoretically be used over more than five years. Further, deferred tax assets were not recognized in 2016 for tax-deductible temporary differences of €44 million (2015: €49 million). Accordingly, deferred taxes on loss carryforwards of €67 million (2015: €57 million) and deferred tax assets on tax-deductible temporary differences of €16 million (2015: €18 million) were not recognized.

30 | Earnings and Dividend per Share

The calculation of earnings per share for 2016 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, 2016, 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

	2015	2016	Change %
Net income (€ million)	165	192	16.4
Number of shares outstanding	91,522,936	91,522,936	–
Earnings per share in € (undiluted/diluted)	**1.80**	**2.10**	16.4

LANXESS AG reported a distributable profit of €332 million for fiscal 2016 (2015: €98 million). The dividend payment made to stockholders of LANXESS AG during fiscal 2016 amounted to €0.60 per share (2015: €0.50 per share).

31 | Personnel Expenses

The breakdown of personnel expenses is as follows:

Personnel Expenses

€ million	2015	2016
Wages and salaries	1,124	1,168
Social security contributions	198	194
Retirement benefit expenses	97	92
Social assistance benefits	13	13
	1,432	**1,467**

Total personnel expenses grew in 2016, mainly as a result of the increase in the headcount and salary adjustments in 2016. 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 2016 was 16,643 (2015: 16,310). The increase compared with the previous year was mainly attributable to amended local legislation in South Africa and China, which requires external service providers to be recorded as Group employees after a certain period of deployment for the company.

Employees by Function

	2015	2016
Production	12,123	12,407
Marketing	1,814	1,837
Administration	1,770	1,809
Research	603	590
	16,310	**16,643**

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, 2016, amounted to €1 million (2015: €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.

Apart from provisions, liabilities and contingent liabilities, 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 €334 million (2015: €341 million).

The respective payment obligations mature as follows:

Maturity Structure of Lease and Rental Payments

€ million	Dec. 31, 2015	Dec. 31, 2016
Up to 1 year	56	57
1 to 2 years	47	50
2 to 3 years	41	43
3 to 4 years	37	38
4 to 5 years	33	35
More than 5 years	127	111
	341	**334**

Payments under operating leases in 2016 amounted to €61 million (2015: €65 million). Future lease and rental payments include agreements relating to the Group's headquarters in Cologne, to which it relocated in 2013, and to the production site in Singapore.

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 €110 million (2015: €90 million). All of these payments are due in fiscal 2017.

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 €420 million (2015: €436 million). As of December 31, 2016, payables of €131 million (2015: €120 million) and receivables of €3 million (2015: €38 million) existed as a result of these transactions. There were also payment obligations to Currenta GmbH & Co. OHG amounting to €8 million (2015: €9 million) under operating leases and obligations of €6 million (2015: €4 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 2016, total compensation of €11,852 thousand (2015: €9,360 thousand) was paid to the members of the Board of Management of LANXESS AG, comprising €7,545 thousand (2015: €6,728 thousand) in short-term compensation (fixed compensation, annual bonus, benefits in kind and other), minus €147 thousand (2015: minus €62 thousand) in adjustments for previous years, and other long-term compensation components totaling €1,857 thousand (2015: €1,626 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). In 2016, 1,740,000 compensation rights were granted to the members of the Board of Management for the 2016 tranche, and an additional 1,350,000 compensation rights were granted for the 2012 tranche and 1,350,000 compensation rights for the 2013 tranche. In the previous year, a total of 1,200,000 compensation rights were granted. The fair value of these rights at the grant date was €2,597 thousand (2015: €1,068 thousand). Personnel expenses for the stock-based compensation programs amounted to €3,430 thousand in fiscal 2016 (2015: €1,450 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 2016.

In addition, service costs of €1,173 thousand (2015: €1,640 thousand) relating to defined benefit pension plans were incurred in 2016 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, 2016, was €16,033 thousand (2015: €11,903 thousand).

The total net expense for the compensation of the members of the Board of Management in 2016 was €13,858 thousand (2015: €14,762 thousand). In the previous year, this item included expense of €3,380 thousand for the severance payment made to Dr. Düttmann. Together with settlement of his LTSP rights amounting to €857 thousand, benefits promised in 2015 to a former member of the Board of Management who stepped down during that fiscal year totaled €4,237 thousand and were granted during fiscal 2015.

The balances outstanding to members of the Board of Management as of December 31, 2016, totaled €11,514 thousand (2015: €6,477 thousand), comprising provisions of €4,575 thousand (2015: €3,900 thousand) for annual bonuses, €2,612 thousand (2015: €1,680 thousand) for the LTPB and €4,327 thousand (2015: €897 thousand) for the LTSP.

Pension benefits of €1,244 thousand (2015: €293 thousand) were paid to former members of the Board of Management. The total obligation toward former members of the Board of Management as of December 31, 2016, was €34,497 thousand (2015: €30,318 thousand). Payments totaling €1,244 thousand were made to former members of the Board of Management in fiscal 2016 (2015: €3,673 thousand).

The members of the Supervisory Board received total compensation of €1,879 thousand in 2016 (2015: €3,122 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, 2016, amounted to €600 thousand (2015: €1,200 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 2016.

No loans were granted to members of the Board of Management or the Supervisory Board in fiscal 2016 or 2015.

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 €14 million (2015: €33 million). This would mainly have affected other comprehensive income by reducing the reported loss correspondingly. This effect mainly relates to the U.S. dollar. A corresponding depreciation of the euro would have had basically the opposite effect.

Interest rate risks

Financial liabilities with variable interest rates are covered by investments with short-term fixed interest rates from available liquidity so the LANXESS Group 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, 2016, would have altered Group net income by €3 million (2015: €0 million).

Raw material price risks

A hypothetical increase or reduction in the hedged commodity prices of 10% as of the reporting date would have increased or decreased other operating income by €0 million as a result of changes in the fair value of hedging instruments. There were no financial forward commodity contracts on December 31, 2015.

The following table shows the contractually agreed (undiscounted) cash flows for primary financial liabilities, the interest components thereof and derivative financial instruments:

December 31, 2015

€ million	2016	2017	2018	2019	2020	>2020
Bonds	**(230)**	**(41)**	**(541)**	**(21)**	**(21)**	**(761)**
of which interest	(30)	(41)	(41)	(21)	(21)	(61)
Liabilities to banks	**(208)**	**–**	**–**	**–**	**–**	**–**
of which interest	0	–	–	–	–	–
Trade payables	**(779)**	**–**	**–**	**–**	**–**	**–**
of which interest	–	–	–	–	–	–
Liabilities under finance leases	**(14)**	**(12)**	**(10)**	**(9)**	**(8)**	**(42)**
of which interest	(4)	(4)	(3)	(3)	(2)	(8)
Other primary financial liabilities	**(25)**	**(3)**	**0**	**0**	**0**	**(2)**
of which interest	(24)	0	–	–	–	–
Derivative liabilities						
Hedging instruments that qualify for hedge accounting						
Disbursements	(667)	(203)	–	–	–	–
Receipts	586	187	–	–	–	–
Other hedging instruments						
Disbursements	(918)	(53)	0	(13)	–	–
Receipts	896	49	0	10	–	–
Derivative assets						
Hedging instruments that qualify for hedge accounting						
Disbursements	(163)	(135)	(44)	–	–	–
Receipts	166	133	43	–	–	–
Other hedging instruments						
Disbursements	(436)	(1)	–	–	–	–
Receipts	446	1	0	–	–	–

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	–	–	–	–	–

The contractually agreed payments for other primary financial liabilities due within one year from the reporting date included accrued interest of €23 million (2015: €24 million) that mainly related to bonds.

Carrying amounts, measurement and fair value 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, 2015

€ million	IAS 39 measurement category	Carrying amount Dec. 31, 2015
Financial assets		
Trade receivables	LaR	956
Other financial receivables	LaR	24
Cash and cash equivalents	LaR	366
Available-for-sale financial assets		
Near-cash assets	AfS	100
Other available-for-sale financial assets	AfS	13
Derivative assets		
Hedging instruments that qualify for hedge accounting	–	4
Other hedging instruments	FAHfT	11
Financial liabilities		
Bonds	FLAC	(1,392)
Liabilities to banks	FLAC	(208)
Trade payables	FLAC	(779)
Liabilities under finance leases	–	(71)
Other primary financial liabilities	FLAC	(30)
Derivative liabilities		
Hedging instruments that qualify for hedge accounting	–	(91)
Other hedging instruments	FLHfT	(28)

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
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, 2015
Amortized cost	Acquisition cost	Fair value (other comprehensive income)	Fair value (profit or loss)		
956					956
24					24
366					366
		100			100
	10	3			13
		4			4
			11		11
(1,392)					(1,531)
(208)					(208)
(779)					(779)
				(71)	(76)
(30)					(30)
		(91)			(91)
			(28)		(28)

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)

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 €244 million (2015: €240 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 Category

€ million	Dec. 31, 2015	Dec. 31, 2016
Loans and receivables	1,346	3,415
Available-for-sale financial assets	113	229
Financial assets held for trading	11	58
	1,470	**3,702**
Financial liabilities measured at amortized cost	(2,409)	(3,631)
Financial liabilities held for trading	(28)	(23)
	(2,437)	**(3,654)**

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 2015 or 2016.

Assets and Liabilities Measured at Fair Value

	Dec. 31, 2015		
€ 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	100	–	–
Current derivative assets	–	14	–
Other current financial assets	0	–	–
Non-current liabilities			
Non-current derivative liabilities	–	19	–
Current liabilities			
Current derivative liabilities	–	100	–

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	–

The investments in other affiliated companies measured at fair value pertain to shares in the listed company BioAmber Inc., Minneapolis, United States. In the previous year the investments in other affiliated companies also included shares in the listed company Gevo, Inc., Englewood, United States, which were sold in 2016. The line item “Investments in other affiliated companies” in the statement of financial position also includes €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 cost. 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 master netting arrangements or similar agreements impact, or could impact, the Group's financial position:

Offsetting of Financial Assets and Financial Liabilities as of December 31, 2015

€ 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	956	(11)	0	945
Derivative assets	15	(11)	0	4
Financial liabilities				
Trade payables	(779)	11	0	(768)
Derivative liabilities	(119)	11	0	(108)

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)

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 result 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 Category

€ million	2015	2016
Loans and receivables	19	(34)
Available-for-sale financial assets	1	7
Assets and liabilities held for trading	(111)	27
Financial liabilities measured at amortized cost	17	(76)
	(74)	**(76)**

Net gains and losses principally comprise interest income and expense and realized and unrealized exchange gains and losses.

In addition, fees of €13 million were incurred in fiscal 2016 (2015: €8 million) in connection with financial instruments.

Collateralization of financial liabilities

There were no financial liabilities collateralized by mortgages or other property claims in 2016 or 2015.

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."

Net cash provided by operating activities

The net cash flows from operating activities are determined by deducting the financial result, depreciation, amortization, write-downs, reversals of impairment charges and non-cash items from income before income taxes. A further adjustment is then 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 €339 million (2015: €288 million) after depreciation, amortization and write-downs of €481 million (2015: €418 million). Income taxes paid in 2016 amounted to €184 million (2015: €98 million). The change in net working capital resulted in cash outflows of €47 million (2015: inflows of €93 million). Taking into account the increase in other assets and liabilities of €44 million (2015: reduction of €33 million), the cash inflows provided by operating activities amounted to €689 million in 2016 (2015: €692 million).

Net cash used in investing activities

Purchases of intangible assets, property, plant and equipment led to cash outflows of €439 million in 2016 (2015: €434 million). Cash inflows from investment grants reduced cash outflows for capital expenditures by €7 million (2015: €8 million). The cash outflows for financial assets in 2016 mainly comprised €1,950 million (2015: €0 million) for mid-term money market investments and €175 million (2015: €0 million) for investments in securities. Further, there were inflows from money market funds of €60 million (2015: €0 million) and inflows of €6 million from the sale of financial assets (2015: outflows of 11 million). The inflows in fiscal 2016 mainly related to the sale of shares in Elemica Inc., Exton, United States. In the previous year there were cash outflows in connection with loans to a site service provider in the Netherlands. The acquisition of the Clean and Disinfect specialties business of U.S. chemical company Chemours resulted in cash outflows of €198 million in 2016 (2015: €0 million). Cash inflows from interest and dividends received amounted to €10 million (2015: €0 million) and mainly comprised interest income from short-term investments in Brazil. Further, there were cash outflows of €200 million (2015: €0 million) for external funding of pension obligations (CTA). The net cash outflow for investing activities was €2,879 million (2015: €400 million).

Net cash used in financing activities

The cash inflows from non-controlling interests of €1,194 million relate to the payment received from Aramco Overseas Holdings Coöperatief U.A., The Hague, Netherlands, a subsidiary of Saudi Aramco, for the interest in ARLANXEO. In the previous year, the cash inflows from non-controlling interests of €9 million related to the capital increase at the subsidiary ARLANXEO-TSRC (Nantong) Chemical Industrial Co., Ltd. In 2016, there was a cash outflow of €1,107 million for net borrowing (2015: €220 million for net repayments). The borrowing mainly related to the issue of three new bonds with a total nominal value of €1,500 million. Repayment of borrowings mainly comprised an outflow of €200 million for the redemption of a bond and €138 million for the repayment of the remainder of the U.S. dollar loan from the European Investment Bank. Interest payments and other financial disbursements accounted for cash outflows of €73 million (2015: €76 million). In fiscal 2016, cash outflows for dividend payments amounted to €55 million (2015: €46 million), principally to the stockholders of LANXESS AG. A net cash inflow of €2,173 million (2015: net cash outflow of €333 million) was recorded for financing activities.

Cash and cash equivalents

Cash and cash equivalents, which comprise cash, checks and bank balances, amounted to €355 million (2015: €366 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		Performance Chemicals		High Performance Materials		ARLANXEO		Reconciliation		LANXESS	
€ million	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**
External sales	1,826	1,742	2,085	2,142	1,085	1,056	2,859	2,710	47	49	7,902	7,699
Inter-segment sales	51	57	11	10	2	1	0	0	(64)	(68)	0	0
Segment/Group sales	1,877	1,799	2,096	2,152	1,087	1,057	2,859	2,710	(17)	(19)	7,902	7,699
Segment result/EBITDA pre exceptionals	339	326	326	374	111	159	391	373	(282)	(237)	885	995
Exceptional items affecting EBITDA	(1)	2	(13)	(3)	20	–	(15)	2	(43)	(51)	(52)	(50)
Segment assets	1,120	1,149	1,427	1,752	721	710	2,883	3,016	146	124	6,297	6,751
Segment acquisitions	–	–	–	200	–	–	–	–	–	–	–	200
Segment capital expenditures	99	136	144	124	39	47	151	138	24	17	457	462
Depreciation and amortization	94	102	85	92	43	45	204	216	23	17	449	472
Write-downs	5	3	3	2	3	0	14	4	–	0	25	9
Reversals of impairment charges	19	0	–	–	–	–	37	0	–	0	56	0
Segment liabilities	555	741	770	827	250	274	706	712	645	576	2,926	3,130
Employees (December 31)	3,259	3,335	5,138	5,581	1,546	1,583	3,491	3,463	2,791	2,759	16,225	16,721
Employees (average for the year)	3,282	3,349	5,141	5,490	1,539	1,574	3,535	3,521	2,813	2,708	16,310	16,642

2015 figures restated

Key Data by Region

	EMEA (excluding Germany)		Germany		North America		Latin America		Asia-Pacific		LANXESS	
€ million	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**
External sales by market	2,325	2,254	1,365	1,292	1,368	1,326	830	788	2,014	2,039	7,902	7,699
Non-current region assets	655	783	1,035	1,067	446	572	244	304	1,394	1,313	3,774	4,039
Acquisitions	–	102	–	2	–	95	–	–	–	1	–	200
Capital expenditures	91	96	163	212	79	74	24	31	100	49	457	462
Employees (December 31)	3,143	3,251	7,523	7,600	1,312	1,418	1,412	1,435	2,835	3,017	16,225	16,721

Notes to the 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.

As a consequence of the strategic alliance with Aramco Overseas Holdings Coöperatief U.A, The Hague, Netherlands, a subsidiary of Saudi Aramco, for the synthetic rubber business, the corporate structure was altered in fiscal 2016. The synthetic rubber business, formerly bundled in the Tire & Specialty Rubbers and High Performance Elastomers business units in the Performance Polymers segment, is now reported as the ARLANXEO segment, while the High Performance Materials business unit, formerly also assigned to the Performance Polymers segment, is now a segment in its own right. In addition, organizational adjustments resulted in a shift in headcount between the segments. The prior-year figures have been restated accordingly.

On December 31, 2016, 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; and tire chemicals.
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; rubber additives; reverse osmosis membrane elements and ion exchange resins for water treatment; plastics additives such as flame retardants and plasticizers; disinfectant and hygiene solutions.
High Performance Materials	The High Performance Materials segment manufactures high-tech plastics and high-performance composites using mainly continuous production processes. The product portfolio covers 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 segment is centrally managed by ARLANXEO Holding B.V., Sittard-Geleen, Netherlands. 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 2016, no individual customer of the LANXESS Group accounted for more than 10% 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 2016). 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. EBITDA pre exceptionals is calculated from EBIT by adding back depreciation and impairments 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. They may include write-downs, reversals of impairment charges, proceeds from the disposal of non-current assets, certain IT expenses, restructuring expenses, and income from the reversal of provisions for restructuring, and the impact on earnings of portfolio adjustments and 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 exceptional items that affected EBITDA in 2016 and the previous year principally related to the strategic realignment of the LANXESS Group.

Capital expenditures made by the segments comprise additions to intangible assets, property, plant and equipment.

All depreciation, amortization and write-downs in fiscal 2015 and 2016 were recognized directly in profit or loss. In fiscal 2015, impairment charges recognized in previous years on assets in the cash-generating units were reversed. Further information is provided in the section headed "Estimation uncertainties and exercise of discretion."

Reconciliation of Segment Sales

€ million	2015	2016
Total segment sales	**7,919**	**7,718**
Other/Consolidation	(17)	(19)
Group sales	**7,902**	**7,699**

Reconciliation of Segment Results

€ million	2015	2016
Total segment results	**1,167**	**1,232**
Depreciation and amortization	(474)	(481)
Reversals of impairment charges	56	0
Exceptional items affecting EBITDA	(52)	(50)
Other financial income and expense	(61)	(62)
Net interest expense	(66)	(63)
Income from investments accounted for using the equity method	0	0
Other/Consolidation	(282)	(237)
Income before income taxes	**288**	**339**

The reconciliation of segment results to income before income taxes contains total exceptional items comprising net charges of €50 million (2015: charges of €7 million) (see Notes [26] and [27]). These include exceptional items of minus €50 million (2015: minus €52 million) that affect EBITDA, write-downs of €0 million (2015: minus €11 million), and reversals of impairment charges of €0 million (2015: €56 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, 2015	Dec. 31, 2016
Total segment assets	**6,151**	**6,627**
Cash and cash equivalents	366	355
Deferred tax assets	361	442
Near-cash assets	100	40
Income tax receivables	55	74
Derivative assets	15	66
Other financial assets	25	2,149
Other/Consolidation	146	124
Group assets	**7,219**	**9,877**

Segment assets principally comprise intangible assets, property, plant and equipment, inventories and trade receivables. In particular, segment assets do not include cash and cash equivalents, deferred taxes and other financial assets.

Reconciliation of Segment Liabilities

€ million	Dec. 31, 2015	Dec. 31, 2016
Total segment liabilities	**2,281**	**2,554**
Other financial liabilities	1,701	2,812
Derivative liabilities	119	49
Income tax liabilities	104	75
Deferred tax liabilities	46	83
Other/Consolidation	645	576
Group liabilities	**4,896**	**6,149**

Segment liabilities mainly comprise provisions, trade payables and other liabilities. In particular, segment liabilities do not include income tax liabilities, liabilities from derivatives, or other financial liabilities.

39 | Audit Fees

In 2016, total audit fees of €4,110 thousand (2015: €3,346 thousand) for the auditor of the consolidated financial statements of the LANXESS Group were recognized as expenses. Due to early application of the revised opinion of the Institute of Public Auditors in Germany (IDW RS HFA 36, new version), the content of the reporting categories has been altered. The prior-year figures have been restated accordingly. The total amount includes €2,969 thousand (2015: €1,820 thousand) relating to the auditing of financial statements. The increase in the year under review is mainly due to audit services in connection with the establishment of the ARLANXEO strategic alliance. €245 thousand (2015: €144 thousand) related to other audit-related services and €896 thousand (2015: €1,382 thousand) to other services rendered to Group companies. They include services from IT service provider PwC Cundus AG, an affiliated company of the auditor, totaling €735 thousand (2015: €1,307 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 2016, 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
- LANXESS Accounting GmbH, Cologne
- LANXESS Buna GmbH, Marl
- LANXESS Deutschland GmbH, Cologne
- LANXESS Distribution GmbH, Leverkusen
- Rhein Chemie Rheinau GmbH, Mannheim
- Saltigo GmbH, Leverkusen
- Sechste LXS GmbH, Cologne

Outside of Germany, LANXESS Limited (registration no. 03498959), Newbury, United Kingdom, utilized the exemption from the auditing of its annual financial statements as permitted by Section 479A of the U.K. Companies Act 2006. As required by law, LANXESS AG, as the parent company, guaranteed all outstanding liabilities as of December 31, 2016 with respect to Section 479C of the U.K. Companies Act 2006.

42 | Events after the Reporting Period

In September 2016, LANXESS and U.S. company Chemtura signed an agreement on the acquisition of Chemtura by LANXESS. Chemtura's shareholders approved the acquisition at an extraordinary shareholders' meeting held on February 1, 2017. This transaction is expected to be closed by mid-2017, providing outstanding regulatory approval is given.

No other events of particular significance took place after December 31, 2016, 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, March 1, 2017
LANXESS Aktiengesellschaft

The Board of Management

Matthias Zachert Michael Pontzen

Dr. Rainier van Roessel Dr. Hubert Fink

Auditor's Report

We have audited the consolidated financial statements prepared by the LANXESS Aktiengesellschaft, Cologne, comprising the statement of financial position, the income statement and the statement of comprehensive income, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report, which is combined with the management report of the company, for the business year from January 1 to December 31, 2016. The preparation of the consolidated financial statements and the combined management report in accordance with the IFRSs, as adopted by the E.U., and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) are the responsibility of the parent company's Board of Management. Our responsibility is to express an opinion on the consolidated financial statements and the combined management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the combined management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the company's Board of Management, as well as evaluating the overall presentation of the consolidated financial statements and the combined management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit the consolidated financial statements comply with the IFRSs as adopted by the E.U. and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these provisions. The combined management report is consistent with the consolidated financial statements, complies with legal requirements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Cologne, March 2, 2017
PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Bernd Boritzki
German Public Auditor

Carsten Manthei
German Public Auditor

About this Report

REPORTING METHODOLOGY AND DATA COLLECTION

The full report made here 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), the Global Reporting Initiative (GRI) guidelines and the principles of the U.N. Global Compact. In addition, LANXESS meets the transparency requirements of the U.K. Modern Slavery Act in its reporting.

The reporting period is 2016. 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.

We use a standardized global corporate information system for reporting HR data. Employee data therefore relates to the entire LANXESS Group.

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. 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 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 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.

GRI

The report is produced according to the GRI G4 guidelines and complies with the core option. However, in order to satisfy the information needs of rating agencies and other stakeholders, we go beyond these requirements in our reporting and compile a more extensive GRI Content Index. GRI reporting is performed annually. The last report for fiscal 2015 was published in March 2016.

GRI
G4–22
G4–23

The contents of the report for fiscal 2016 are based on a materiality analysis aligned to the four principles formulated by GRI: sustainability context, materiality, completeness and stakeholder inclusiveness. An internal assessment conducted in 2014 forms the basis of the analysis. This was followed in 2015 by a detailed survey of our most important external stakeholder groups. The consolidated findings of the two surveys, which both used the same assessment methodology, are reflected in our materiality matrix.

The following table identifies the boundaries between the key issues and the GRI aspects they cover.

GRI
G4–19
G4–20
G4–21

Boundaries

Areas of Activity/ Key Issues	Within the Organization (G4–20)				Outside the Organization (G4–21)			GRI Aspects
	PC	AI	HPM	ARLANXEO	Suppliers	Custom-ers	Com-pany	
Responsibility toward employees								
Education & training	X	X	X	X	X		X	Training and Education
Talent management	X	X	X	X				Training and Education
Demographic change	X	X	X	X			X	Employment | Training and Education
Fair remuneration	X	X	X	X	X			Equal Remuneration for Women and Men
Work-life balance	X	X	X	X			X	
Occupational safety	X	X	X	X	X	X	X	Occupational Health and Safety
Occupational health	X	X	X	X				Occupational Health and Safety
Product and process stewardship								
Quality	X	X	X	X	X	X		Product and Service Labeling
Product safety information	X	X	X	X	X	X		Customer Health and Safety | Product and Service Labeling
Responsible handling of chemicals	X	X	X	X	X	X	X	Customer Health and Safety | Effluents and Waste | Product and Service Labeling
Plant & process safety	X	X	X	X	X	X	X	
Responsible resource use	X	X	X	X	X			
Research & development	X	X	X	X	X	X	X	
Environmental responsibility								
Climate protection	X	X	X	X	X	X	X	
Emissions reduction	X	X	X	X	X	X	X	Emissions
Energy efficiency	X	X	X	X		X	X	Energy
Resource efficiency	X	X	X	X		X	X	
Environmental management	X	X	X	X	X	X	X	
Environmental standards	X	X	X	X	X	X	X	
Toxicity	X	X	X	X	X	X	X	
Water management	X	X	X	X		X	X	Water
Transportation	X	X	X	X	X	X	X	Transport

Boundaries

GRI
G4–19
G4–20
G4–21

Areas of Activity/ Key Issues	Within the Organization (G4–20)				Outside the Organization (G4–21)			GRI Aspects
	PC	AI	HPM	ARLANXEO	Suppliers	Custom-ers	Com-pany	
Corporate governance								
Compliance	X	X	X	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 Environmental | Customer Health and Safety | Product and Service Labeling | Marketing Communications | Customer Privacy | Anti-competitive Behavior
Anti-corruption	X	X	X	X	X	X	X	Anti-corruption
Risk management	X	X	X	X	X	X	X	
Transparency	X	X	X	X	X	X	X	
Globalization	X	X	X	X	X	X		
Responsibility in the supply chain								
Business ethics	X	X	X	X	X		X	
Sustainable procurement	X	X	X	X	X		X	Procurement | Supplier Environmental Assessment | Supplier Assessment for Labor Practices | Supplier Human Rights Assessment | Supplier Assessment for Impacts on Society
Social responsibility								
Human rights	X	X	X	X	X	X	X	Investment | Non-discrimination | Freedom of Association and Collective Bargaining | Child Labor | Forced or Compulsory Labor | Security Practices | Indigenous Rights | Assessment | Human Rights Grievance Mechanisms
Stakeholder relations	X	X	X	X	X	X	X	

In the GRI Content Index, we list which indicators from the current GRI Guideline are addressed in the LANXESS Annual Report 2016. In addition to the disclosures contained in this report, supplementary information can be found on the LANXESS Group website.

HSEQ: Independent Assurance Report

INDEPENDENT PRACTITIONER'S LIMITED ASSURANCE REPORT

To LANXESS AG, Cologne

We have been engaged to perform a limited assurance engagement on the data in the "Environmental and Safety Performance Data" table included in the "Health, safety, environment and climate protection along the value chain" section of the "Corporate Responsibility" chapter in the Annual Report 2016 of LANXESS AG, Cologne (hereafter the Company) for the period 1 January 2016 to 31 December 2016 (hereafter "Environmental and Safety Performance Data" table).

Management's Responsibility

The Company's Management is responsible for the preparation and presentation of the Sustainability Report in accordance with the criteria as set out in the G4 Sustainability Reporting Guidelines of the Global Reporting Initiative (GRI) (hereafter the "GRI-Criteria") and for the selection of the information to be assessed.

This responsibility includes the selection and application of appropriate methods to prepare the "Environmental and Safety Performance Data" table as well as the use of assumptions and estimates for individual sustainability disclosures which are reasonable in the circumstances. Furthermore, the responsibility includes designing, implementing and maintaining systems and processes relevant for the preparation of the "Environmental and Safety Performance Data" table, which is free of material misstatements due to intentional or unintentional errors.

Audit Firm's Independence and Quality Control

We have complied with the German professional provisions regarding independence as well as other ethical requirements.

The 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 Institut der Wirtschaftsprüfer ("Institute of Public Auditors in Germany; IDW"): Requirements to quality control for audit firms ("Entwurf eines IdW Qualitätssicherungsstandards 1 'Anforderungen an die Qualitätssicherung in der Wirtschaftsprüferpraxis' (IdW EQS 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 an opinion on the sustainability information in the "Environmental and Safety Performance Data" table based on our work performed.

Within the scope of our engagement we did not perform an audit on external sources of information or expert opinions, referred to in the "Environmental and Safety Performance Data" table.

We conducted our work in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): "Assurance Engagements other than Audits or Reviews of Historical Financial Information" published by IAASB. This Standard requires that we plan and perform the assurance engagement to obtain limited assurance whether any matters have come to our attention that cause us to believe that the sustainability information in the "Environmental and Safety Performance Data" table has not been prepared, in all material respects, in accordance with the GRI-Criteria.

In a limited assurance engagement the evidence-gathering procedures are more limited than for a reasonable assurance engagement and therefore significantly less assurance is obtained than in a reasonable assurance engagement. The procedures selected depend on the practitioner's judgement. This includes the assessment of the risks of material misstatements of the sustainability information in the "Environmental and Safety Performance Data" table regard to the GRI-Criteria.

Within the scope of our work we performed amongst others the following procedures:

- Inquiries of personnel involved in the preparation for reporting the environmental and safety performance data regarding the preparation process, the underlying internal control system and the environmental and safety data
- Analytical procedures on the environmental and safety data
- Assessment of the presentation of the environmental and safety data in the "Environmental and Safety Performance Data" table

Conclusion

Based on our limited assurance engagement, nothing has come to our attention that causes us to believe that the sustainability information in the "Environmental and Safety Performance Data" table of the Company for the period 1 January 2016 to 31 December 2016 has not been prepared, in all material respects, in accordance with the GRI-Criteria.

Emphasis of Matter – Recommendations

Without qualifying our conclusion above, we make the following recommendations for the reporting of the environmental and safety data:

- General annual update of process descriptions as well as consistent performance and documentation of intended controls;
- Implementation of automated system interfaces in data consolidation processes as well as obligatory comments in the system for certain deviations;
- Regular, systematic update of market-based CO_2 emission factors.

Restriction on Use and Distribution

We issue this report on the basis of the engagement agreed with the company. The review has been performed for purposes of the Company and is solely intended to inform the Company about the results of the review. The report is not intended for any third parties to base any (financial) decision thereon. We do not assume any responsibility towards third parties.

Cologne, 1 March 2017

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Bernd Boritzki	Hendrik Fink
German Public Auditor	German Public Auditor

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	pp. 7–8		
G4-2	Key impacts, risks and opportunities	pp. 24–45, 50–55, 158–164		
Organizational Profile				
G4-3	Name of the organization		LANXESS AG	
G4-4	Primary brands, products or services	pp. 108–110	http://lanxess.com/en/corporate/products-solutions/products-solutions/	
G4-5	Location of the organization's headquarters		Cologne, Germany	
G4-6	Countries where the organization operates	pp. 109–110	http://lanxess.com/en/corporate/about-lanxess/sites-worldwide/	
G4-7	Nature of ownership and legal form	pp. 91–92, 108		
G4-8	Markets	pp. 116, 126		
G4-9	Scale of the organization	Table of key data, inside front cover; pp. 75, 130		
G4-10	Total workforce	pp. 69, 71		6
G4-11	Employees covered by collective bargaining agreements	p. 73		3
G4-12	Description of supply chain	pp. 114–115		
G4-13	Significant changes in the organization's size, structure or ownership	pp. 108–109, 187–189		
G4-14	Explanation of how the precautionary principle is addressed	pp. 116–118, 155–156		
G4-15	Participation in and endorsement of externally developed charters, principles and initiatives	pp. 65–66, 76, 80, 86–87		
G4-16	Important memberships	pp. 83, 114–115		
Material Aspects and Boundaries				
G4-17	All entities included in the organization's consolidated financial statements	pp. 189–190		
G4-18	Process for defining the report content	pp. 58–61		
G4-19	Material aspects identified	pp. 60, 232–233		
G4-20	Material aspects within the organization	pp. 232–233		
G4-21	Material aspects outside the organization	pp. 232–233		
G4-22	Effects of any re-statements of information	p. 231		
G4-23	Changes in the scope, boundary or measurement methods	pp. 187–189, 231		
Stakeholder Engagement				
G4-24	Overview of stakeholder groups	pp. 58–59		
G4-25	Basis for identification of stakeholder groups	pp. 58–59		
G4-26	Engagement of stakeholder groups	pp. 58–61, 74, 76		
G4-27	Consideration of key concerns raised by stakeholder groups	pp. 58–61, 74, 77		

G4 Indicators and Description		Location	Comments and Online Annexes	UNGC
Report Profile				
G4-28	Reporting period	p. 231		
G4-29	Date of most recent previous report	p. 231	2016	
G4-30	Reporting cycle	p. 231		
G4-31	Contact point	Masthead		
G4-32	GRI Content Index	pp. 236–242		
G4-33	External assurance for the report	pp. 234–235		
Governance				
G4-34	Governance structure of the organizationn	pp. 97–99		
Ethics and Integrity				
G4-56	Values, principles and code of conduct	pp. 58, 65–66		1–10
Economic				
	Management approach	pp. 50–55, 86–87		
Economic Performance Indicators				
G4-EC1	Direct economic value generated and distributed	pp. 86, 139, 140, 169		
G4-EC3	Coverage of the organization's defined-benefit plan obligations	pp. 198–204		
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. 70		6
Indirect Economic Impacts				
G4-EC7	Infrastructure investments and services provided primarily for public benefit	pp. 86–87		
Procurement Practices				
G4-EC9	Selection of locally based suppliers	p. 114		
Environmental				
	Management approach	pp. 61–65, 76–85, 114–115		
Materials				
G4-EN1	Materials used by weight or volume	pp. 75, 114		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	pp. 75, 84–85		7, 8
G4-EN5	Energy intensity	pp. 80–81		8
G4-EN6	Reduction of energy consumption	pp. 80–81		8, 9
G4-EN7	Reduction in energy requirements of products and services	pp. 80–81, 116–117	http://webmagazin.lanxess.de/nimms-leicht/nimms-leicht.html (German only) http://lanxess.com/corporate/corporate-responsibility/innovation-and-products/green-mobility/	8, 9

G4 Indicators and Description		Location	Comments and Online Annexes	UNGC
Water				
G4-EN8	Total water withdrawal	pp. 75, 81–82, 84–85		7, 8
Emissions				
G4-EN15	Direct greenhouse gas emissions – Scope 1	pp. 75, 78–79, 84–85		7, 8
G4-EN16	Indirect greenhouse gas emissions – Scope 2	pp. 75, 78–79, 84–85		7, 8
G4-EN17	Other indirect greenhouse gas emissions – Scope 3	pp. 78–80		7, 8
G4-EN18	Greenhouse gas emissions intensity	p. 79		8
G4-EN19	Reduction of greenhouse gas emissions	pp. 77–80, 83		8, 9
G4-EN20	Emissions of ozone-depleting substances	pp. 84–85		7, 8
G4-EN21	NOx, SOx and other significant air emissions	pp. 80, 84–85		7, 8
Effluents and Waste				
G4-EN22	Total water discharge	pp. 75, 81–82, 84–85		8
G4-EN23	Quantity of waste	pp. 75, 82, 84–85		8
G4-EN24	Total number and volume of signifcant spills		Following a truck accident near Bangalore, India, on March 8, 10 t of thionyl chloride were released. On May 14, during test operation of our new pigment plant in Ningbo, China, waste gases containing nitrogen oxides were emitted. The affected areas of the plant were shut down immediately. On June 1, approx. 800 kg of methyl chloroformiate leaked at the site in Dormagen, Germany. The leak was restricted to the immediate operational area and was properly disposed of by the fire department. Precautionary air measurements showed no irregularities. On June 3, also in Dormagen, larger quantities of a feedstock mix (including dichlorobutene, butadiene and chlorine) and some gaseous reaction products were released. A large product cloud formed above the plant and there was a perceptible odor. However, air measurements showed nothing above the detection limits. A fire department employee was slightly injured during the operation. On September 3, a goods train that was also transporting LANXESS products derailed near Durban, South Africa. Around 20 t of sodium dichromate solution and 500 kg of chromium trioxide crystals were spilled. We advised the local authorities and the rail company on the proper treatment and disposal of the spilled substances. The train driver was killed in the accident. On September 30, around 30 kg of ammonia were released at the site in Leverkusen, Germany. The fire department used a water curtain to bind the substance released. The release was restricted to the immediate operational area. Precautionary air measurements showed no irregularities. On October 28, a tanker left the road and turned over around 150 km from our site at Nagda, India. As a result, around 27 t of toluene were released.	8
Products and Services				
G4-EN27	Initiatives to mitigate environmental impacts	pp. 31–35, 38–40, 43–45, 77–83	http://lanxess.com/corporate/about-lanxess/megatrends/water/	7, 8, 9
G4-EN28	Reclaiming of packaging materials	p. 83		8
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. 83		8

G4 Indicators and Description		Location	Comments and Online Annexes	UNGC
Supplier Environmental Assessment				
G4-EN32	New suppliers screened using environmental criteria	pp. 114–115		8
G4-EN33	Significant actual and potential negative environmental impacts in the supply chain	pp. 114–115		8
Environmental Grievance Mechanisms				
G4-EN34	Formal grievances about environmental impacts		Any such grievances would be recorded decentrally by LANXESS. However, there is currently no system for recording these grievances in a statistically relevant way.	8
Labor practices and decent work				
	Management approach	pp. 61–65, 68–76, 114–115		
Employment				
G4-LA1	Employee turnover	pp. 68–69		6
G4-LA2	Benefits provided to full-time employees	pp. 70–73		
G4-LA3	Parental leave	p. 72		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 which 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 dialogue 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	pp. 74–76, 84, 141		
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 dialogue 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.	
Training and Education				
G4-LA9	(Vocational) training	pp. 69–70		6
G4-LA10	Programs for skills management and lifelong learning	pp. 69–73		
G4-LA11	Regular performance and career development reviews	pp. 69, 73		6

G4 Indicators and Description		Location	Comments and Online Annexes	UNGC
Diversity and Equal Opportunity				
G4-LA12	Composition of governance bodies	pp. 70, 71, 101–103, 140–141		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
Supplier Assessment for Labor Practices				
G4-LA14	New suppliers screened using labor practices criteria	pp. 114–115		
G4-LA15	Significant actual and potential negative impacts for labor practices in the supply chain	pp. 114–115		
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 2016.	
Human rights				
	Management approach	pp. 63–67, 114–115		
Investment				
G4-HR1	Investment agreements and contracts that have undergone human rights screening	pp. 66–67		2
G4-HR2	Training on human rights aspects	pp. 66–67		1
Non-Discrimination				
G4-HR3	Incidents of discrimination and actions taken	pp. 66–67		6
Freedom of Association and Collective Bargaining				
G4-HR4	Violation of the right to exercise freedom of association or collective bargaining	p. 73		3
Child Labor				
G4-HR5	Principles and measures to eliminate child labor	pp. 66–67		5
Forced or Compulsory Labor				
G4-HR6	Principles and measures to eliminate forced or compulsory labor	pp. 66–67		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 2016, we received no reports or other indications of cases involving the violation of indigenous rights.	1

G4 Indicators and Description		Location	Comments and Online Annexes	UNGC
Assessment				
G4-HR9	Operations that have been subject to human rights reviews and/or impact assessments	pp. 66–67		1
Supplier Human Rights Assessment				
G4-HR10	Suppliers and contractors that have undergone human rights screening	pp. 114–115		2
G4-HR11	Significant actual and potential negative human rights impacts in the supply chain	pp. 114–115		2
Significant Actual and Potential Negative Human Rights Impacts in the Supply Chain and Actions Taken				
G4-HR12	Formal grievances related to human rights	pp. 66–67		1
Society				
	Management approach	pp. 61–67, 86–87		
Local Communities				
G4-SO1	Operations with implemented local community engagement, impact assessments and development programs	pp. 86–87		1
G4-SO2	Operations with significant potential or actual negative impacts on local communities	pp. 75, 77–85		1
Anti-Corruption				
G4-SO3	Business units analyzed for risks related to corruption	p. 67		10
G4-SO4	Percentage of employees trained in anti-corruption policies and procedures	p. 67		10
G4-SO5	Incidents of corruption and actions taken	p. 67		10
Anti-Competitive Behavior				
G4-SO7	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices		The company is not involved in any legal actions regarding anti-competitive behavior or violations of antitrust law.	
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	pp. 114–115		
G4-SO10	Significant actual and potential negative impacts on society in the supply chain	pp. 114–115		
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 2016.	

G4 Indicators and Description		Location	Comments and Online Annexes	UNGC
Product responsibility				
	Management approach	pp. 58, 61–65, 76–78		
Customer Health and Safety				
G4-PR1	Significant product and service categories for which health and safety impacts are assessed	pp. 74–78, 83–84, 114–115		
G4-PR2	Incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of products and services during their life cycle		Our employees and external third parties can use the Integrity Line to report grievances concerning the non-compliance with regulations concerning health and safety. In fiscal 2016, 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	pp. 76–78		
G4-PR4	Incidents of non-compliance with regulations and voluntary codes concerning product and service information		LANXESS currently does not yet have a system for recording such cases. We met the labeling and reporting deadlines resulting from the REACH and GHS regulations for all affected substances in our portfolio.	
G4-PR5	Customer satisfaction including results of surveys measuring customer satisfaction	p. 61		
Marketing Communications				
G4-PR6	Sale of banned or disputed products	p. 78		
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 2016, 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 internationally agreed classification criteria and labeling elements 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.

Commodities

This is the collective term for economic goods such as fuels, agricultural products, precious metals and chemical products, the quality of which can be identified on the basis of unambiguous criteria and does not differ from one supplier to the next. In virtually transparent markets for these goods, price and volume are the only differentiators that sellers can use.

Compounding facility

A facility for processing and finishing engineering plastics to enhance their functional properties.

ISO 14001

International standard which 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 which defines requirements for systematic energy management to help organizations reduce energy costs, greenhouse gas emissions and other environmental impacts.

ISO 9001

International standard which 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 are 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.

Polyamide

A synthetic polymer with very good mechanical and electrical properties and high resistance to chemicals and wear.

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

Analysts

Analysts work for banks and brokerages. They produce industry-specific analyses of listed companies. These are used to assess the stock of the companies analyzed and to make investment recommendations. Published in the form of research studies, these recommendations are targeted at external users, especially institutional investors, and are intended to provide investment ideas.

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.

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.

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 agreed interest payments 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.

Joint venture

A contractual agreement between two or more partners concerning an economic activity which they manage jointly.

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.

Net working capital

The sum of all inventories and trade accounts receivable less trade accounts payable.

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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www.chemiehochdrei.de

www.cdp.net/

www.tfs-initiative.com

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