

COMPENSATION REPORT

Compensation of the Board of Management

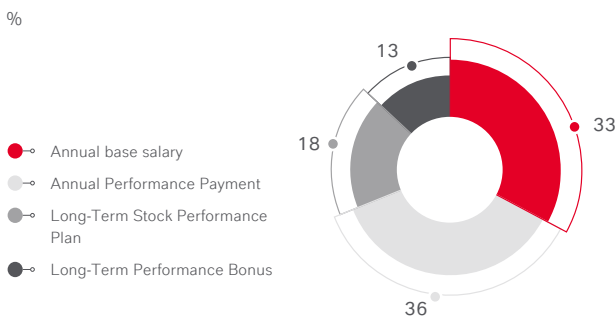
The structure of the compensation system and the level of compensation for the members of the Board of Management are determined by the Supervisory Board, after preparation by the Presidial Committee. The appropriateness of the compensation is regularly reviewed by an external personnel consulting company. The criteria for determining the appropriateness of the compensation for an individual Board of Management member include, in particular, his duties, his personal performance, the economic situation, and the success and sustainable growth of the LANXESS Group. In addition, consideration is also given to compensation at comparable companies and the company's overall compensation structure with regard to the ratio between the compensation of the Board of Management and that of LANXESS's senior executives and the rest of the workforce, both overall and in terms of time. The compensation structure is also designed to be competitive in the international market for highly qualified executives and provide the motivation to successfully work toward sustainable corporate development. Two of the three variable components are measured according to corporate performance over several years, and thus set long-term incentives.

The compensation system that was introduced for members of the Board of Management in 2010 was approved by the Annual Stockholders' Meeting of LANXESS AG on May 28, 2010, with a majority of 99.10% of the capital represented. The company intends to allow the 2020 Annual Stockholders' Meeting to vote on the compensation system after the ongoing legislative procedure regarding the Second Shareholder Rights Directive Implementation Act (ARUG II) is complete and the new version of the German Corporate Governance Code (GCGC) is adopted.

The components of the compensation for members of the Board of Management are the base salary; the short-term and long-term variable components, which are the Annual Performance Payment (APP), the Long-Term Stock Performance Plan (LTSP) and the Long-Term Performance Bonus (LTPB); and a retirement pension. The three variable components APP, LTSP and LTPB are linked to LANXESS's annual performance and performance over a number of years. The average compensation mix of 33% annual base salary and 67% 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. Currently, the contracts do not provide for a separate cap, exceeding the aforementioned, on total compensation, even taking into account a possible discretionary bonus.

Changes to the existing Board of Management contracts are planned in the near future. Please see "Other" in this compensation report for details.

Compensation Mix for Members of the Board of Management



Fixed compensation

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

Variable compensation

The annual performance-related component of variable compensation is the Annual Performance Payment (APP). It is based on corporate business targets such as attainment of specific targets for the LANXESS Group's EBITDA pre exceptional. In the case of 100% target attainment, the individual APP budget for fiscal year 2018 for Mr. Zachert is 125% and for the other members of the Board of Management 100% of their respective annual

base salaries. The target and threshold values applicable to the payment level are set each year by the Supervisory Board before the start of a new fiscal year. There is no payment of a minimum amount. For fiscal year 2018, the maximum payment is capped at 200% of the individual budget in line with the caps applied for non-managerial and managerial staff. If targets are missed to a considerable degree, it is possible that no APP payment (0%) will be made. In addition, the Supervisory Board reserves the right to reduce the APP in the event of serious occupational safety and/or environmental problems.

The Long-Term Stock Performance Plan (LTSP) over several years is another element of variable compensation. This compensation component is based on the performance of LANXESS stock against a reference index. The Dow Jones STOXX 600 ChemicalsSM serves as a reference index for the LTSP 2010–2013, which was created in 2010, while the MSCI World Chemicals Index serves as a reference index for the LTSP 2014–2017, which was established in 2014. The LTSP is divided into four four-year tranches. The condition for participation in both LTSP programs is a prior personal investment each year in LANXESS shares 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.

In the LTSP 2018–2021, in place since 2018, the rights granted are exercised immediately at the end of the four-year vesting period. Assuming 100% target attainment, the LTSP programs provide for a possible payment per tranche of 30% of the individual target income. The maximum payment is 60% of the individual target income.

In parallel with the introduction of the LTSP 2018–2021, the Share Ownership Guideline (SOG) was also established in 2018. Continuously over a period of four years the members of the Board of Management are obliged to verifiably acquire and hold a minimum amount of shares (SOG target) in LANXESS AG. The SOG target is 150% of annual base salary for the Chairman of the Board of Management and 100% of annual base salary for the other members of the Board of Management.

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

For fiscal year 2018, the share-based compensation resulted in an expense of €58 thousand for Mr. Zachert (previous year: expense of €935 thousand), income of €113 thousand for Dr. Fink (previous year: expense of €91 thousand), income of €113 thousand for Mr. Pontzen (previous year: expense of €91 thousand) and an expense of €87 thousand for Dr. van Roessel (previous year: expense of €441 thousand).

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

Stephen C. Forsyth, who was left the Board of Management on May 31, 2018, received an annual base salary for his one-year fixed term on the Board of Management, as well as the APP as performance-related variable compensation. However, he did not participate in the long-term compensation components LTSP and LTPB.

Compensation of the Board of Management

	Year	Fixed compensation		Variable compensation			Total cash compensation	Payments from LTSP rights	Total
		Annual base salary	Compensation in kind	Performance bonus ⁴⁾	LTPB (multi-year)	Payment for previous years		Fair values	
€ thousand									
Matthias Zachert	2018	1,200	757	1,950	702²⁾	-	4,609	810	5,419
	2017	1,200	73	3,000	1,080 ¹⁾	(41) ³⁾	5,312	737	6,049
Dr. Hubert Fink	2018	550	53	715	322²⁾	-	1,640	330	1,970
	2017	475	53	1,100	528 ¹⁾	(13) ³⁾	2,143	246	2,389
Michael Pontzen	2018	550	187	715	322²⁾	-	1,774	330	2,104
	2017	525	47	1,100	528 ¹⁾	(13) ³⁾	2,187	246	2,433
Dr. Rainier van Roesel	2018	650	51	845	380²⁾	-	1,926	390	2,316
	2017	650	51	1,300	585 ¹⁾	(19) ³⁾	2,567	355	2,922
Stephen C. Forsyth (June 1, 2017 until May 31, 2018)	2018	188	-	186	-	-	374	-	374
	2017	263	-	525	-	-	788	-	788
Total	2018	3,138	1,048	4,411	1,726	-	10,323	1,860	12,183
	2017	3,113	224	7,025	2,721	(86)	12,997	1,584	14,581

1) Payment of 50% each in 2018 and 2019 2) Payment of 50% each in 2019 and 2020 3) Payment in 2017 and 2018, respectively 4) Payment in 2018 and 2019, respectively

The aggregate compensation for the Board of Management was €12,183 thousand (previous year: €14,581 thousand), comprising €4,186 thousand (previous year: €3,337 thousand) in non-performance-related components, €6,137 thousand (previous year: €9,660 thousand) in performance-related components and €1,860 thousand (previous year: €1,584 thousand) in components with a long-term incentive effect. In fiscal year 2018, the performance-related components were based on the EBITDA pre exceptionals achieved of €1,016 million and the resulting APP target attainment of 130%. APP target attainment would have been 100% for fiscal year 2018 if EBITDA pre exceptionals had been €980 million. In the context of the LTSP, a total of 1,860,000 rights were granted to the members of the Board of Management (previous year: 1,740,000 rights). Regarding the fair value per right of the individual tranches on the reporting date, please see [Note \[15\]](#) to the consolidated financial statements.

The increase in compensation in kind for Mr. Zachert to €757 thousand (previous year: €73 thousand) and for Mr. Pontzen to €187 thousand (previous year: €47 thousand) resulted from the security measures in their homes approved by the Supervisory Board of LANXESS AG.

Retirement pensions

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

The pension plan for the members of the Board of Management is a defined contribution plan stipulating a basic contribution to be made by the company equal to 25% of the annual base salary and APP. The maximum amount taken into account for calculating the APP contribution is that due on 100% target attainment, irrespective of the actual target attainment. Moreover, the members of the Board of Management must themselves pay an amount from deferred compensation amounting to 12.5% of the APP. The members of the Board of Management may increase their personal contribution to up to 25% of the APP. From the date of entitlement, up to 30% of the accumulated capital – including the interest thereon – may be converted to a pension benefit. There are claims arising from provisions in

place before 2006 that are granted as vested rights to individual members of the Board of Management. If the service contract ends before the beneficiary reaches the age of 60 or 62, the company pays certain additional benefits up to a defined ceiling.

LANXESS has established provisions for the future claims of Board of Management members. The service costs recognized

under IFRS accounting rules for this purpose, the net expense recognized under HGB accounting rules for this purpose and the present value of the obligations under IFRS and HGB accounting rules can be found in the following table for the Board of Management members serving as of December 31, 2018:

Pension Claims

€ thousand	Year	IFRS		HGB	
		Service Costs	Present Value of the Obligations	Net Expense for Pension Entitlements	Present Value of the Obligations
Matthias Zachert	2018	749	6,251	979	5,085
	2017	775	5,613	1,080	4,106
Dr. Hubert Fink	2018	311	4,058	639	3,306
	2017	309	3,626	550	2,666
Michael Pontzen	2018	323	2,298	346	1,768
	2017	268	2,108	451	1,423
Dr. Rainier van Roessel	2018	158	7,370	617	6,699
	2017	157	7,030	504	6,082
Stephen C. Forsyth (June 1, 2017 until May 31, 2018)	2018	-	-	-	-
	2017	-	-	-	-
Total	2018	1,541	19,977	2,581	16,858
	2017	1,509	18,377	2,585	14,277

As of December 31, 2018, obligations to former members of the Board of Management totaled €35,261 thousand (previous year: €34,828 thousand) under IFRS accounting rules and €30,089 thousand (previous year: €27,772 thousand) under HGB accounting rules.

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

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

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

Payments totaling €473 thousand (previous year: €473 thousand) were made to former members of the Board of Management in fiscal year 2018.

Other

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

No loans were granted to members of the Board of Management in fiscal year 2018.

The Supervisory Board intends, with the consent of the members of the Board of Management, to amend the members of the Board of Management’s service contracts for 2019, in order among other things to more closely meet the demand for long-term Board of Management compensation. The following changes are to be made in particular:

- › The total compensation for the members of the Board of Management is to be capped in the future.
- › The size of the contributions to the company pension plan and the compensation in kind is not to exceed a defined proportion of the annual base salary.
- › The Supervisory Board’s granting of an ad hoc discretionary bonus to recognize special achievements or to create an additional performance incentive is to be limited to a maximum amount.
- › The LTPB is to be altered in the future to assess target attainment in three consecutive fiscal years.
- › The Supervisory Board reserves the right to withhold or reclaim (“claw-back”) the granted variable compensation in full or in part in the event of grave dereliction of duty.

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 2017 and 2018, in line with the recommendations of the German Corporate Governance Code. The variable compensation components differ depending on the reference period. The amounts of compensation shown also include the maximum and minimum attainable compensation.

Compensation Granted

€ thousand	Matthias Zachert Chairman of the Board of Management				Dr. Hubert Fink Member of the Board of Management			
	Target value 2017	Target value 2018	2018 (min.)	2018 (max.)	Target value 2017	Target value 2018	2018 (min.)	2018 (max.)
Annual base salary	1,200	1,200	1,200	1,200	475	550	550	550
Compensation in kind	73	757	757	757	53	53	53	53
Total	1,273	1,957	1,957	1,957	528	603	603	603
Annual Performance Payment (APP)	1,500	1,500	0	3,000	550	550	0	1,100
Multi-year variable compensation	1,277	1,350	0	2,700	517	578	0	1,155
LTPB (tranche 2016–2017)	–	–	–	–	23	–	–	–
LTPB (tranche 2017–2018)	540	–	–	–	248	–	–	–
LTPB (tranche 2018–2019)	–	540	0	1,080	–	248	0	495
LTSP 2014–2017 (tranche 2017)	737	–	–	–	246	–	–	–
LTSP 2018–2021 (tranche 2018)	–	810	0	1,620	–	330	0	660
Total	4,050	4,807	1,957	7,657	1,595	1,731	603	2,858
Service cost	775	749	749	749	309	311	311	311
Total compensation	4,825	5,556	2,706	8,406	1,904	2,042	914	3,169

Compensation Granted

€ thousand	Michael Pontzen Chief Financial Officer				Dr. Rainier van Roessel Member of the Board of Management			
	Target value 2017	Target value 2018	2018 (min.)	2018 (max.)	Target value 2017	Target value 2018	2018 (min.)	2018 (max.)
Annual base salary	525	550	550	550	650	650	650	650
Compensation in kind	47	187	187	187	51	51	51	51
Total	572	737	737	737	701	701	701	701
Annual Performance Payment (APP)	550	550	0	1,100	650	650	0	1,300
Multi-year variable compensation	517	578	0	1,155	648	683	0	1,365
LTPB (tranche 2016–2017)	23	–	–	–	–	–	–	–
LTPB (tranche 2017–2018)	248	–	–	–	293	–	–	–
LTPB (tranche 2018–2019)	–	248	0	495	–	293	0	585
LTSP 2014–2017 (tranche 2017)	246	–	–	–	355	–	–	–
LTSP 2018–2021 (tranche 2018)	–	330	0	660	–	390	0	780
Total	1,639	1,865	737	2,992	1,999	2,034	701	3,366
Service cost	268	323	323	323	157	158	158	158
Total compensation	1,907	2,188	1,060	3,315	2,156	2,192	859	3,524

Compensation Granted

Stephen C. Forsyth Member of the Board of Management Appointed June 1, 2017, resigned May 31, 2018				
€ thousand	Target value 2017	Target value 2018	2018 (min.)	2018 (max.)
Annual base salary	263	188	188	188
Compensation in kind	–	–	–	–
Total	263	188	188	188
Annual Performance Payment (APP)	263	186	186	186
Multi-year variable compensation	–	–	–	–
LTPB (tranche 2016–2017)	–	–	–	–
LTPB (tranche 2017–2018)	–	–	–	–
LTPB (tranche 2018–2019)	–	–	–	–
LTSP 2014–2017 (tranche 2017)	–	–	–	–
LTSP 2018–2021 (tranche 2018)	–	–	–	–
Total	526	374	374	374
Service cost	–	–	–	–
Total compensation	526	374	374	374

Allocations

€ thousand	Matthias Zachert Chairman of the Board of Management		Dr. Hubert Fink Member of the Board of Management	
	2017	2018	2017	2018
Annual base salary	1,200	1,200	475	550
Compensation in kind	73	757	53	53
Total	1,273	1,957	528	603
Annual Performance Payment (APP)	2,970	1,950	1,091	715
Multi-year variable compensation	935	2,333	429	408
LTPB (tranche 2015–2016)	(5)	–	(2)	–
LTPB (tranche 2016–2017)	940	–	431	–
LTPB (tranche 2017–2018)	–	891	–	408
LTSP 2010–2013	–	–	–	–
LTSP 2014–2017 ¹⁾	–	1,442	–	–
Total	5,178	6,240	2,048	1,726
Service cost	775	749	309	311
Total compensation	5,953	6,989	2,357	2,037

1) Exercise of LTSP tranche 2014

Allocations

€ thousand	Michael Pontzen Chief Financial Officer		Dr. Rainier van Roessel Member of the Board of Management	
	2017	2018	2017	2018
Annual base salary	525	550	650	650
Compensation in kind	47	187	51	51
Total	572	737	701	701
Annual Performance Payment (APP)	1,091	715	1,287	845
Multi-year variable compensation	429	408	506	1,244
LTPB (tranche 2015–2016)	(2)	–	(3)	–
LTPB (tranche 2016–2017)	431	–	509	–
LTPB (tranche 2017–2018)	–	408	–	483
LTSP 2010–2013	–	–	–	–
LTSP 2014–2017 ¹⁾	–	–	–	761
Total	2,092	1,860	2,494	2,790
Service cost	268	323	157	158
Total compensation	2,360	2,183	2,651	2,948

1) Exercise of LTSP tranche 2014

Allocations

Stephen C. Forsyth Member of the Board of Management Appointed June 1, 2017, resigned May 31, 2018		
€ thousand	2017	2018
Annual base salary	263	188
Compensation in kind	–	–
Total	263	188
Annual Performance Payment (APP)	525	186
Multi-year variable compensation	–	–
LTPB (tranche 2015–2016)	–	–
LTPB (tranche 2016–2017)	–	–
LTPB (tranche 2017–2018)	–	–
LTSP 2010–2013	–	–
LTSP 2014–2017 ¹⁾	–	–
Total	788	374
Service cost	–	–
Total compensation	788	374

1) Exercise of LTSP tranche 2014

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

No variable compensation was paid out in fiscal year 2018.

The expected compensation payable for the current terms of office of Supervisory Board members was valued at €1,310 thousand (previous year: €950 thousand) as of December 31, 2018, and recognized as a provision.

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

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

Compensation of the Supervisory Board

€ ¹⁾	Year	Fixed compensation LANXESS AG	Compensation as committee member LANXESS AG	Attendance allowance	Fixed compensation LANXESS Deutschland GmbH	Total
Dr. Matthias L. Wolfgruber, Chairman (Chairman as of May 15, 2018)	2018	181,015	52,626	19,500	5,000	258,141
	2017	80,000	40,000	13,500	5,000	138,500
Dr. Rolf Stomberg, former Chairman (resigned May 15, 2018)	2018	88,478	22,120	7,500	1,843	119,941
	2017	240,000	0 ²⁾	16,500	5,000	261,500
Ralf Sikorski, Vice Chairman	2018	120,000	40,000	16,500	5,000	181,500
	2017	120,000	40,000	16,500	5,000	181,500
Werner Czaplík	2018	80,000	40,000	18,000	5,000	143,000
	2017	80,000	40,000	15,000	5,000	140,000
Dr. Hans-Dieter Gerriets	2018	80,000	40,000	18,000	5,000	143,000
	2017	80,000	40,000	15,000	5,000	140,000
Dr. Heike Hanagarth	2018	80,000	-	12,000	5,000	97,000
	2017	80,000	-	9,000	5,000	94,000
Dr. Friedrich Janssen	2018	80,000	105,254	22,500	5,000	212,754
	2017	80,000	80,000	13,500	5,000	178,500
Pamela Knapp (appointed May 15, 2018)	2018	50,507	25,254	10,500	3,157	89,418
	2017	-	-	-	-	-
Thomas Meiers	2018	80,000	40,000	16,500	5,000	141,500
	2017	80,000	40,000	15,000	5,000	140,000
Lawrence A. Rosen	2018	80,000	40,000	18,000	5,000	143,000
	2017	80,000	40,000	13,500	5,000	138,500
Manuela Strauch	2018	80,000	40,000	19,500	5,000	144,500
	2017	80,000	40,000	16,500	5,000	141,500
Iffraim Tairi (resigned December 31, 2018)	2018	80,000	40,000	19,500	5,000	144,500
	2017	80,000	40,000	16,500	5,000	141,500
Theo H. Walthie	2018	80,000	54,746	22,500	5,000	162,246
	2017	80,000	80,000	22,500	5,000	187,500
Total	2018	1,160,000	540,000	220,500	60,000	1,980,500
	2017	1,160,000	480,000	183,000	60,000	1,883,000

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