2020

ANNUAL REPORT

LANXESS

Energizing Chemistry

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NFR Audited disclosures of the LANXESS Group that are included in the 2020 non-financial Group report

References to pages within the report

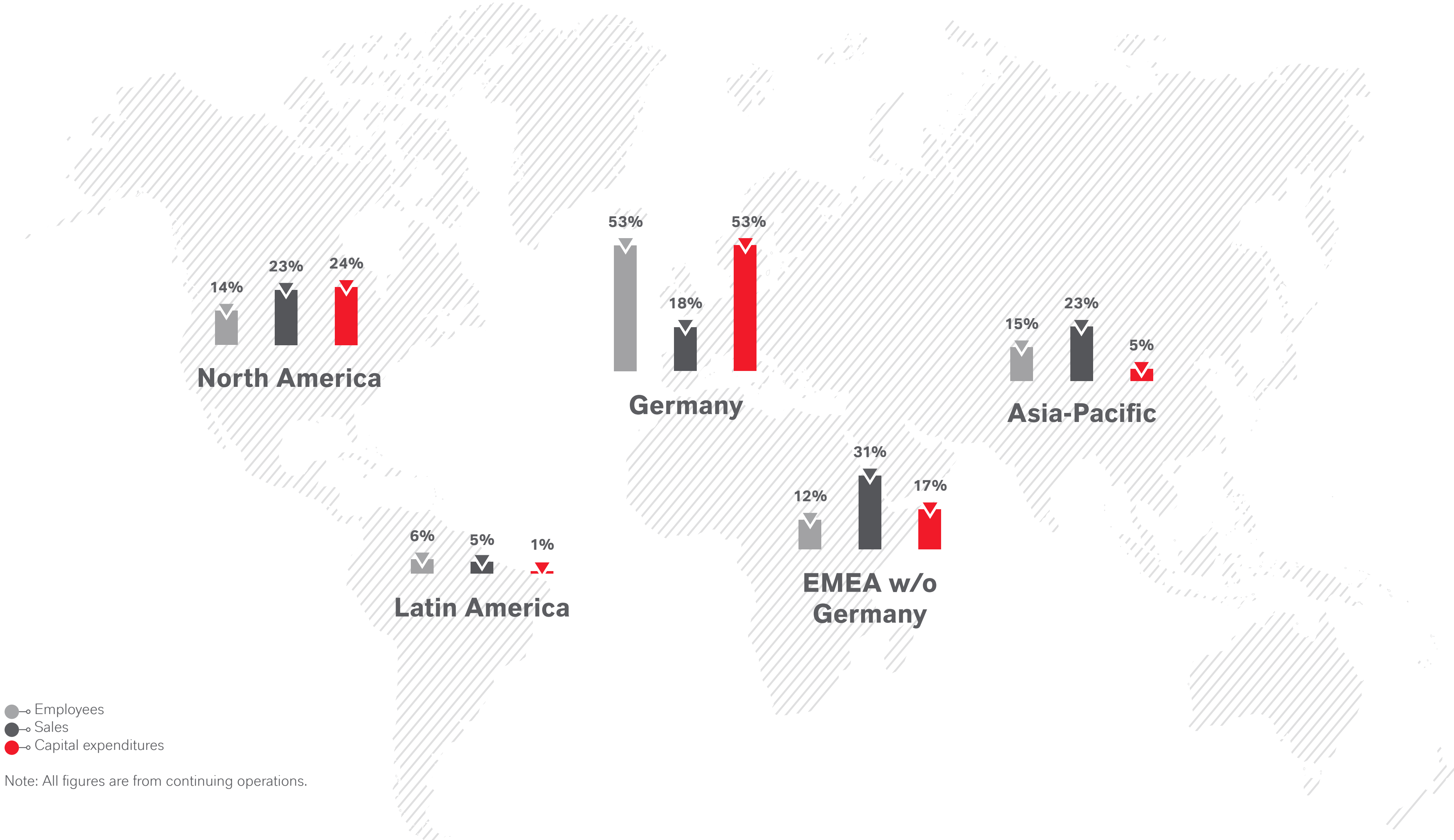
References to websites

LANXESS AT A GLANCE

Group Structure

Segments	**Advanced Intermediates**	**Specialty Additives**	**Consumer Protection**	**Engineering Materials**	**Discontinued Operations**
Business units	Advanced Industrial Intermediates Inorganic Pigments	Polymer Additives Lubricant Additives Business Rhein Chemie	Material Protection Products Liquid Purification Technologies Saltigo	High Performance Materials Urethane Systems	Leather
Applications	› Agrochemicals › Automotive › Construction › Aromas and flavors › Rubber chemicals › Semiconductors and photovoltaics	› Phosphorous-based or brominated flame retardants › Lubricants › Colorants, polymer additives	› Color pigments › Disinfection, preservation and material protection products › Products for water treatment	› Automotive › Electrical/electronics › Construction › Medical equipment › Mining › Rollers for conveyor belts and leisure › Oil and gas › Industrial and mechanical products	
Market positions	Europe no. 1–2	Top 3 position	Global No. 1–4 in niches	Leading position	

GLOBAL PRESENCE



Note: All figures are from continuing operations.

KEY DATA

LANXESS Group

€ million	Q4/2019	Q4/2020	Change %	2019	2020	Change %
Sales	1,636	1,503	(8.1)	6,802	6,104	(10.3)
Gross profit	383	377	(1.6)	1,759	1,556	(11.5)
Gross profit margin	23.4%	25.1%		25.9%	25.5%	
EBITDA pre exceptionals[1]	197	200	1.5	1,019	862	(15.4)
EBITDA margin pre exceptionals[1]	12.0%	13.3%		15.0%	14.1%	
EBITDA[1]	160	170	6.3	910	757	(16.8)
EBIT pre exceptionals[1]	75	84	12.0	557	396	(28.9)
EBIT[1]	0	35	–	407	253	(37.8)
EBIT margin[1]	0.0%	2.3%		6.0%	4.1%	
Net income (loss)	(48)	(3)	93.8	205	885	> 100
from continuing operations	(22)	17	> 100	240	908	> 100
from discontinued operations	(26)	(20)	23.1	(35)	(23)	34.3
Weighted average number of shares outstanding	87,447,852	86,346,303	(1.3)	88,334,641	86,587,838	(2.0)
Earnings per share (€)	(0.55)	(0.03)	94.5	2.32	10.22	> 100
from continuing operations	(0.25)	0.20	> 100	2.72	10.49	> 100
from discontinued operations	(0.30)	(0.23)	23.3	(0.40)	(0.27)	32.5
Earnings per share from continuing operations adjusted for exceptional items and amortization of intangible assets (€)[2]	0.64	0.82	28.1	4.73	3.50	(26.0)
Dividend per share (€)				0.95	1.00[8]	5.3
ROCE[3]				10.0%	7.5%	
Cash flow from operating activities – continuing operations	267	262	(1.9)	634	594	(6.3)
Depreciation and amortization	160	135	(15.6)	503[7]	504	0.2
Cash outflows for capital expenditures	213	192	(9.9)	508	456	(10.2)
Total assets				8,695	8,880	2.1
Equity (including non-controlling interests)				2,647	2,999	13.3
Equity ratio[4]				30.4%	33.8%	
Provisions for pensions				1,178	1,205	2.3
Net financial liabilities[5]				2,522	1,012	(59.9)
Net financial liabilities after deduction of short-term money market investments and securities[6]				1,742	1,012	(41.9)

	Q4/2019	Q4/2020	Change %	2019	2020	Change %
Employees (December 31)				15,479[9]	14,756[9]	(4.7)
Personnel expenses (€ million)				1,345	1,307	(2.8)
Work-related injuries resulting in at least 1 day's absence (per million hours worked)				1.6	1.1	(31.3)
Proportion of apprentices hired in Germany				88.0%	85.0%	
Turnover resulting from voluntary resignations				3.0%	2.2%	
Specific energy consumption (in gigajoules per metric ton of product)				5.06[10]	5.65	+11.7
Specific CO_2e Scope 1 emissions (in CO_2 equivalents, metric tons per metric ton of product)				0.27[10]	0.29	+7.4
Specific CO_2e Scope 2 emissions (in CO_2 equivalents, metric tons per metric ton of product)				0.28[10]	0.29	+3,6
Specific water consumption (in cubic meters/k€)				2.16	2.13	(1.4)

1) EBIT: earnings before interest and taxes.
EBIT pre exceptionals: EBIT disregarding exceptional charges and income.
EBIT margin: EBIT in relation to sales.
EBITDA: EBIT before depreciation of property, plant and equipment and amortization of intangible assets, less reversals of impairment charges on property, plant, equipment and intangible assets.
EBITDA pre exceptionals: EBITDA disregarding exceptional charges and income.
EBITDA margin pre exceptionals: EBITDA pre exceptionals in relation to sales.
See "Value Management and Control System" in the combined management report for details.
2) Earnings per share from continuing operations adjusted for exceptional items and amortization of intangible assets: earnings per share from continuing operations disregarding exceptional charges and income, amortization of intangible assets and attributable tax effects as well as non-recurring earnings effects in the second quarter of 2020 relating to the sale of the 40% interest in Currenta GmbH & Co. OHG. See "Business Performance of the LANXESS Group" in the combined management report for details.
3) ROCE: EBIT pre exceptionals in relation to capital employed (total assets less deferred tax assets and interest-free liabilities). Capital employed as of December 31, 2019 and 2020, adjusted. See "Value Management and Control System" in the combined management report for details of capital employed.
4) Equity ratio: equity in relation to total assets.
5) Net financial liabilities: sum of current and non-current financial liabilities (adjusted for liabilities for accrued interest) less cash, cash equivalents and near-cash assets. See "Value Management and Control System" in the combined management report for details.
6) See "Value Management and Control System" in the combined management report for details of the financial assets deducted.
7) Net of reversals of write-downs of €1 million.
8) Dividend proposal to the Annual Stockholders' Meeting on May 19, 2021.
9) There were 14,309 employees in continuing operations as of the reporting date after 14,304 as of December 31, 2019.
10) Figure restated

Letter from the CEO

Ladies and Gentlemen,

2020 was a challenging year. The coronavirus pandemic has demanded a great deal from all of us in recent months. In this situation, the most important priority has been to protect the health of our workforce, our customers and our partners and to keep LANXESS on course. We have all dedicated our combined strengths to take on these challenges. I feel that I can confidently say that we have succeeded.

Our employees worldwide who have worked to keep our plants and business going during the crisis deserve our utmost respect and gratitude.

We were listed in the Dow Jones Sustainability Index (DJSI) World for the

10th

time in a row.

We have had to accept setbacks in sales and profits. That said, we have made it through this crucial year in relatively good shape. In fact, we even succeeded in concluding the 4th quarter of 2020 as our strongest final quarter in eight years. The fact that we managed this during the global coronavirus pandemic demonstrates once more that we have made LANXESS highly resilient with its reorientation carried out in recent years – including, crucially, in crisis situations.

Let's take a look at the key developments in 2020 that contributed towards ensuring that LANXESS is now in a stronger position than ever, both strategically and financially:

› The sale of our Currenta shares significantly strengthened our liquidity once again and created substantial financial flexibility to both enhance our portfolio and invest in organic growth projects.
› With the foundation of our new high-margin Consumer Protection segment, we will be focusing more heavily on consumer protection products in the future. We are convinced that this business will provide outstanding support for our growth.
› During the summer, we launched a Group initiative for electric mobility in order to further strengthen our market position in one of the world's most dynamic growth areas. The objective is to substantially expand our offering, which ranges from high-tech plastics for electric vehicles to special chemicals for batteries.

Our goal is to successfully do business from a sustainable perspective. For this reason, our business activities have long been oriented according to the triad of economy, ecology and social responsibility. As an expression of this philosophy, we renewed our commitment to the principles of the U.N. Global Compact in 2020.

Despite the coronavirus, we are adhering to our goal of becoming climate neutral by 2040. We have made consistent progress in this endeavor. In the past year, for example, we succeeded once again in reducing CO_2 emissions by over 400,000 metric tons. Water stress, which is on the rise around the world, is also closely associated with climate change. In order to counteract this, we have launched projects at four sites in China, India and Italy known for their water scarcity in order to reduce our absolute water withdrawal by 15 percent by 2023. As a matter of course, the potential opportunities for optimization at all other sites where LANXESS is active are also being analyzed and implemented when applicable.

Recognition for our commitment can be seen in top placements in international sustainability indices such as the Dow Jones Sustainability Index (DJSI) World and the DJSI Europe. The Carbon Disclosure Project (CDP) also awarded us an A grade for successful climate management once again. We achieved a significant upgrade in the renowned sustainability rating by MSCI ESG Research. With an ISS ESG rating of "Prime," we also rank among the top eight percent of 170 listed chemicals companies.

We made excellent progress in 2020 – despite the pandemic. Nevertheless, we expect that it will have consequences for the economy. At present, no one can say for sure exactly how severe these will be.

However, what I can promise with certainty to you, our stockholders, is that we will continue doing everything in our power to successfully lead LANXESS through uncertain times. And we will continue to do this with growth as our objective. The operational and strategic measures we have implemented in recent years have served to create a strong foundation which will allow us to shape LANXESS successfully even in times such as these. It is this task that we now take on with confidence and optimism!

Best regards,

Matthias Zachert

Matthias Zachert
Chairman of the Board of Management

STRATEGY

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Stable through the crisis

The coronavirus pandemic posed an enormous challenge for the global economy in fiscal year 2020. In difficult times, LANXESS performed well. In the strained macroeconomic situation, we demonstrated the resilience of our business model as a better balanced specialty chemicals company. With a clear strategy for a sustainable future, we continued on our set path.

A YEAR SHAPED BY THE PANDEMIC

A sharp decline in the world economy as a result of the coronavirus pandemic left its mark on the markets. The medium- and long-term consequences of the pandemic are not yet foreseeable, and the pre-existing crises such as Brexit and trade conflicts are an additional strain. Above all, the coronavirus pandemic is putting companies' resilience to the test. It is acting as a catalyst and accelerating the global change process. Companies are increasingly required to scrutinize and readjust their business models, especially with regard to the reliability of supply chains.

Sustainability, especially climate protection, is becoming a leading global issue. For Europe, the European Green Deal points the way to a climate-neutral continent and more sustainable value creation. In line with its importance for more than 90% of all value chains, the chemical industry must drive this transformation, and intends to do so. High-tech plastics for vehicles and charging infrastructure and specialty chemicals for battery technologies are important for modern mobility concepts. Ion exchangers support health protection and enable millions of people to supply themselves with clean water. Biocides and disinfectants fight germs, viruses and bacteria, which are multiplying and spreading faster as global temperatures rise.

We are ready to support and drive the transformation for the benefit of humanity with our products and our innovation, and in this way to sustainably create added value for all stakeholders.

A CLEAR STRATEGY

Value-based, responsible and reliable action, combined with clear strategic guidelines, serves as the compass with which we will remain reliably on course even under difficult conditions. In line with our guidelines, we are evolving into a sustainable company in every respect. While the macroeconomic situation is a stress test for our strategy, we continue to build on integrated value chains, competitive and sustainable products and sites, and our strengths in mid-sized markets with generally above-average growth rates. Here, we offer our customers an attractive combination of the professionalism of a global chemicals group and the agility and proximity to customers of a specialized niche provider. Our strategic guidelines provide a framework not only for evaluating our own portfolio, but also for acquisitions and investments.

The coronavirus crisis not only put the strategy to the test, but was also enormously challenging for our employees. On site and in their homes, they demonstrated an exceptional degree of solidarity, commitment and focus on finding solutions in order to guarantee the continuity of our businesses. This is fully in line with our LANXESS performance culture, which asks each and every individual at LANXESS to have an entrepreneurial mindset, to be open to change and to work on solutions together in diverse teams.

Our Strategic Guidelines

Raw materials	Products & Sites	Costs	Value chains	Sales markets	Growth & balance
We ensure that our value chains originate from globally liquid raw material markets	We manufacture sustainable products at competitive, sustainable, and climate neutral “Verbund sites”	We keep costs competitive across the value chain	We strengthen integrated and balanced value chains	We focus on specialty chemicals markets with higher profitability	We leverage long-term growth potential in Asia and the U.S. and balance our regional sales

Consistent portfolio strategy

In fiscal year 2020, we came a significant step closer to our aim of a more balanced and sustainable portfolio from 2021. In recent years, we have made our portfolio much more balanced and resilient through both focused acquisitions in promising growth sectors and disposals of business units with below-average performance. We will continue on this path in order to make LANXESS an even more sustainable, profitable and growing specialty chemicals company.

The now much more balanced structure of our customer markets has proven a stabilizing factor during the crisis. At the same time, we have honed our profile as a specialty chemicals company. In early 2020, we strengthened our position as one of the world’s leading manufacturers of active biocidal ingredients and formulations by acquiring the Brazilian biocide manufacturer IPEL-Itibanyl Produtos Especiais Ltda. We want to keep on growing this business.

We decided to withdraw completely from the leather chemicals business back in 2019. In 2020, we agreed to sell the organic leather chemicals business to TFL Ledertechnik GmbH, a global provider of leather chemicals (subject to the authorities’ approval). This transaction will make the LANXESS Group even less reliant on the automotive industry, a key target industry for leather products. As a consequence of the disposal of the chrome chemicals business at the beginning of 2020, we have also agreed to sell our 74% share in the main source of raw material for this business, the chrome ore mine in Rustenburg, South Africa, to Clover Alloys, a South African provider of chrome sands and concentrates.

At the end of April 2020, we completed the sale of our 40% interest in the chemical park operator Currenta GmbH & Co. OHG, Leverkusen, Germany, to Macquarie Infrastructure and Real Assets (MIRA). Currenta manages and operates the German chemical parks in Leverkusen, Dormagen and Krefeld-Uerdingen, in which a significant portion of our global production facilities are based. With MIRA as a partner and a long-term contract package, we have secured reliable infrastructure at competitive conditions into the future. With MIRA as a partner and a long-term contract package, we have secured reliable infrastructure at competitive conditions into the future. With a selling price of €740 million and a profit participation of €150 million, we strengthened our statement of financial position and gained substantial financial flexibility to enhance our portfolio, including through external growth.

Another important strategic measure is the repositioning of our water treatment technology business. In line with our focus on specialty chemicals, in July 2020 we agreed to sell our reverse osmosis membranes business to the French corporation SUEZ S.A., one of the world's leading providers of sustainable resource management. The transaction was completed in January 2021. At the same time, we want to strengthen our business with ion exchange resins in order to serve the increasing demand around the world and to grow in promising market segments. Here, we are currently planning to invest between €80 million and €120 million in the construction of a new production facility, which is expected to be completed within the next five years. Ion exchangers make an important contribution in modern purification processes, such as drinking water treatment or the food and pharmaceutical industries. In the semiconductor industry, we play a key role in the manufacture of ultra-pure water, which is required in microchip production, for example. Ion exchangers are also used in the battery industry, energy generation and microelectronics.

Growth from investment and innovation

We invest continuously in our businesses in order to promote our organic growth. In addition to the above-mentioned construction of an additional plant for ion exchange resins, we have pressed ahead with increasing capacity at existing plants. For example, we have also expanded capacity for disinfectants and for organic intermediates for the flavoring market and plant protection.

We see targeted investments in our research and development activities as another driver of long-term growth. Our innovation strategy is based on three pillars: product research closely aligned to the market and customer requirements, centrally managed process research focusing on energy and raw material efficiency, and agile digitalization projects. In the reporting year, we launched the Adiprene Green product line based on renewable resources. The products are suitable replacements for traditional fossil-based polyether prepolymers. They can be used to manufacture highly durable polyurethane (PU) elastomers. Depending on the system, a 20% to 30% reduction in CO_2 can be achieved compared with conventional fossil-based prepolymers. Nagardo®, a natural preservative with a glycolipid compound extracted from mushrooms that is effective against bacteria, fungi, and yeasts in food and drinks, was licensed in the U.S. and established itself among initial beverage manufacturers on the U.S. market in 2020. With regard to the circular economy, we are considering the possibility of a cooperation with the Karlsruhe Institute of Technology (KIT) in the field of thermochemical recycling. These methods offer an alternative to limited and complex mechanical methods and provide an opportunity to generate valuable raw materials for the chemical industry from waste flows.

Additional information on business-driven innovation

Strategic repositioning

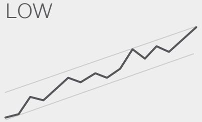
In the reporting year, we laid important strategic foundations for the future: We established the new Consumer Protection segment, focusing on consumer protection products. Especially considering the coronavirus pandemic, this turned out to be the right move. Besides disinfectants and preservatives for material protection, the beverage industry and household applications, the product portfolio includes active ingredients for the agricultural and pharmaceutical industries, insect repellents and technologies for water purification. We expect the new segment to be LANXESS's most profitable business with more than €1 billion in sales.

In order to make better use of the market potential in the field of storage technology/electric mobility, one of the most dynamic growth areas in the world, we have launched a Group initiative for electric mobility and will thus expand our range of high-tech plastics for electric vehicles and specialty chemicals for batteries.

2021 financial targets

Despite challenging conditions, our average operating earnings margin – measured in terms of EBITDA pre exceptionals – for the year as a whole reached 14.1%, and is therefore within the target range of 14% to 18% that we set for 2021 as an average over one chemical cycle.

Financial Targets for 2021 Reflect Improved Position

EBITDA margin pre exceptionals (average margin over a business cycle)	14–18%
Cash conversion	> 60%
Margin volatility	LOW  2–3%pts

Adjusted for growth investments, cash conversion in the reporting year amounted to around 65%. We are keeping this target in our sights, but do not see it as dogma. We will continue to invest in attractive projects with a high return on investment when we are convinced that we can thus create added value for our shareholders and the company. In contrast, we make no compromises when it comes to our sound investment-grade rating – this will continue to constitute a strict goal of our conservative financial policy.

SUSTAINABILITY STRATEGY HONED FURTHER

LANXESS intends to drive the structural change and thus be part of the solution as a sustainable chemicals company with long-term success. We clearly formulated this ambition in our climate protection targets from 2019. By 2030, we want to reduce greenhouse gas emissions from our production and emissions from the energy generation required for our production by another 50%, so that LANXESS will have reduced its emissions by 75% compared to 2004, the year it was founded. In 2040, we ultimately wish to be climate neutral.

We have begun to take the first major steps: At the Antwerp site, we have built a new facility for the reduction of nitrous oxide, a harmful greenhouse gas. Here, we will reduce emissions by 150,000 tons of CO_2e a year from 2021, and by another 300,000 tons after a second expansion. In India, we are switching the energy supply of all our sites to renewable energy sources. In the future, we will dispense with coal and gas in India and use only biomass and solar power. The initial results of our measures are already visible in our carbon footprint for the reporting year.

Water stress, which is on the rise around the world, is closely associated with climate change. LANXESS is also taking action here in order to counter potential risks at an early stage. The reduction of water consumption and wastewater discharge and the active protection of resources at water risk locations are major goals of the water program that we developed in the reporting year. It paves the way for comprehensive water stewardship that takes ecological conditions and local people's needs into account.

In order to be as aware as possible of the impact of our business activity, we intensively analyze the sustainability performance of our product portfolio with the aim of improving it and dispensing with critical products. By 2023, we intend to develop a strategy plan for all end products that contain more than 0.1% critical substances.

Our commitment to sustainability and long-term value creation is also underscored by the consideration of ESG criteria (ESG stands for the environmental, social and governance dimensions of sustainability) in the shaping of our financial performance. Our work toward sustainability is also evidenced by our "sustainable" credit facility of €1 billion, which we signed in December 2019. The interest rate terms depend in part on the successful reduction of our greenhouse gas emissions and the increase in the proportion of women at our top three levels of management. In the reporting year, the Board of Management and the Supervisory Board also decided that for the first time lost time injury frequency rate (LTIFR) and the improvement of our carbon footprint will be used as assessment criteria in the future for the compensation system for managers and the Board of Management.

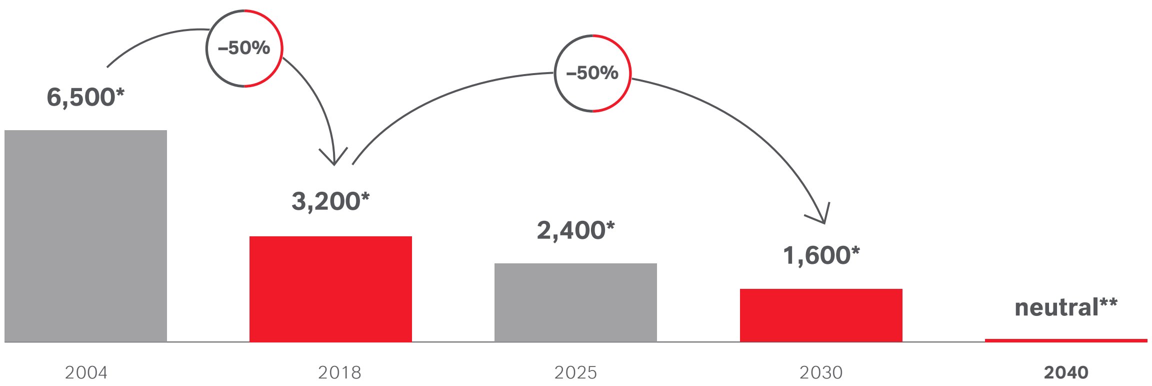
We see our top placements in international sustainability indices as recognition of our efforts:

LANXESS was listed in the Dow Jones Sustainability Index (DJSI) World for the tenth time in a row. We improved significantly from fourth to second place in our relevant category, "Chemicals." Moreover, LANXESS was included in DJSI Europe for the fourth time in a row – as the best company in its sector. The Carbon Disclosure Project (CDP) also awarded LANXESS an A grade for successful climate management once again. We achieved a significant upgrade in the renowned sustainability ratings by MSCI ESG Research and ISS ESG. MSCI ESG Research raised LANXESS's rating from BBB to A. ISS ESG increased LANXESS's grade by two notches from C to B–. We thus obtained "Prime" status for the first time, putting us among the best 8% of the 170 companies listed in the "Chemicals" sector.

We have made good progress. We will therefore continue to set new, ambitious targets in order to generate long-term value for our stakeholders.

Detailed information on our goals and the organizational structures, management tools, and measures that we use to address sustainability at LANXESS

Our Journey to Climate Neutrality
in thousands of metric tons of CO_2e



* Emissions from CO_2 equivalents in 1,000 tons in terms of emissions from company-owned plants and processes as well as externally acquired, such as electricity, steam or long-distance heating.
** Less than 300,000 tons of CO_2 equivalents: These will be reduced through compensation measures.

CORPORATE RESPONSIBILITY

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Sustainability – Success with Foresight

For LANXESS, acting sustainably means being ready for the future. So we are in a position to withstand uncertain times: We are stable, use resources sparingly, take social responsibility, and do business from a long-term perspective. With this entrepreneurial mindset, which is firmly rooted in our strategy, we take our global responsibility and make an important contribution to the future – during the crisis and thereafter.

Thinking and acting sustainably and in an integrated manner supports our business goals in a variety of different ways – from higher resource efficiency to good relationships with our stakeholders, increased risk awareness, and permanently advantageous cost structures. The quality of our company is also demonstrated by the social impact of our entrepreneurial activities. Our facilities, locations, and products must have a measurable, sustainable benefit for the community. This principle is the starting point for our thought and action.

Our facilities, locations, and products must have a measurable, sustainable benefit for the community.

Several internationally recognized standards and frameworks give us valuable guidance in this thought and action:

- With 2030 Agenda for Sustainable Development, the United Nations has established the basis for global economic progress in harmony with social justice and within the Earth's ecological limits. The specific goals of the Agenda are set out in the Sustainable Development Goals (SDGs).
- The U.N. Global Compact is the world's biggest and most important initiative for responsible corporate governance. Based on ten universal principles, it pursues the vision of an inclusive and sustainable global economy for the benefit of all people, communities, and markets. As a signatory, we recognize these principles as inalienable rights. We renewed our commitment to the U.N. Global Compact again for 2020.
- The term Responsible Care® stands for the chemical industry's goal of achieving progress with safety and environmental protection, regardless of the legal specifications. We have documented our commitment to the visions and ethical concerns of this initiative from the International Council of Chemical Associations (ICCA) by signing the Responsible Care® Global Charter. With our internal guidelines, we integrate the principles of the Charter into our guiding principles and corporate strategy.
- Among the internationally recognized principles of business activity to which we are committed are the employment standards of the International Labor Organization, an agency of the United Nations. These are aimed at upholding globally recognized social standards and thereby improving working and living conditions for all people.

The Ten Principles of the U.N. Global Compact

Human rights

Businesses should ...

1 ... support and respect the protection of internationally proclaimed human rights.

2 ... make sure they are not complicit in human rights abuses.

Labor

Businesses should ...

3 ... uphold the freedom of association and the effective recognition of the right to collective bargaining.

4 ... uphold the elimination of all forms of forced and compulsory labor.

5 ... uphold the effective abolition of child labor.

6 ... uphold the elimination of discrimination in respect of employment and occupation.

Environment

Businesses should ...

7 ... support a precautionary approach to environmental challenges.

8 ... undertake initiatives to promote greater environmental responsibility.

9 ... encourage the development and diffusion of environmentally friendly technologies.

Anti-corruption

Businesses should ...

10 ... work against corruption in all its forms, including extortion and bribery.

Contributions and impact – SDG 13

Current Contribution

Negative effects of greenhouse gas emissions

Goal:
Steadily reduce environmental impact

Future impact

Since company was founded in 2004: greenhouse gas emissions more than halved

LANXESS 2040:
Climate neutral

The Sustainable Development Goals in particular provide important guidance throughout the Group in order to translate the social 2030 Agenda into appropriate structures, processes and goals for us as a company. To do so, we must understand precisely how our priorities – formulated in the material topics – relate to the priorities of the international community. The analysis of our impact on the SDGs has shown that we are creating societal value and have a positive impact on many SDGs. At the same time, however, the challenges are also made clear – for example in the fields of climate protection and occupational safety.

Further information on our contributions and the effects of our business activity in relation to the SDGs

We meet these challenges by following the development of the SDGs and reconciling the positive and negative contributions of our business activities, our initiatives and our measures with the SDGs. We are working particularly hard on the topic of climate protection (SDG 13). Between 2004 and 2018, for example, we halved our greenhouse gas emissions from around 6.5 million tons of CO_2e to about 3.2 million tons. We wish to stay on this trajectory. As part of our global climate strategy, we have set out to become climate neutral by 2040.

Further information on our global climate strategy

The use of water is also an important aspect when it comes to climate protection.

Further information on our LANXESS Water Program

ACTIVE STAKEHOLDER DIALOG

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Relevant stakeholders for LANXESS are groups, institutions, or individuals with whom we maintain a direct or indirect relationship through our business activities and who therefore have an interest in our actions. Our main stakeholder groups are customers, capital market representatives, suppliers, the media, and representatives from politics, public authorities, and non-government organizations (NGOs). We engage in intensive dialog with all of these groups. Firstly, to promote mutual understanding and build trust with an open and constructive exchange of views. And secondly, to continuously identify topics that are important in view of our environment and our corporate responsibility. We are convinced that this dialog-oriented approach encourages integrated thinking and improves the quality of our business decisions.

In the reporting year, we discussed one of our most important climate targets with various stakeholders: "On the Way to Climate Neutrality" was the theme of our virtual stakeholder roundtable, attended by representatives from several institutions, LANXESS cooperation partners, customers, and representatives from NGOs and trade unions. In addition to a presentation on climate neutrality in the chemical industry (Chemistry Roadmap 2050 study) and the unveiling of LANXESS's global climate strategy, we used the interactive possibilities of the virtual format for discussions in break-out groups. In these smaller groups, the discussions took a look at special challenges on the way to climate neutrality: the development of renewable energy, opportunities to continue reducing emissions in the value chain, and companies' and politicians' use of suitable tools for the purpose of climate protection. We will include insights gained from these discussions in the further drafting of our climate strategy.

The World Business Council for Sustainable Development (WBCSD), which we joined on January 1, 2020, is an important dialog forum for LANXESS. The WBCSD is a global, CEO-led organization committed to accelerating the pace of change toward a more sustainable world. In six work programs, the network develops economic concepts and business models to conserve the world's resources while feeding a growing population and ensuring future-proof mobility and livable cities. The WBCSD's approximately 200 member companies represent 19 million employees and USD 8.5 trillion in sales. Thanks to our membership, we will cooperate actively on the transformation of industry and global value chains and can thus align our business strategies at an early stage.

Further information on the main topics and dialog forums for each relevant stakeholder group and other specific activities in the reporting year

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SYSTEMATIC PRIORITIZATION OF SUSTAINABILITY TOPICS

Identifying the main effects of our actions and incorporating our stakeholders' concerns into our strategy forms the basis of our sustainability management. Our materiality analysis in line with the requirements of the Global Reporting Initiative (GRI) is a key tool for systematically prioritizing the wide range of action areas and using resources as effectively as possible. The results also influence the structure of our external reporting on the topic of corporate responsibility.

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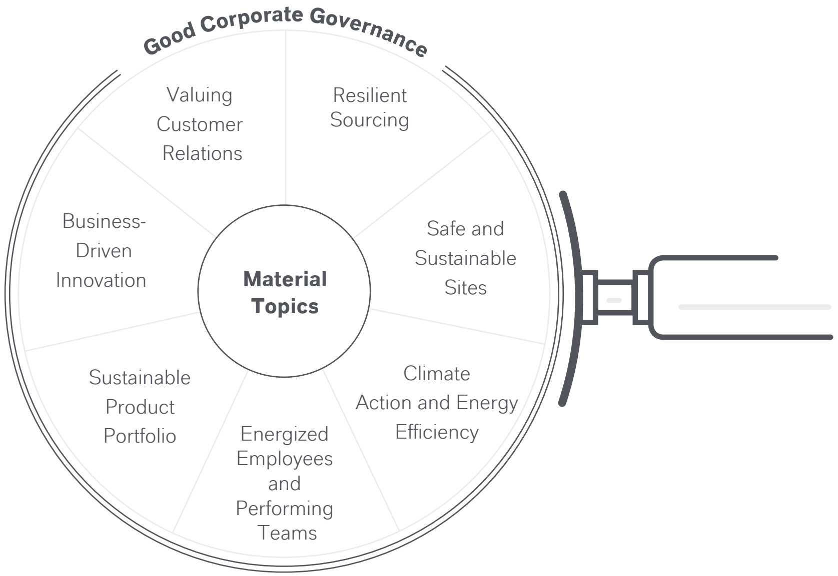
Material Topics



The materiality analysis in 2020 is based on our extensive materiality analysis from fiscal year 2017. It was based on four principles: sustainability context, materiality, completeness, and inclusion of stakeholders. As a result, we defined seven material sustainability topics that were again confirmed by the Board of Management and the Corporate Responsibility Committee in 2020 and thus formed the relevant management framework. The topic of good corporate governance forms the basis for all of our business activities. Further information on the description of our process for determining material topics

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In addition to our materiality analysis, we came up with a definition of materiality for the non-financial Group report – the contents of which are integrated into this section of the Annual Report and distinctly identified – in accordance with Section 289c, Paragraph 3, Sentence 1 of the German Commercial Code (HGB). The relevant disclosures in this context are those that are necessary in order to understand the business performance, the business results, the position of the Group, and the effects of our activities on non-financial aspects. For us, this means environmental issues, employee and social issues, human rights, and anti-corruption. We have distinctly identified these parts of the report.

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As part of our management of opportunities and risks, we have implemented a wide range of risk-mitigating measures. With regard to the non-financial aspects of the CSR Directive Implementation Act defined as relevant for the non-financial Group report, a net risk analysis shows no material risks in connection with our own business activities or with business relationships, products, and services that are very likely to have serious negative effects. Further information on the opportunity and risk management system

We have formulated specific goals for all key topics. These are based on the goal of using our operating activities to achieve an increase in value for our company, our stakeholders, and society. Some of the variable compensation of the first and second management level below the Board of Management therefore depends on the extent to which certain targets are achieved. In a working group, internal sustainability experts again systematically examined the existing goals and indicators, fleshed these out where necessary, and also defined new goals in the reporting year.

The table below provides an overview of all corporate responsibility goals in the LANXESS Group. Further information on the individual goals and associated measures can be found in the following pages.

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LANXESS Corporate Responsibility Goals

Topic	Goal	Indicator	Deadline	Status Quo 2020	SDG	Page
Resilient Sourcing Our value chains start from a diverse, sustainable raw material portfolio. We engage with our suppliers and relevant stakeholders to improve the working and environmental conditions in the global supply chains.					1, 8	
Establishment of a systematic sustainability risk analysis to evaluate all suppliers	Status inquiry to identify relevant suppliers with high risk level	Share of suppliers evaluated	2021	The migration of the risk analysis system with the objective of mapping risk more precisely resulted in delays. The timeframe has been extended accordingly from 2020 to 2021.		39–40
Identification and reduction of sustainability risks in the supply chain	Differentiation of risk score by goods group/country (levels 1–6)	Sustainability risk score	2021	Adjustment of timeframe from 2020 to 2021 necessary due to the migration of the risk analysis system.		39–40
Safe and Sustainable Sites We manufacture sustainable products at competitive and sustainable chemical sites. Continuous process improvements and investments are fundamental for our sustained success. We care about the communities of which our sites are a part.					3, 4, 6, 8, 9, 12, 13	
Uniform standards and processes worldwide	Integration of all sites into the global matrix certificate (ISO 9001 and ISO 14001)	Degree of coverage in relation to sites	Ongoing until the end of 2025	As of December 31, 2020, our matrix certificate covered 39 certifiable companies with 74 sites in 21 countries. In relation to the number of employees, this equates to 88% coverage of our matrix certificate. Due to the changes in our site portfolio in recent years, we still have some site certificates and a region certificate; these will also be transferred to our matrix certificate. As of the reporting date, a total of 98% of our sites had ISO 14001 certification.		20–21
Global process safety	Continuous reduction in incidents relating to facility and process safety	Number of reportable incidents relating to facility and process safety	Ongoing	In total, there were seven relevant incidents, of which four are classified as reportable.		41–42
	Continuous reduction in environmental incidents	Number of reportable environmental incidents	Ongoing	There were two environmental incidents (release of saline solution) in El Dorado, U.S.		41–42
	Continuous reduction in transportation incidents	Number of reportable transportation incidents	Ongoing	There was a transportation incident with relevant product release in India.		41–42
Water consumption	Reduction of specific water consumption by 2% per year	Water consumption in cubic meters per thousand euros of sales	Ongoing	The specific water consumption of continuing operations amounted to 2.18 cubic meters/thousand euro (+0.9% year-on-year). Including the Leather business unit, the figure was 2.13 cubic meters/thousand euro (–1.4% year-on-year).		44
Wastewater	Reduction of total organic carbon (TOC) by 2% per year	Kilograms per thousand euros of sales	Ongoing	The specific TOC of continuing operations amounted to 0.20 kilograms/thousand euro (+11.1% year-on-year). Including the Leather business unit, the figure was 0.19 cubic meters/thousand euro (+5.6% year-on-year).		44
Water risk sites	Introduction of a water stewardship program	Percentage of sites that have introduced a water stewardship program	2023	The implementation of the developed standard will begin in 2021.		42–44
	Reduction of absolute water withdrawal by 15%	Absolute water withdrawal in cubic meters	2023	Absolute water withdrawal at water risk sites has already been reduced by 3% compared with the base year 2019.		

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LANXESS Corporate Responsibility Goals

Topic	Goal	Indicator	Deadline	Status Quo 2020	SDG	Page
Climate Action and Energy Efficiency For LANXESS, climate action based on efficient energy use is the right thing to do for society and also a key to delivering financial performance in the long term.					3, 7, 8, 12, 13	
Emissions	Reduction of CO_2e emissions by 65% versus 2004 (establishment of LANXESS; 6.5 million metric tons of CO_2e)	Absolute CO_2e emissions (Scope 1 and 2)	End of 2025	In continuing operations, absolute CO_2e emissions amounted to 2,533 thousand metric tons. Including the Leather business unit, the figure was 2,565 thousand metric tons of CO_2e. Both cases constitute a 61% reduction versus 2004, when the company was founded.		51
	Including update of 2025 targets from 2015: › Reduction of specific Scope 1 emissions to < 0.19 (CO_2 equivalents, metric tons per metric ton of product) › Reduction of specific Scope 2 emissions to < 0.24 (CO_2 equivalents, metric tons per metric ton of product)			The specific Scope 1 emissions of continuing operations increased year-on-year to 0.30 metric tons of CO_2e per metric ton of product. Including the Leather business unit, the figure was 0.29 metric tons of CO_2e per metric ton of product. The specific Scope 2 emissions of continuing operations likewise increased year-on-year to 0.30 metric tons of CO_2e per metric ton of product. Including the Leather business unit, the figure was 0.29 metric tons of CO_2e per metric ton of product.		51
	Reduction of emissions of non-methane volatile organic compounds (NMVOC) by 25% compared to base year 2015	Absolute NMVOC emissions	End of 2025	The absolute VOC emissions were reduced by 78% compared to the base year. This applies both to continuing operations and including the Leather business unit.		52
	Reduction of CO_2e emissions by 75% versus 2004 (establishment of LANXESS: 6.5 million metric tons of CO_2e)	Absolute CO_2e emissions (Scope 1 and 2)	End of 2030			49–50
	Climate neutrality for the entire Group	Absolute CO_2e emissions (Scope 1 and 2)	End of 2040			49–50
Energy efficiency	Increase in energy efficiency of 40% to < 1.24 (MWh/t) compared to base year 2015	Energy efficiency	End of 2025	Energy efficiency deteriorated slightly. For continuing operations, specific energy consumption amounted to 1.59 MWh/t. Including the Leather business unit, the figure was 1.57 MWh/t.		52–53
Energized Employees and Performing Teams We create a motivating, energetic and health-preserving working environment for all employees, striving for high engagement and impact. We nurture and promote a value-based, performance-orientated culture. We aim to be an attractive employer and to develop peoples' full potential throughout their professional life.					3, 4, 5, 8	
Employee retention	High employee retention: Voluntary turnover rate below 3.5%	Turnover rate on the basis of resignations	Ongoing until the end of 2023	The turnover rate on the basis of resignations was 2.2% both in continuing operations and including the Leather business unit (previous year: 3.0%).		29
Employee development	At least 80% of apprentices hired after completing their training	Proportion of apprentices hired in Germany	Ongoing until the end of 2023	85% (previous year: 88%) of apprentices were hired.		26–27
Occupational safety	Continuous decrease in the LTIFR by > 50% (reference LTIFR of 2.0 in 2016)	LTIFR	End of 2025	The LTIFR was 1.0 in continuing operations. Including the Leather business unit, the LTIFR was 1.1.		38

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LANXESS Corporate Responsibility Goals

Topic	Goal	Indicator	Deadline	Status Quo 2020	SDG	Page
Employee welfare/work-life balance	95% of countries in which we operate have derived and implemented specific guidelines and/or corresponding models for flexible working conditions from our global "Xwork" principles.	Proportion of countries[1] that have derived and implemented specific guidelines and/or corresponding models for flexible working conditions from our global "Xwork" principles	End of 2022	At the end of 2020, the proportion in continuing operations was 78%. Including the Leather business unit, the proportion was 75% (previous year: 74%).		34
Diversity & inclusion	Increase proportion of women in middle and upper management to 20%	Proportion of women in middle and upper management	End of 2020	The proportion of women was 19.9% in continuing operations. Including the Leather business unit, the figure was 19.7% (previous year: 19.8%).		32
	At least one female Board of Management member	Proportion of women on the Board of Management	Mid-2022	By resolution of the LANXESS Supervisory Board of December 11, 2019, Stephanie Coßmann was appointed as a member of the Board of Management and as Labor Relations Director with effect as of January 1, 2020.		32
	Increase the proportion of women in the first level below the Board of Management to 15%	Proportion of women in the first level below the Board of Management	Mid-2022	The proportion of women was 17.1% in continuing operations. Including the Leather business unit, the figure was 16.7% (previous year: 20.9%).		32
	Increase the proportion of women in the second level below the Board of Management to 25%	Proportion of women in the second level below the Board of Management	Mid-2022	The proportion of women was 23.7% in continuing operations. Including the Leather business unit, the figure was 23.4% (previous year: 25.1%).		32
	At least 30% female and 40% non-German participants in LANXESS corporate talent programs	Proportion of female and non-German participants in LANXESS corporate talent programs	Ongoing until the end of 2022	With a total of 89 participants in 2020, the proportions amounted to 30% female and 61% non-German participants (previous year: 31%/49% respectively).		28
Sustainable Product Portfolio Our products are manufactured and marketed so that they do not pose a risk to humans or the environment. We systematically evaluate the sustainability of our entire portfolio. Sustainability criteria are also applied in the development of products and applications.					3, 12, 13	
Active portfolio management from a sustainability perspective	Development of a strategy plan for all end products with more than 0.1% critical substances.	Development of a strategy plan	2023	The strategic evaluation of products with a sustainability risk in the total sales of products with a sustainability risk is complete. The work on the new strategy plan has begun.		54–55
	Inspection and, if necessary, optimization of the quality of all registration dossiers that were prepared in accordance with the REACH Regulation under the guidance of LANXESS	Proportion of inspected/updated dossiers	2026	The project started in mid-2019. The proportion of inspected/updated dossiers is 7%.		54–55

1) Countries in which LANXESS operates.

LANXESS Corporate Responsibility Goals

Topic	Goal	Indicator	Deadline	Status Quo 2020	SDG	Page
Business-Driven Innovation We drive process-, product-, application- and business model-oriented innovation for and together with our customers and suppliers. We help our customers to make their business sustainable.					1, 8, 9, 12	
Long-term, continuous development of products, applications, and processes	Developing innovative products based on the needs and expectations of our customers	Number of product-related projects	Ongoing until 2025	134 projects in the reporting year were aimed at developing new/improving existing products and applications.		56–57
	Continuous further development of our production processes in order to maintain competitiveness and achieve our climate and energy efficiency targets	Number of process-related projects	Ongoing until 2025	75 projects in the reporting year concerned process technology issues with a view to reducing costs, improving efficiency or increasing capacity.		56–57
Valuing Customers Relationships We value long-term customer relationships, built on trust and knowing, understanding and solving the customers' challenges.						
Long-term customer relationship	Improvement in customer satisfaction and maintenance of customer loyalty: customer loyalty index > 75	Customer loyalty index score	2020	In the 2019/2020 survey, the customer loyalty index score was 77. The survey is carried out every two years.		57–58

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GOOD CORPORATE GOVERNANCE

LANXESS's corporate culture is based on five central values: respect, ownership, trust, professionalism and integrity. These values apply always and everywhere – and to all employees. We seek to foster a corporate culture in which responsible and morally irreproachable actions and striving for performance do not contradict but complement each other.

Our central values, supplemented by operational guidelines and organizational structures – summed up as good corporate governance – enable our employees to act responsibly in their day-to-day work and thus turn a relatively abstract concept into a specific corporate success factor. At LANXESS, good corporate governance is embodied by a values-based and safety-conscious corporate culture, effective management systems and a commitment to internationally recognized principles of responsible management, such as the principles of the U.N. Global Compact.

Compliance organization and committees

To ensure that our values as well as our rules and standards are observed and continuously developed, we have established the compliance organization and several specialized committees below the level of the Board of Management.

Compliance organization

The global compliance organization is made up of the Group Compliance Officer, the regional Compliance Officers, and a network of local Compliance Officers. They are available to all employees as contact persons for any compliance-related issues. In coordination with the organizational units, measures are also developed in order to counter illegal or unethical conduct by LANXESS employees at an early stage and to prevent improprieties. The direct reporting line from the Group Compliance Officer to the Board of Management guarantees that the Board of Management members receive regular information. Further information on the compliance management system

Sustainability Committees and Board of Management Responsibilities in Fiscal Year 2020

Supervisory Board

report to

Dr. Stephanie Coßmann **Board member**	**Michael Pontzen** **CFO**	**Dr. Stephanie Coßmann** **Board member**	**Dr. Hubert Fink** **Board member**
Compliance Organization	**Corporate Risk Committee**	**CR[1] Committee**	**HSEQ[2] Committee**
Global Compliance Organization and local Compliance Officers	Senior executives	Representatives from business units and Group functions	Senior executives
› Administering the CMS[3] › Supporting the organization regarding compliance › Developing preventive activities	› Reviewing and monitoring overall risk profile › Analyzing material risks and opportunities incl. sustainability topics	› Interdisciplinary competence center, advising the Board of Management on matters relating to sustainability	› Defining the global HSEQ[2] guidelines, strategies and programs › Setting and monitoring the HSEQ[2] goals

Continuous development of the sustainability strategy as part of the corporate strategy

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

Corporate Risk Committee

The Corporate Risk Committee is responsible for the structure and implementation of the Group-wide risk management process. It is headed by the Chief Financial Officer and comprises representatives of selected Group functions. The committee examines and monitors the Group's risk profile and in this context regularly analyzes the key opportunities and risks as well as the corresponding preventive measures – including in relation to sustainability. Further information on the opportunity and risk management system

Corporate Responsibility (CR) Committee

This committee comprises representatives of all LANXESS business units and the Labor Relations Director as representative of the Board of Management. The members ensure that all CR activities within the Group are in line with our strategy. As an interdisciplinary competence center, the committee advises both the full Board of Management and the business units on all matters relating to sustainability. It is also responsible for collecting and maintaining reliable data that comply with current market standards for use in our external CR communications.

HSEQ Committee

The HSEQ (Health, Safety, Environment and Quality) Committee ensures worldwide compliance with uniformly high quality management, safety, environmental, energy and climate protection standards and develops a unified understanding of management principles relating to these subjects. It has responsibility for initiating and monitoring the global implementation of all necessary HSEQ guidelines, strategies and programs as well as for defining our HSEQ objectives and monitoring their achievement. It also defines the global strategy for our integrated quality and environmental management system and our energy management system. The committee, which is chaired and led by three Board of Management members, comprises all global heads of business and staff units.

Integrated management system

A centrally organized management system at LANXESS provides for the necessary global management structures in all business processes in order to ensure responsible business activities. Globally, we base our actions on the international standards ISO 9001 and ISO 14001 for quality and environmental management and ISO 50001 for energy management.

Confirmation of compliance with the standards ISO 9001 and ISO 14001 is provided in a global matrix certificate. This brings a whole range of benefits:

- a high degree of standardization of processes
- uniform in-house guidelines and instructions
- transparent, efficient, and effective processes and controls
- considerably reduced external expense for the maintenance and optimization of the management system, for the integration of

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additional management systems (e.g. ISO 50001, sustainability standards), and for the integration of new sites or business units.

88%
matrix certificate coverage

We ensure that progress in integrating new sites into our management system and its performance are regularly reviewed worldwide by independent external experts. In 2020, we successfully passed the surveillance audits in accordance with the standards ISO 9001:2015, 14001:2015 and ISO 50001:2018. In the reporting year, the site in Latina, Italy, acquired from Chemtura and the Urethane Systems business unit's new plant in Porto Feliz, Brazil, were added to the matrix certificate. With just a few exceptions, the other sites taken on with the acquisition of Chemtura have already been certified in accordance with ISO 9001 and most of them have also been certified in accordance with ISO 14001. For the time being, they hold these certifications separately. We are planning to gradually integrate these sites into our matrix certificate.

As of December 31, 2020, our matrix certificate covered 39 certifiable companies (companies with staff and in which LANXESS has a stake of over 50%) with a total of 74 sites in 21 countries. In relation to the number of employees, this equates to 88% coverage.

In addition, we have had LANXESS AG and all major Group companies certified in accordance with ISO 50001 for energy management in Germany and Belgium. The only exceptions are IMD Natural Solutions GmbH and CheMondis GmbH, both of whose energy consumption is below the minimum threshold for the performance of mandatory energy audits in accordance with EDL-G (German Energy Services Act). As of December 31, 2020, the energy management system had reached coverage of over 99% in these two countries in relation to the number of employees. IAB Ionenaustauscher GmbH has its own certificate. Outside Germany and Belgium, we are continuing to pursue our strategy of regional and local certifications. In Great Britain, our sites are certified in accordance with ESOS (Energy Savings Opportunity Scheme), for example.

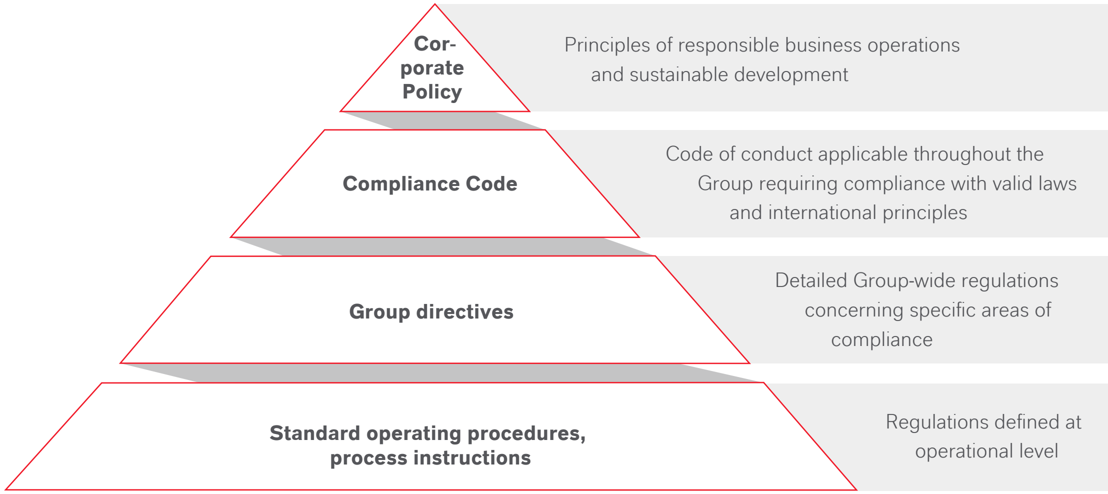
In addition, individual LANXESS Group companies and sites have other specific management systems and certifications such as EMAS, RC14001 (RC = Responsible Care®), ISO 45001, and IATF 16949. Further information on the status of our certifications

Internal guidelines and regulations

The principles of responsible business operations and sustainable development are expressed in our Corporate Policy, which defines our general corporate philosophy and the conduct of all employees in relation to our stakeholders in a total of eleven guidelines.

The LANXESS Code of Conduct, which is applicable throughout the Group, requires all our employees – across all organizational units, regions and hierarchy levels – to behave lawfully and with integrity. Through correct and proper conduct, each employee is responsible for helping to prevent harm to LANXESS and increase the company's

Clear Rules Provide Guidance



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value over the long term. The code covers issues such as human rights, cartel and antitrust law, anti-corruption, data protection, occupational, product and plant safety, and environmental protection.

Other Group directives, such as the HSE directives and the guideline on incentives, define the specific application of regulations in the individual areas of compliance covered by the code and are binding for our staff throughout the Group. On the basis of these LANXESS directives, more detailed regulations that also take account of local requirements are defined at the operational level in standard operating procedures and process instructions, etc. The applicable directives, standard operating procedures and guidelines are accessible to all employees. Employees are also regularly informed of new and updated regulations relevant to them.

Human rights

In line with our values and operational guidelines, we are committed in all our markets and supply chains to promoting respect for human rights at all times and systematically preventing child and forced labor, for example. At LANXESS, human rights and ethical principles apply without restriction, even if they are not stipulated in the legislation of individual countries. Our target is formulated with corresponding clarity: in all areas over which LANXESS has control, there should be no breaches of human rights. We have included all relevant information on our commitment and on the measures established in the Group to protect human rights in the "LANXESS Position on Human Rights."

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Direct responsibility for ensuring that human rights are respected at all times lies with the respective management at our sites, supported by our global compliance organization and by the regional and local Compliance Officers. At Group level, human rights are subject to regular evaluation as part of our risk management system. For example, we conduct specific risk assessments in all national companies with regard to the potential risk of human rights violations. The general risk potential across the Group is determined annually, and national companies with elevated risk potential are subjected to an additional, comprehensive risk assessment at least every three years. This accounts for all fundamental risks of human rights violations, including such important issues as child labor, modern slavery and human trafficking. The risk assessments are coordinated by Group headquarters and carried out by the responsible departments at national level. The assessments confirm that there is a high level of awareness of the subject and that functioning mechanisms have been established to prevent violations of human rights.

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.

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Our Code of Conduct includes unambiguous instructions regarding the respect of human rights. The code, which all new employees receive with their employment contract, is also an aspect of general training measures. In addition, we hold training sessions geared toward specific selected human rights issues such as occupational safety. If there are suspected human rights violations, the Compliance Helpdesk and the "SpeakUp" reporting system offer our employees and external third parties various ways to notify the compliance organization – also anonymously if they wish.

We have no reports or knowledge of any systematic discrimination against LANXESS employees. This includes discrimination on the basis of skin color, age, gender, sexual orientation, origin, religion, physical and mental abilities, 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.

We also expect our suppliers to commit to values and rules, especially the principles of the U.N. Global Compact and the ILO Labor Standards, and to establish adequate systems for ensuring legally compliant and responsible behavior. When we select new suppliers, it is essential for us that they acknowledge the principles on respect for human rights contained in our Supplier Code of Conduct or have established their own comparable regulations and management systems in line with the U.N. Global Compact. In addition, we

Over
4,500
participants in compliance training sessions

promote responsible action in the supply chain with our involvement in the Together for Sustainability (TfS) initiative, which we operate jointly with other international chemical companies. Under this initiative, companies that supply significant goods and services are regularly assessed in the context of TfS audits. These supplier assessments also cover compliance with aspects of our Supplier Code of Conduct, such as compliance with human rights, including with regard to child labor and forced labor. In the reporting year, we received no indications of human rights violations by our suppliers.

We have also established the necessary sales-related processes to fulfill our responsibilities. This particularly includes our processes for central product monitoring and for trade compliance, especially with regard to regulations for preventing dual use. We also systematically evaluate the impact of our products on people as part of our portfolio analysis.

All acquisitions of companies, interests in companies, or businesses are subject to a careful due diligence process to ensure that human rights are also respected by the target company.

Anti-corruption

By signing the U.N. Global Compact, we have undertaken to actively counter all forms of corruption. This undertaking is also contained within the LANXESS Code of Conduct, wherein we make all employees aware of this topic. Our target is clear: no incidents. Prevention of corruption is part of our general compliance management system. Organizational measures and regulations for setting up the compliance management system as well as responsibilities for implementation, support and continuous monitoring of the system are defined in a guideline applicable throughout the Group. The respective site management, supported here too by our global compliance organization and by regional and local compliance officers, is responsible for preventing instances of corruption at all times.

A Group-wide directive provides our employees with clear guidance regarding incentives. Our employees are prohibited, either directly or in connection with their professional duties, from offering personal advantages to the employees of other companies – in particular when initiating, awarding or handling an order or assignment. Our employees are likewise prohibited from accepting such advantages or requesting them for themselves. If an employee is offered such gifts, they must immediately notify their supervisor or the compliance organization. Exceptions may be made for customary occasional or promotional gifts that are symbolic in nature and of low value.

LANXESS must not grant advantages of any kind to public servants or other officials in Germany or abroad. When commissioning service providers who have contact with officials on behalf of LANXESS, employees must likewise ensure compliance with the prohibition on corruption. As a basic principle, we do not provide financial support to political groupings or parties. LANXESS is involved in large industrial associations, which we regard as fundamental to representing our interests. We disclose contributions and spending on political activities transparently.

All donations require approval from a member of the Board of Management after prior consultation with the compliance organization.

To enhance our employees' awareness of these rules of conduct, the issue of corruption is regularly covered by compliance training. In addition, we hold specific corruption training aimed at exposed professional groups and countries. In the reporting year, we carried out compliance training sessions with a total of over 4,500 participants worldwide. If there are indications of compliance violations, our employees and external third parties can contact the compliance organization – anonymously if they wish. In the reporting year, a new, Group-wide reporting system was introduced, which not only allows potential violations to be reported in writing or by telephone, but also enables secure and anonymous communication in over 20 languages between the compliance organization and the individual making the report.

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The Corporate Audit function examines and monitors implementation of our measures to prevent corruption. It applies various analytical approaches and scopes here:

- Assessment of the risk of exposure to corruption as part of annual audit planning, and general monitoring of the internal control system: all business units
- Transaction monitoring to ensure compliance with company regulations with an influence on the prevention of corruption in the standard SAP system: at least 90% of all transactions

In fiscal year 2020, we received no reports or other indications of cases of active corruption by LANXESS employees. Verified cases of LANXESS employees being bribed lead to appropriate disciplinary actions up to and including dismissal as well as consideration of further legal steps. In the reporting year, we recorded a low single-digit number of such cases, but these did not have any further significant effects for LANXESS.

We also communicate our clear expectations for the prevention of corruption to our suppliers and service providers in our Supplier Code of Conduct. It makes the clear demand that our suppliers must not engage in bribery, fraud or extortion. It is essential for us that they acknowledge the principles contained in the Supplier Code of Conduct or have established their own comparable standards. If suppliers or service providers do not complay with these principles, this may lead to the termination of the contractual relationship.

EMPLOYEES

After the successful implementation of our global transformation project, we have a regionally and globally harmonized and well connected organizational structure in Human Resources. The new structure enables the Human Resources Group function to provide the best possible support for LANXESS's operating business. In order to integrate further, since mid-2020 we have been working to make responsibilities and decision-making processes more transparent. With the ONE HR initiative, we intend not only to accelerate internal decision-making processes globally, but also to generate a shared understanding of central HR processes in the Group.

All measures in connection with our HR work serve the rigorous application of our "People Strategy," which we check regularly for potential updates. Derived from our mission to motivate people and facilitate business growth, we adopted an updated version of the "People Strategy" in the reporting year. Our "People Strategy" is based on four pillars:

- **Enabling growth**
  With increasingly long-term and strategic workforce planning as well as a globally managed recruiting strategy, we are supporting the sustainable growth of our business in line with our corporate strategy.
- **Developing employees and leadership skills**
  Based on continuous dialog with our employees, we follow a comprehensive training and learning concept with the aim of promoting cross-functional and cross-divisional career development and strengthening the LANXESS organization of the future. The development of good leadership skills is particularly important to us, as they are a cornerstone of our corporate culture.
- **Enhancing and strengthening HR work**
  We promote efficient and standardized HR processes, act as a global team with transparent structures and consistently drive the digitalization of our HR systems and tools. We operate as a strategic partner for the businesses.
- **Acting as partners**
  We strengthen exchange within and outside the HR department in order to create greater transparency regarding HR products and services, to enhance the role of HR as a strategic partner and to address the needs of the various Group functions and business units in an even more targeted way.

In the reporting year, we initiated or continued a great many projects and measures while the coronavirus pandemic shaped our day-to-day work. Our pandemic crisis team ensured that the entire workforce was protected and that production continued to function without interruption. It regularly reported to the Board of Management and executive management about the global infection rate at LANXESS and the resulting, regionally varying risks for the Group. Further information on health and safety measures for our employees and on LANXESS's support for external organizations

Coronavirus accelerates digital transformation of work

In addition to all its challenges, the pandemic also ultimately meant that we expanded our IT capacity in 2020 and significantly increased the digitalization of our processes, ways of working and forms of communication. Above all, we succeeded in quickly switching to digital formats – alongside an offering of supporting measures tailored to the needs of the respective users. We encouraged remote work and virtual cooperation wherever possible. Remote work offers a great degree of flexibility, because employees – if the nature of their work at LANXESS is suited to this – can work either from home or from somewhere else. In general, our support took the form of information and advice, but also targeted measures and offers. The Board of Management sent regular e-mails about coronavirus developments, and information was provided on the intranet or in the electronic coronavirus booklet. Our digital offering for further measures comprised workshops for various target groups with appropriate focus areas or videos and newsletters with tips for best working practice. We also offered mentoring as well as virtual opportunities for training and communication, both regionally and globally. In addition, various conferences were held virtually.

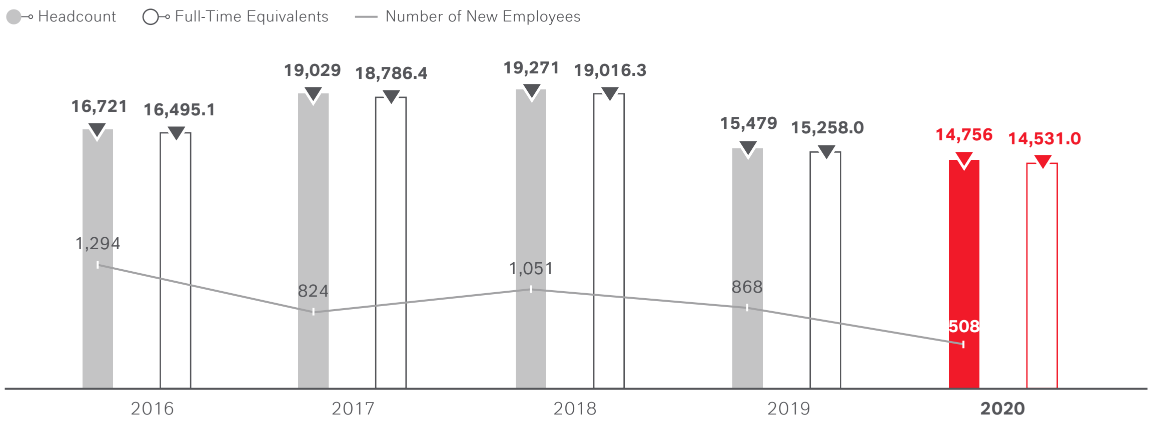
In HR services, we technically updated the digital system solution for our processes introduced in 2019. From 2021, we can use a new “compensation module” for processes in the system solution relating to compensation. It already includes recruitment and onboarding, performance management, document management and self-service functions for employees. The system allows us to be more transparent throughout the Group and to harmonize processes.

Other HR activities in the reporting year related, for example, to digital learning and ensuring knowledge transfer and digital knowledge management in production. In addition, we rolled out mindfulness training globally and conducted a global survey on satisfaction and the work environment. For the future design of the LANXESS working world as part of the digitalization strategy, LANXESS agreed joint action areas with the Central Works Council and the German Mining, Chemical and Energy Industrial Union.

Winning the competition for diversity

Against a backdrop of strong competition for talent in our core markets and the demographic challenges, we see recruitment as a strategic issue. We invest in a distinctive employer brand in order to highlight the advantages of LANXESS as a global and socially responsible employer. Our employer branding centers on authenticity and diversity. We communicate this branding via social media, where we share a mix of company, product and HR information in order to spark enthusiasm for our company among talented people from a wide range of functions.

Number of Employees



Unless stated otherwise, the figures shown here for 2020 and all subsequent assessments for fiscal year 2020 correspond to the entire Group including the Leather business unit and relate to the core workforce. Figures from 2016 to 2018 including ARLANXEO.

Our global recruitment process is highly digitalized. The software platform covers all processes from digital onboarding to the digital signing of employment contracts. Highly specialized LANXESS recruitment teams work in the U.S., China, India, Europe and Germany. The software platform helps to make processes in connection with approaching and acquiring new talent more standardized, transparent and customer-focused. In order to approach interesting candidates in both an active and a targeted manner, we also have a pool of active sourcing specialists, who will gradually replace external HR service providers. A total of 508 new employees joined the Group in the reporting year. The new employees predominantly filled technical positions.

Our international graduate trainee program is a fundamental tool for securing talent in Germany. Exceptionally well-qualified Master's graduates are prepared for challenging specialist and managerial tasks and can gather valuable experience in Germany and abroad or in international projects. In addition to an engineering orientation, LANXESS also offers attractive opportunities for economists. In 2020, 17 new graduate trainees (10 women, 7 men) started their career at LANXESS.

Commitment to young talent

Training young people has always been hugely important to us, both in order to safeguard the company's future and as part of our social responsibility. Vocational training is the basis of our strategy of developing specialist staff for the German sites from within our own ranks.

199 apprentices on seven technical, scientific and commercial career paths and four dual-study programs started their apprenticeships at LANXESS Deutschland GmbH on September 1, 2020. The proportion of female career starters was again 10% in the reporting year (previous year: 10%).

Taking the new intake into account, there are 698 apprentices at LANXESS Deutschland GmbH (as of December 31, 2020). The proportion of female apprentices across all years is around 10%. We invested around €23 million (previous year: €23 million) in the vocational training of young talent in 2020.

Apprentice ratio[1)]

8.4%

1) This figure is the ratio of apprentices at LANXESS Deutschland GmbH. The number of LANXESS Deutschland GmbH employees undertaking an apprenticeship is expressed as a percentage of the core workforce of LANXESS Deutschland GmbH (employees with a permanent, full- or part-time employment contract) plus the apprentices of LANXESS Deutschland GmbH.

New Employees by Age Group, Gender and Region

	EMEA (excluding Germany)		Germany		North America		Latin America		Asia-Pacific		**Total**
Age group	**f**	**m**	**f**	**m**	**f**	**m**	**f**	**m**	**f**	**m**	
< 30	6	24	12	33	10	33	7	10	8	23	**166**
30-49	11	41	15	65	14	55	5	11	13	44	**274**
≥ 50	1	11	1	9	7	34	0	3	0	2	**68**
Total	**18**	**76**	**28**	**107**	**31**	**122**	**12**	**24**	**21**	**69**	**508**
Region total	**94**		**135**		**153**		**36**		**90**		
%											
Age group	**f**	**m**	**f**	**m**	**f**	**m**	**f**	**m**	**f**	**m**	
< 30	17.6	14.4	5.8	4.3	18.6	20.9	18.3	13.6	15.8	14.0	**9.7**
30-49	4.2	5.5	2.5	2.6	8.9	8.7	3.8	2.6	3.3	3.2	**3.8**
≥ 50	0.7	1.5	0.2	0.3	3.2	4.4	0.0	1.9	0.0	0.7	**1.1**
Total	**4.2**	**4.6**	**2.0**	**1.7**	**7.2**	**7.8**	**6.0**	**3.7**	**4.2**	**3.8**	**3.4**
Region total	**4.5**		**1.7**		**7.7**		**4.2**		**3.9**		

NFR

Training will remain a key pillar of our HR policy in the years ahead. It is our aim to retain at least 80% of our apprentices after successful completion of their training. We reached this target again in the reporting year with a retention ratio of 85% (previous year: 88%). Outside Germany, for example, we offer similar programs in Argentina, Brazil and India in order to cover our requirement for young talent in those countries. In Argentina, two students successfully completed a two-year dual training program at the end of 2020. The program in Brazil is geared toward advanced students and has been implemented successfully for some years now. In India, the government supports an apprenticeship program to give more young people the opportunity to acquire qualifications required to work in the chemical industry.

Each year, with our XOnce program, we give school-leavers who do not meet academic or personal requirements for starting an apprenticeship program immediately the opportunity to qualify for a technical or scientific apprenticeship program – regardless of whether this is then done at LANXESS itself. Eight young people took part in the "XOnce" program in 2020. On average, approximately 50% of participants take up the opportunity to complete an apprenticeship program at LANXESS.

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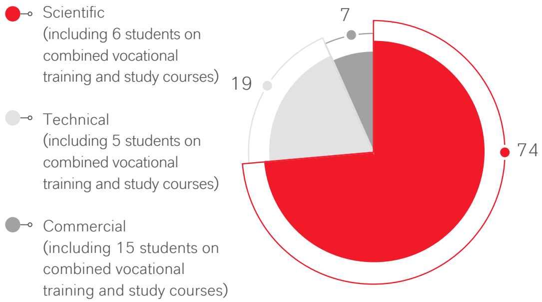
Apprentices by Career Path[1)]

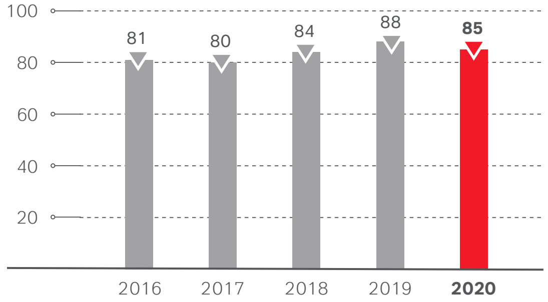
%



1) LANXESS in Germany

Hire Rate of Apprentices and Students on Combined Work and Bachelor's Degree courses at LANXESS[1)]

%



1) LANXESS in Germany

Developing talented people around the world

Only by constantly investing in training our employees and imparting clear, globally binding values and standards can we as a company keep on using the opportunities of changing markets successfully. Wide-ranging leadership and HR development tools enable and motivate our employees to act on the basis of values, rethink issues, implement them quickly and devise solutions in a team.

NFR

In the reporting year, our activities focused on the virtualization of the Group's global, cross-divisional and cross-hierarchical talent programs. We thus ensure that, despite the restrictions due to the coronavirus pandemic, we can support particularly high-performing employees, retain them within our company and identify suitable successors for key positions at an early stage. While the talent programs' study goals, key topics and study periods are to remain as unchanged as possible on the basis of the positive feedback from previous years, we have adjusted the teaching to the current challenges.

We offer "eXplorer," "compass" and "navigator" as Group-wide, cross-divisional and cross-hierarchical talent programs.

NFR

"eXplorer" is aimed at employees who have the potential to develop toward major leadership roles at LANXESS in the next few years. Key topics include dealing with complexity, new forms of collaboration and digital and agile leadership principles. Whereas there used to be three face-to-face modules, these have been replaced by shorter, monthly virtual meetings, which are supplemented by individual preparation and follow-up as well as experience-based learning in experimental groups.

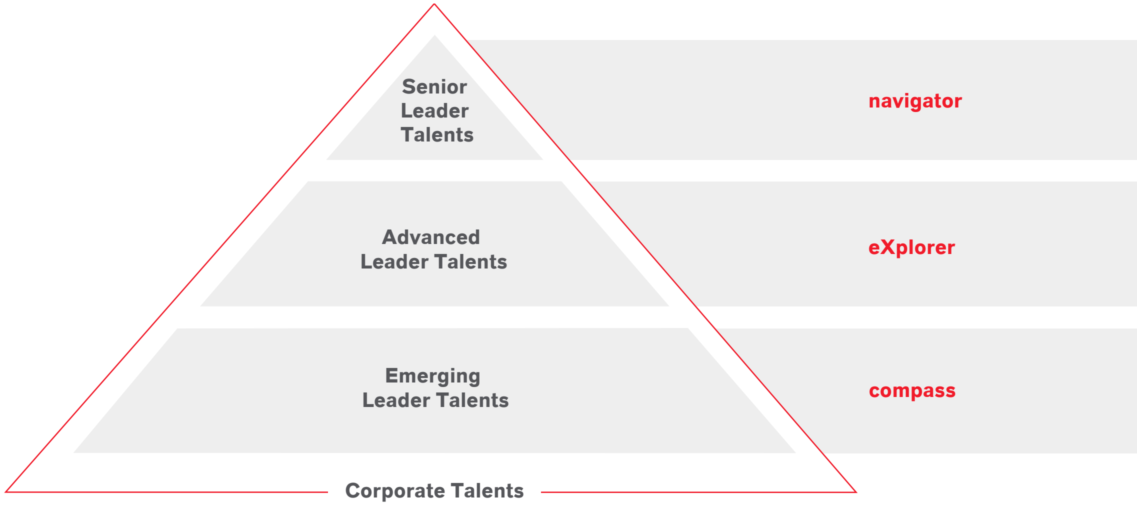
"compass" for employees at the start of their career, offers guidance for their future career path. The format encourages practical development measures. The core element is a Development Center, which as of 2020 can be carried out entirely virtually.

The "navigator" program is aimed at managers with the potential to lead a business unit or Group function.

Our commitment to increasing diversity at LANXESS is reflected in a specific target for the composition of the three talent programs. Every year, the programs' participants should be at least 30% female and 40% non-German. With a total of 89 participants in 2020, the proportions amounted to 30% female and 61% non-German participants, which means we achieved our target for the reporting year. Because the programs can last for up to 18 months, double counting cannot be ruled out.

NFR

Global Talent Programs Promote High-performing Employees



We offer global leadership training in order to embed our leadership principles more deeply worldwide and to strengthen our leadership culture. Depending on the experience of the participants, basic leadership techniques are conveyed, refreshed and translated into individual measures. Since management practice differs depending on the country and cultural environment, our training programs also take cultural differences into account and include the requirements of digital management. A total of 1,701 managers have completed leadership training since 2016, including 278 in the reporting year.

The performance dialog is a key tool for HR development. It helps our managers and their employees to compare mutual expectations regarding tasks, targets and responsibilities and to continuously give each other feedback, thus improving collaboration. The performance dialog was also available to all managers in 2020 and, as in the previous year, was very well received.

Promoting life-long learning was also a central issue in our HR development in 2020. Globally, 99% of our workforce received training, including both basic and safety training, as well as further education to further their careers and skills in the reporting year. On average, each employee worldwide received 14 hours of training in 2020.

2020 was the year of virtual learning. Our offering comprised 8,941 digital learning formats. In one pilot project, around 1,000 employees from various regions of

8,941 digital learning formats

the Group were given access to the "LinkedIn Learning" digital learning platform. For nine months, they were able to avail themselves of over 10,000 online courses on various subjects. Between April and December, the participants accessed a total of 12,834 courses. Once the usage data and the feedback survey have been analyzed, a decision will be made on introducing the platform Group-wide.

In the reporting year, we also worked hard to improve knowledge transfer at the production plants and to increase the digitalization of workflows. We aim to ensure that valuable know-how is retained within the company despite personnel changes driven by demographics. At the same time, we want to develop continuous digital knowledge management that offers a stable foundation for secure and profitable production in the long term.

International deployments are another key component of our systematic HR development. In 2020, all assignments were completed as planned despite the exceptional circumstances and challenges as a result of coronavirus.

At the end of 2020, 50 employees – i. e. around 1.5% of our specialist and managerial staff – were deployed outside their contractual country as expatriates. Despite the more difficult conditions, it is our ongoing aim to build up local management with specialist knowledge and expertise and assign challenging tasks to suitable employees at our international sites. At sites outside Germany, 85% of our leadership positions are currently held by local employees.

Turnover Resulting from Voluntary Resignations by Age Group, Gender and Region
%

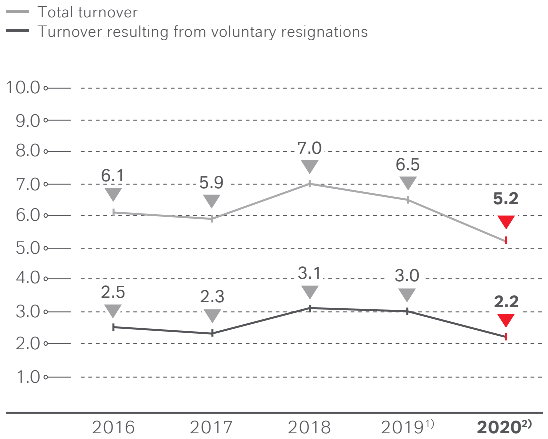
	EMEA (excluding Germany)		Germany		North America		Latin America		Asia-Pacific		**Total**	
											%	Abs.
Age group	**f**	**m**	**f**	**m**	**f**	**m**	**f**	**m**	**f**	**m**		
<30	8.8	3.6	1.5	2.6	3.7	9.5	7.8	5.4	4.0	9.2	**4.3**	**73**
30–49	4.5	2.8	1.1	1.6	7.0	4.6	3.8	1.7	3.5	4.1	**2.8**	**203**
≥ 50	1.5	2.3	0.5	0.3	2.3	1.3	0.0	1.3	1.8	1.0	**0.9**	**52**
Total	**3.9**	**2.7**	**0.9**	**1.1**	**4.2**	**3.4**	**4.0**	**2.0**	**3.4**	**4.0**	**2.2**	**328**
Region total	**2.9**		**1.1**		**3.6**		**2.5**		**3.9**			
Region total (absolute)	**61**		**83**		**72**		**21**		**91**			

Motivated and committed

NFR

Committed employees are the key to strong company performance, successful change and ultimately long-term corporate success. Accordingly, we pay special attention to encouraging the commitment of our employees. Good management helps here, as do personal development prospects, a high degree of flexibility in job design and company values with which our employees can identify. All these factors, among others, shape the LANXESS corporate culture, which we actively cultivate and develop with regard to the constant new challenges in our markets. An important forum for this is the annual Performance Culture Day, the theme of which in 2020 was "Seek Solutions." We also want to lend greater weight to the aspect of "cultural fit" when it comes to acquisitions – so a corresponding analysis will become a fixed element of the due diligence process in the future.

Development of Turnover Over Time
%



1) The turnover rate is the sum of departures (from the Group) in the last twelve months divided by the average of the headcounts at the end of the last four quarters. It therefore includes employer- and employee-initiated departures as well as retirement. Since fiscal year 2019, temporary absences, e.g. due to parental leave or lengthy illness, are no longer counted as departures.
2) The total turnover rate for continuing operations improved further to 5.2%. Including the Leather business unit, the figure is 9.7%, as the departures in South Africa are included in the calculation.

18 years
average length of service

Regular and structured feedback is another important element of our corporate culture. To this end, we use different survey formats to allow feedback relating to the satisfaction and commitment of the various employee groups. In 2020, we asked our workforce throughout the Group how they found the working from home that was required during the pandemic. We conducted two global surveys on this in order to detect a potential change in mood. Around a third of all LANXESS employees took part in the survey. Around two-thirds of the participants were working remotely at the time. The results show that general satisfaction among both men and women was at the upper end of the scale (5.5 and 5.7, respectively, on a scale from 1 to 7, with 7 standing for very high satisfaction). The average commitment index is also very high at 6 for men and 6.1 for women (overall average: 6.0). 92% of participants are very committed (result between 5 and 7 on the 1-7 scale; 91% of men and 93% of women). This confirms that the employees are highly satisfied. The survey also showed that employees working remotely felt more satisfied, committed and productive than those at their workplace. Most respondents would like to continue combining workplace and remote working in the future. The results of the second survey confirmed the finding of the first survey. Further information on flexible working at LANXESS

NFR

In addition, we see the turnover rate on the basis of resignations as an important indicator of our employees' commitment. Our goal is to continuously keep this ratio below 3.5% until the end of 2023. In the reporting year, the global voluntary turnover rate was 2.2%, meaning that we reached our target for this year. In Germany, the rate was 1.1%. The percentage of employees who left our company of their own accord within three years of being hired stood at an average of 0.8% worldwide in the reporting year.

Early Turnover Resulting from Voluntary Resignations by Age Group, Gender and Region
%

	EMEA (excluding Germany)		Germany		North America		Latin America		Asia-Pacific		Total	
											%	Abs.
Age group	**f**	**m**	**f**	**m**	**f**	**m**	**f**	**m**	**f**	**m**		
<30	5.9	1.2	1.0	0.7	0.0	5.7	2.6	5.4	2.0	7.3	**2.2**	**38**
30–49	1.5	0.8	0.2	0.6	4.4	1.9	0.8	0.5	1.0	1.5	**1.0**	**72**
≥50	0.0	0.3	0.0	0.0	0.5	0.6	0.0	0.6	0.0	0.3	**0.2**	**11**
Total	**1.4**	**0.6**	**0.2**	**0.3**	**1.8**	**1.7**	**1.0**	**1.1**	**1.0**	**1.9**	**0.8**	**121**
Region total	**0.8**		**0.3**		**1.7**		**1.1**		**1.7**			
Region total (absolute)	**16**		**23**		**34**		**9**		**39**			

Early turnover: percentage of employees who left our company of their own accord within three years of being hired

Total Turnover by Age Group, Gender and Region

	EMEA[1] (excluding Germany)		Germany		North America		Latin America		Asia-Pacific		Total
Age group	**f**	**m**	**f**	**m**	**f**	**m**	**f**	**m**	**f**	**m**	
<30	21	19	3	22	2	19	3	10	3	32	**134**
30–49	165	412	11	46	14	44	12	14	25	93	**836**
≥50	20	173	17	162	18	60	0	20	2	14	**486**
Total	**206**	**604**	**31**	**230**	**34**	**123**	**15**	**44**	**30**	**139**	**1,456**
%											
Age group	**w**	**m**	**w**	**m**	**w**	**m**	**w**	**m**	**w**	**m**	
<30	61.8	11.4	1.5	2.9	3.7	12.0	7.8	13.6	5.9	19.5	**7.9**
30–49	62.5	55.3	1.8	1.8	8.9	7.0	9.1	3.3	6.3	6.8	**11.5**
≥50	15.0	23.8	2.9	5.2	8.1	7.7	0.0	12.7	3.7	4.7	**8.0**
Total	**47.7[1]**	**36.9[1]**	**2.2**	**3.6**	**7.9**	**7.9**	**7.6**	**6.8**	**5.9**	**7.6**	**9.7[2]**
Region total	**39.1[1]**		**3.3**		**7.9**		**6.9**		**7.2**		

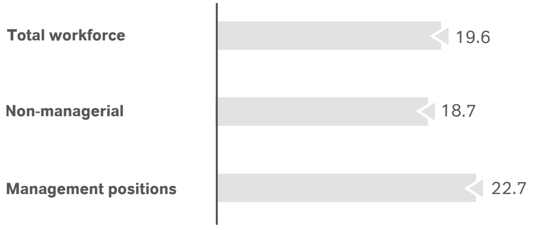
1) The high total turnover rate in EMEA (excluding Germany) is attributable to the sale of the organic leather chemicals business and the sale of our share in the chrome ore mine in Rustenburg, South Africa, see page 7.
2) Total turnover rate for continuing operations: 5.2%.

We rate our performance in relevant rankings and competitions as a further sign of our employees' satisfaction and the attraction of LANXESS as an employer. LANXESS was named as a top employer or as an employer of choice in fiscal year 2020, e.g. in Brazil and China once again. LANXESS in India was recognized by the Indian Chemicals Council for its HR management.

Inextricably linked: appreciation and diversity

We regard diversity as a strategic advantage. Therefore, we aim to enhance diversity at LANXESS and use its positive effects for our company and employees. An appreciative organizational culture that is open equally to all people helps us to become more innovative and efficient and to attract and retain promising talents. Recognizing and appreciating diversity is therefore ingrained in our values, our guiding principles as well as our leadership principles.

Proportion of Women
%



NFR

We continued to follow our strategic "Diversity & Inclusion" (D&I) concept for promoting diversity, equal opportunities and inclusion in 2020. In the reporting year, we placed particular emphasis on raising awareness, such as by writing about D&I in various global newsletters. In addition, we generally geared our internal and external communications toward promoting modern role models. We continue to work to consider the aspects of age, gender, nationality, disability and sexual orientation in all HR processes.

Gender diversity remains one of our global priorities, with the clear target of increasing the proportion of women in the company.

Our measures begin in recruitment, with messages and event formats tailored specially to women. In 2020, we also paid particular attention to ensuring that our HR development and training opportunities are attractive to women. Their professional and personal development is supported by mentoring, coaching and mandatory D&I criteria for the composition of our global talent programs. In addition, we are constantly working to expand and improve our offerings for work-life balance. Regional and local D&I activities accompany our global measures.

Ratio of Disabled Employees at German Companies

	2016	2017	2018	2019	2020
Ratio in %	5.6	5.9	5.7	5.9	**6.2**

LANXESS USA: X-arise – against racial injustice and social exclusion

We do not tolerate discrimination at LANXESS. In order to avoid any risk of disadvantage on the basis of background or skin color, a special working group of employees was assembled in the U.S. in 2020. The group is to use targeted education to raise awareness of the danger of racially motivated discrimination and social exclusion and come up with plans if action is needed.

NFR

Proportion of Women on the Board of Management and at the Top Management Levels

Proportion of women	2016	2017[1]	2018	2019	2020	Goal	Target date
First level below the Board of Management	9.8%	11.6%	13.8%	20.9%	**16.7%**	15%	June 30, 2022
Second level below the Board of Management	25.1%	23.9%	19.2%	25.1%	**23.4%**	25%	June 30, 2022
Board of Management (number of women)	0	0	0	0	**1**	1 woman	June 30, 2022

1) Year when target was set.

The proportion of women at the second management level below the Board of Management has been fluctuating since 2015 due to M&A activities. In 2018, the proportion of women also fell due to a change in the reporting structure below the Board of Management associated with the introduction of an additional reporting level at the regional level. The significant increase in the proportion of women at the first two management levels below the Board of Management in 2019 is partly due to a change in the functional reporting structure to our Chief Financial Officer, Michael Pontzen. The proportion of women decreased slightly during the reporting year due to organizational changes.

In addition, the German Act on Equal Participation of Women and Men in Executive Positions in the Private and the Public Sector commits us to set targets in Germany for aspects such as the proportion of women at the two management levels below the Board of Management and to determine the target date for attainment of the proportion of women. In 2017, the Board of Management and the Supervisory Board approved the targets with an implementation deadline of June 30, 2022: The proportion of women is to be at least 15% for the first level below the Board of Management and 25% for the second level. At the end of 2020, the share of women at the first level of management was 16.7%, hence the target was exceeded again. Owing to organizational changes, the share of women at the second level of management was 23.4%.

We achieved a significant target in the context of gender diversity at the beginning of fiscal year 2020: We aimed for at least one woman to be included on the LANXESS Board of Management by mid-2022. On January 1, 2020, Stephanie Coßmann, previously Head of the Human Resources Group function, was appointed as a member of the Board of Management and as Labor Relations Director.

NFR

Our goal for middle and upper management was a proportion of women of 20% by the end of 2020. We have nearly reached this goal: The percentage was 19.7% as of the end of the year, and the average over the year was 19.9%. We are therefore seeing a positive trend – in 2014, the proportion of women at this level was still 15.3%. As a whole, these are encouraging developments for us in regard to our commitment to continue pursuing ambitious goals in the area of gender diversity.

A look at demographics

Two regions of commercial significance for LANXESS – the U.S. and Europe, especially Germany, Belgium, and Great Britain – are particularly affected by the problem of the increasing average age of our employees, combined with a shortage of young talent. Accordingly, competition for qualified young talent is intensifying. In the medium term, illness and retirement – both regular and early (in Germany) – will mean that many vacancies require filling, especially in career paths such as chemical production technician, mechanic/fitter and engineer. Against this backdrop, around 110 "demographic jobs" have been created in recent years. In addition, we have been investing in our own apprenticeship and management trainee programs for years in order to cover our requirements for specialist staff chiefly from our own ranks in the future. In the context of knowledge management, we are also stepping up our efforts for successful knowledge transfer and to keep crucial know-how within the company.

We use our global strategic HR planning process to simulate the long-term staffing supply – taking into account retirements, natural turnover, etc. – and compare it against our long-term staffing requirements. In the long-term planning of staffing requirements, we consider the company's strategic goals as well as ideas about technological advancements. Our aim is always to identify staff shortages at an early stage. In 2020, we

Employees by Age Group, Gender and Region

	EMEA (excluding Germany)		Germany		North America		Latin America		Asia-Pacific		Total
Age group	w	m	w	m	w	m	w	m	w	m	
< 30	28	161	210	748	52	148	37	67	44	151	**1,645**
30–49	192	612	597	2,511	149	634	130	424	401	1,353	**7,002**
≥ 50	132	697	597	3,119	230	772	31	159	58	314	**6,109**
Total	**352**	**1,470**	**1,403**	**6,377**	**431**	**1,554**	**198**	**650**	**503**	**1,818**	**14,756**
Region total	**1,822**		**7,780**		**1,985**		**848**		**2,321**		

14,756
LANXESS employees worldwide

concentrated in particular on the development of the workforce at the plants in the U.S. and Canada.

Flexibility forges connections

The digitalization of our working world, longer working lives and societal changes also mean that our staff have different expectations of their employer. Therefore, we regularly review existing offerings to our staff and, if necessary, adapt them to altered needs and requirements.

In addition to fair monetary remuneration, flexible working conditions and benefits are becoming increasingly important. As components of total remuneration at LANXESS, they make a material contribution to the well-being and productivity of our workforce. It is important to us that the benefits granted support our corporate targets, values and culture and address the relevant needs of our employees. Some benefits are equally essential, such as:

› Company pension plans and insurance benefits for financial security
› Flexible working conditions and other offerings that promote work-life balance
› Programs for prevention and long-term preservation of health
› Education and training

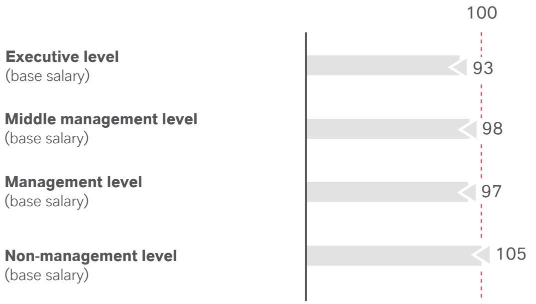
When designing these benefits, we often go further than the respective statutory framework. In addition, we always aim to account for individual needs and every life situation in the best possible manner.

All services apply to our core workforce. Even so, some individual services in the regions may have differing structures and be locally adapted to the needs of our employees. Our core workforce includes all employees with a permanent full-time or part-time employment contract. As of December 31, 2020, this was 93% of our total workforce worldwide.

Fair remuneration and comprehensive benefits

Our remuneration policy offers fair and competitive remuneration worldwide, chiefly based on relevant external benchmarks, level of professional experience and quality of work, regardless of the gender of the employees. The fixed annual salary of non-pay-scale employees is regularly reassessed on the basis of these factors in our

Remuneration ratio of women to men
%



annual salary review. Salary increases for our pay-scale employees follow the applicable collective agreements, likewise regardless of gender.

As part of the transparent remuneration in line with market conditions, LANXESS offers its employees bonus systems geared toward the company's long-term success. In total, 88% of LANXESS employees worldwide participate in our variable compensation systems.

Above the pay scale, and, in most countries, within the pay scale, we also provide a performance-related remuneration component on top of fixed pay. This is the Annual Performance Payment (APP), which goes to employees in countries that participate in this program. This bonus payment is linked to the Group's attainment of a defined EBITDA target. Further individual targets in areas such as safety and sustainability additionally apply to top management. In 2020, we shared around €73 million of our profits for 2019 with our employees worldwide.

In addition, there was a special bonus in the reporting year in recognition of exceptional performance and for overcoming the extraordinary challenges during the coronavirus pandemic, which particularly honored the performance of the production employees. In total, around €7.5 million was paid out.

LANXESS Employee Structure by Employment Type, Gender and Region
(also including employees on fixed-term contracts)[1)]

	EMEA (excluding Germany)		Germany		North America		Latin America		Asia-Pacific		**Total**
Contract	**f**	**m**	**f**	**m**	**f**	**m**	**f**	**m**	**f**	**m**	
Permanent contract	352	1,470	1,403	6,377	431	1,554	198	650	503	1,818	**14,756**
Full-time	301	1,320	957	5,247	425	1,554	198	650	496	1,818	**12,966**
Part-time	51	150	446	1,130	6	0	0	0	7	0	**1,790**
Temporary contract	18	18	143	792	3	3	19	18	20	32	**1,066**
Full-time	16	18	117	754	3	3	19	18	18	32	**998**
Part-time	2	0	26	38	0	0	0	0	2	0	**68**
Total	**370**	**1,488**	**1,546**	**7,169**	**434**	**1,557**	**217**	**668**	**523**	**1,850**	**15,822**

1) In fiscal year 2020, we employed a total of 70 temporary staff members (7 women and 63 men) at our German companies.

In addition, we offer a long-term incentive program for our managers in Germany. There are similar programs in the U.S., India and China. The Long-Term Stock Performance Plan (LTSP) 2018–2021 consists of four tranches commenced each year and tracks the performance of the LANXESS share compared with the MSCI World Chemicals Index, over a period of four years in each case. The four-year term and the potential growth in value make this program an attractive long-term incentive and retention tool. In addition, there is a Share Ownership Guideline (SOG) for the Board of Management and our top-level managers. This guideline emphasizes trust in the strategy and long-term success of LANXESS. 100% of those eligible participated in the current LTSP program in 2020.

Another core element of our offering is the company pension plan for plugging potential gaps in provision in old age. In the reporting year, we topped up the plan assets for German pension commitments by €100 million in order to further secure the company pension plan in the Group and thus the future of the employees' pensions. The design of the company pension plan differs from country to country depending on the state pension system. LANXESS's pension commitments often go beyond what is required by law. They are funded by employer and/or employee contributions. Employees in Germany can voluntarily increase their pension and receive an additional grant from LANXESS. 75% of employees participate in the supplementary component of the current pension plan. Other offerings facilitate the transition into retirement, such as the long-term account for pay-scale employees in Germany. The participation rate here remained at a high level of around 90%.

Working and living in the modern world

In line with our employees' desire for more flexible working and working-time models as well as greater transparency regarding existing options, we introduced and communicated global flexibility principles in 2018 under the heading "Xwork – Flexible Work." On this basis, we again developed specific guidelines on flexible working conditions and introduced corresponding models in a number of countries in 2020, for example at several Asian sites. All measures count toward our goal of 95% of all countries in which we operate having derived and implemented specific guidelines and/or corresponding models for flexible working conditions from our global "Xwork" principles by the end of 2022. At the end of 2020, the coverage ratio was already 75%.

The "flexitime" model aims to enable employees in senior management to work part-time in an intelligent way. In the Flexi-95 model, the level of employment is reduced to 95% with a corresponding adjustment to remuneration, meaning that a full-time worker is entitled to 13 extra days off per year. We have expanded this model so that 90% and 85% are now also possible. All non-pay-scale employees have been able to participate in the program since 2019. At the end of fiscal year 2020, there were around 180 participants, of which 56 in senior management.

Options for Flexible Working Hours and Mobile Working Worldwide

%

Continuing operations

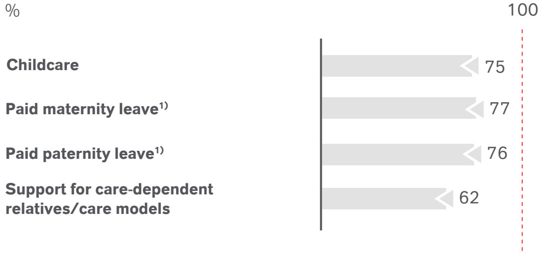
Work/life balance is increasingly important. In 2020, we increased our special offers to employees regarding childcare or care for people in their households.

A total of 8% of the workforce in Germany aged between 20 and 40 were on parental leave for a time. Of this figure, 58% were fathers. 98% of the employees who ended a parental leave period in 2020 returned to a job at LANXESS, 98% of which still worked in the company at the end of 2020.

The legally defined framework for maternity rights and parental leave taken for granted in Germany and similar models in the European Union are by no means standard worldwide. Therefore, at our sites outside Europe, we are assessing whether we can introduce or expand country-specific models for our employees. For our employees in the U.S., for example, we implemented a new paid parental leave model in 2020, which enables mothers and fathers to take parental leave of eight weeks on the birth or adoption of a child – while continuing to receive a full salary. We also offer a parental leave program in Brazil that goes beyond legal requirements.

Options for Childcare, Maternity/Paternity Leave and Care Models Worldwide

%



1) Beyond legal requirements

Coverage is shown in percent for each initiative with regard to the countries and the total number of employees.

Continuing operations

Against a backdrop of demographic change, care is a major issue in Germany. The centerpiece of the LANXESS care model is caregiver leave, which allows our employees to reduce their working hours by more than their pay during the care period and to work off the hours commensurate with the pay they received after their return. Caregiver leave and time off have been used by 115 employees in Germany since the LANXESS care model was introduced.

In India, we have implemented a new program to promote the physical, mental, emotional and financial wellbeing of employees. For example, they were offered therapy, telephone counseling and mindfulness exercises to combat the increased stress level due to the pandemic. In China, too, a stress management program was established in response to the coronavirus pandemic.

Occupational health and safety enjoy top priority

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, occupational health and safety were initially dominated above all by the coronavirus pandemic. In order to keep the infection rate in check, we established extensive distancing rules and hygiene plans throughout the Group, including specifications for the reduced capacity of offices and meeting rooms. In April and May 2020, we moved production in Germany from 8-hour shifts to 12-hour shifts. The longer shifts meant fewer changes and reduced contact in order to keep the risk of infection low. To prevent potential stress responses to the pandemic, the workforce in Germany, the U.S. and in India had the opportunity to receive psychosocial counseling.

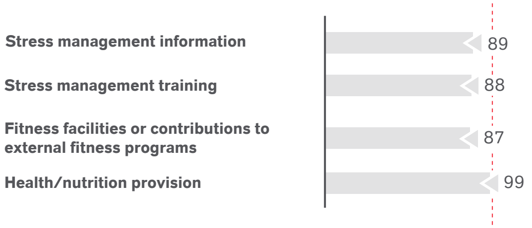
Business trips were taken only if they were unavoidable and pre-approved on a case-by-case basis.

Unconnected to the pandemic, we offered flu vaccinations at various German sites in 2020. There was also a series of healthcare campaigns for production employees.

In addition, our employees in Germany again received €200 credit for a wide range of health-related options on the digital platform “machtfit.” LANXESS pays 80% of the costs for each course booking until the budget is used up. Around 50% of German LANXESS employees are now registered. Up to the reporting date, a total of around 30,000 health units had been booked, with massage, fitness and yoga options proving most popular.

We also offer our workforce wide-ranging measures to promote health and wellbeing at our international sites, e.g. medical check-ups, training on stress management and fitness, wellness or dietary options. Around the world, we integrated virtual training sessions on the topic of mindfulness into our preventive measures for the first time.

Health Options Worldwide
%



Coverage is shown in percent for each initiative with regard to the countries and the total number of employees.

We address the topic of occupational safety with our global safety initiative Xact. It pursues the goal of gradually lifting the safety culture of LANXESS to a higher level. Starting with top management, all employees are expected to work together to improve safety in the Group. We are doing this because we firmly believe that all industrial accidents are avoidable. As a specific target for occupational safety, we aim to reduce the lost time injury frequency rate (LTIFR, known as MAQ [“accidents per million hours worked”] in Germany) by more than half by the end of 2025 compared to the reference year of 2016 (LTIFR 2.0).

Six Xact safety rules, the core principles of safe working at LANXESS, address the key points with which all employees – from the factory to the office, regardless of hierarchy and position – can make an active contribution to their own safety and that of their colleagues. They are derived from the Xact “guidelines and principles,” the worldwide framework for the orientation of our safety culture.

As ever, the work of the Xact team is focused on fostering a positive culture of safety and greater alignment toward behavior-based safety. To this end, we developed and piloted a systematic process called the Safety Culture Development (SCD) Process, the rollout of which began globally in 2019.

The six-stage process is centered on a full-day, focus-group workshop led by the Xact team. In this workshop, representatives of all hierarchy levels – from plant managers to shift workers – engage in an in-depth discussion on the safety culture in their own plant. In this way, we

Our Safety Culture Development Process

NFR

can identify the individual strengths and weaknesses of each plant and initiate targeted improvements. To boost sustainability, a follow-up workshop a few months later discusses the implementation of the measures with the focus group. The Xact team collates the workshop results centrally in order to determine global, regional or department-specific trends.

By the end of 2020, 32 of the planned 150 focus-group workshops had been carried out in Germany, Belgium, the U.S. and China. Because of the pandemic, only a few of the 50 workshops originally planned worldwide for 2020 were implemented. In Germany, none of these workshops took place after March 2020. During the second half of the year, some face-to-face events such as HR meetings and follow-up workshops were resumed under strict hygiene rules or occasionally held virtually. Staff health was the top priority in all decisions. In 2021, we will continue the events according to how the pandemic progresses.

An interim evaluation shows that our employees appreciate the fact that they can contribute personally, receive direct feedback from their colleagues and supervisors and actively help to shape the safety culture in their own area of activity.

An analysis of the SCD process revealed the greatest potential for improvement in the cultural reasons for unsafe behavior. The characteristics that define our LANXESS safety culture play a fundamental role here. At LANXESS, these are safety leadership by example, attitude to safety/taking responsibility, learning and sharing/error culture, positive reinforcement of safe behavior, communication/feedback culture. The Xact-initiative has summarized these findings in a guidebook called "How Can Safety Culture Be Made Visible?," which is to be rolled out worldwide in early 2021.

Active, ongoing communication is a top priority for us when it comes to matters relating to safety. The Xact pulse-check survey that we conduct every year among all LANXESS employees is an important tool here. It gives them the opportunity to express their personal experience of key aspects of safety at LANXESS. One aim of the anonymous survey is to determine whether all employees receive positive feedback regarding safe work – as intended – or whether supervisors set an example when it comes to safety.

Despite the strain of the pandemic, more than 45% of our employees took part in the survey in 2020. In order to address the issues of mindfulness and workload, the employees were first asked whether they believe they are given enough time to work safely. Over two-thirds (68%) of respondents answered the question with "always" and 28% with "mostly." This positive feedback is reflected at all levels of the hierarchy and shows that supervisors have successfully been made more sensitive to this issue. However, the results differed, in some cases substantially, depending on the region, organizational unit and hierarchy level. For instance, responses to the question on positive feedback from supervisors in the event of safe work were far less affirmative than the global average in countries such as Germany, even though more praise is given. The survey results and the more than 400 comments give us valuable ideas for the further development of the safety culture at LANXESS. The majority of the feedback on safety and safety culture at LANXESS was positive; potential for improvement is seen in the practical implementation and execution of measures, among other things.

In accordance with the safety guidelines at LANXESS, every organizational unit, e.g. a plant, is required to carry out regular risk assessments and define suitable measures to protect against potential hazards. Employees are trained accordingly, and the training and the measures are checked regularly. We thus meet the legal requirements and protect employees, contractual partners and visitors to the plant alike.

We also want to reach an improved shared understanding of occupational safety with service providers who perform technical services for us, as well as including them in our safety culture. For instance, our partners must demonstrate that they maintain their own safety management system and have carried out all safety training that is required of all employees who work for us. Regardless of this, we provide personal safety briefings for employees of our partner companies.

Indicators for the assessment of occupational safety at LANXESS are the recordable incident rate (RIR: number of incidents per 200,000 working hours that have to be reported according to the Occupational Safety and Health Administration Administration [OSHA]) and the lost time injury frequency rate (LTIFR: accidents per million hours worked) for accidents with days lost. The

LTIFR reduced[1] to

1.0

NFR

LTIFR in 2020 was 1.0, and thus significantly lower than in the previous year and already very close to our medium-term target of < 1.0. The significant improvement in 2020 could be influenced by the effects of the coronavirus crisis. Including the Leather business unit, the LTIFR in the reporting year was 1.1.

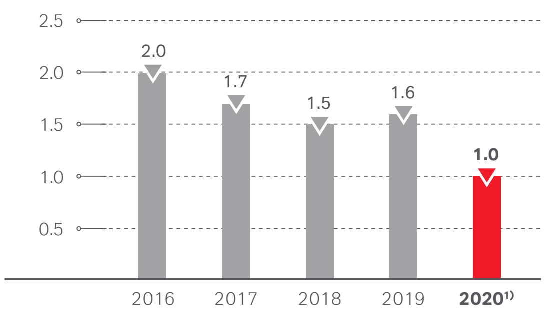
As in previous years, no fatal accidents occurred in the reporting period. The RIR, which also includes accidents with no days lost in accordance with OSHA rules, was 0.8 in 2020, both in continuing operations and including the Leather business unit, and thus equivalent to the previous year's level. Companies have been taking occupational safety increasingly seriously in recent years. This sharp focus at all hierarchy levels has helped to continuously reduce reports of serious accidents on a lasting basis.

All accidents as well as significant near-misses are systematically analyzed with regard to their cause and possible preventive measures. The results of these investigations are, for instance, incorporated into safety updates that are made available to the entire organization. We regard the sharp fall in the LTIFR in recent years as evidence that this structured transfer of knowledge and the many measures to improve occupational safety at LANXESS are having a positive effect. We present many of these measures at business unit, region and/or site level in connection with the CEO Safety Award. All employees can access an overview of these measures in a special database.

1) Continuing operations

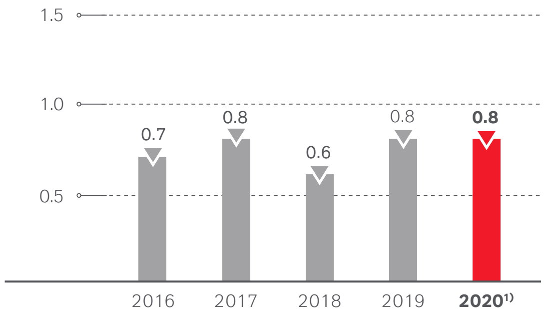
NFR

Work-Related Injuries to LANXESS Employees Resulting in Absence from Work (LTIFR)



1) Continuing operations

Work-Related Injuries to LANXESS Employees That are Reportable in Accordance with OSHA Regulations (RIR)



1) Continuing operations

CEO Safety Award

For us as a chemicals company, the safety of our plants and processes is the utmost priority. The international CEO Safety Award, which was bestowed for the second time in the reporting year, recognizes particularly successful initiatives and contributions to occupational safety at LANXESS. We thus want to anchor occupational safety even deeper in the minds of all employees. The focus is on avoiding accidents and incidents as well as the sustainable implementation of safety processes.

A plant team from Germany (Uerdingen site) received the award for its "Projection lamps for occupational safety pictograms" project. Resourceful colleagues from the milling plant improved safety in their operating area by installing LED projection lamps at danger spots that project occupational safety pictograms onto the wall and floor. This makes the warning signs much clearer and more noticeable.

In addition, CEO Matthias Zachert personally congratulated teams from Elmira, Canada, for "lock out, tag out" processes and the All business unit (Germany) for their "Professional Calm" safety initiative as finalists.

1,198
new ideas in 2020

Good ideas are always in demand

With our ideas management system, we systematically promote the development and implementation of suggestions for improvement in order to keep on generating impetus for improving economic efficiency, occupational safety and environmental protection. Many good ideas were again implemented in 2020. 305 contributed to increased occupational safety, 271 to improved environmental performance.

Ideas Management

	2016	2017	2018	2019	2020
No. of new ideas	2,442	2,262	1,633	1,538	**1,198**
Employees entitled to participate	7,908	7,655	7,206	7,475	**7,747**
TMQ[1]	318	295	267	206	**155**
Savings (€ million)	2.26	1.58	0.92	0.42	**1.31**
Bonuses (€ million)	0.8	0.65	0.34	0.27	**0.49**

1) TMQ: rate per thousand employees.

Pursuing goals together

Dialog with chemicals social partners – trade unions and employer associations alike – as a principle of consultation in action is the global practice at LANXESS. As part of this, we also respect the freedom of association of our employees in accordance with the International Labour Organization (ILO) and the Global Compact and comply with collective bargaining agreements. We regularly seek dialog with employee representative committees in Germany, Europe and worldwide, provide information on our corporate objectives and involve employee representatives in organizational changes at an early stage.

In the reporting year, we came to an agreement with the Central Works Council and the German Mining, Chemical and Energy Industrial Union (IGBCE) on jointly designing the work of the future. The agreement, dated March 2020, documents the action areas that we identified in a prior process to analyze the status of digitalization ("Work 2020" project with BCE). The principles agreed relate to regular discussion between the parties on the design of the digitalization process, the illustration of employment prospects and necessary change processes, the establishment of learning opportunities and a culture of learning for Education 4.0, and health care. The agreement forms the basis for subsequent, more specific plant agreements.

Fair dealings with employee representatives and trade unions are also a top priority for us outside Europe. In South Africa, for instance, we comply with International Labour Organization (ILO) standards with respect to our employees' freedom of association. This includes regular exchange between local management and trade-union representatives as well as binding, collectively agreed-upon regulations on remuneration and working conditions.

Proportion of Employees Covered by Collective Bargaining Agreements
%

NFR

RESILIENT SOURCING

At LANXESS, raw materials, other materials, equipment and services are subject to globally standardized requirements with regard to safety and environmental protection. Their procurement is the responsibility of our Global Procurement & Logistics Group function, the head of which reports directly to the Board of Management member Dr. Hubert Fink. In close coordination with our business units, this administrative unit organizes Group-wide procurement, establishes corresponding guidelines, and initiates measures to promote purchasing synergies and sustainable behavior by our suppliers.

In the reporting year, the coronavirus pandemic posed serious challenges for our supply chain. Because of the strategic relationships with our suppliers and our dual procurement module for strategic raw materials and products, however, our performance and delivery capability remained unimpaired. Thanks to our global procurement structure, we successfully handled the massive rise in demand. For example, it was no problem to redeploy deliveries of personal protective equipment (PPE) from China to India in order to avoid any bottlenecks. In logistics, the extraordinary circumstances of the pandemic demanded a high degree of flexibility. Thanks to our agile approach and the solid and long-term business relationships with our logistics partners, we were able to meet all customer requirements without problem. This was particularly evident in the flexible response of our Chinese procurement and logistics teams, which – especially during lockdown – put in a top performance and ensured that orders were promptly delivered in spite of the challenging conditions.

18,000
suppliers Group-wide

NFR

In 2020, procurement transactions with over 18,000 suppliers were processed. A global procurement guideline for the entire Group defines our employees' conduct when dealing with suppliers and their employees. We have specified standardized workflows in the context of procurement in more detail in a process description. In our training program for strategic purchasers (ProTrain), we also pay due attention to the topic of sustainability. As ProTrain is predominantly carried out face to face, all training events were canceled in 2020 due to the pandemic. According to the principles of the U.N. Global Compact, the International Labour Organization (ILO), Responsible Care® and other CSR codes, we expect our suppliers to comply with national and other applicable laws and regulations for environmental protection, health and safety at work and with regard to labor and recruitment practices. Acceptance of the requirements of our "Supplier Code of Conduct" is an essential prerequisite for all suppliers wishing to work with us.

In the interests of safe processing at our production facilities, there is a particular focus on the procurement of raw materials. It is thus essential for suppliers to present an up-to-date safety data sheet for the procurement of all raw materials. In the case of raw material deliveries from non-European suppliers, our purchasing department, together with the Production, Technology, Safety & Environment (PTSE) Group function, clarifies which obligations have to be fulfilled under the REACH Regulation. Further information can be found under "Sustainable Product Portfolio."

We strive to promote sustainability, increase transparency throughout our supply chain, and thereby further minimize procurement risks. This is why LANXESS is a founding member of the "Together for Sustainability" (TfS) initiative. In 2020, this initiative was supported by 26 international chemicals companies with a cumulative purchasing volume of over €227 billion. The focus here is on human rights, prevention of child labor, labor standards, occupational safety, environmental protection, and business ethics. TfS has established itself in the chemicals industry as the clear standard for a sustainable supply chain.

Because the assessment results and audit reports are shared within the initiative, we had more than 9,750 sustainability assessments and over 800 audit reports available to us as of the end of 2020. Suppliers whose sustainability-related activities have been assessed in TfS audits represent 50% (previous year: 55%) of our relevant procurement volume. The relevant procurement volume comprises all suppliers from which we procure more than €20,000 of goods or services per year. The TfS sustainability assessment is also incorporated into our strategy process, which must be applied to every contract negotiation or renewal with a purchasing volume of more than €5 million. In addition to the XCORE strategy process, the SCORE process was also introduced during the reporting year and established in purchasing departments worldwide. This process is similar to the XCORE process, but is geared toward purchasing volumes between €1 million and €5 million or over €250,000 in regions outside Europe.

It is also encouraging to see that our suppliers' average Ecovadis sustainability assessment of 47 points is above the Ecovadis benchmark of 43 points. With regard to our suppliers' weak points, no trend could be discerned in 2020 again. We had no reason in the year under review to end our collaboration with suppliers due to sustainability aspects.

LANXESS is in the process of migrating the risk analysis system to SAP ARIBA, which is currently in the final test phase. Because of the decision to switch systems, our processes have been significantly delayed by data transfers and necessary adjustments. However, we expect to achieve a more precise depiction of the risk in our supplier database and a marked increase in data efficiency.

SAFE AND SUSTAINABLE SITES

58
production sites in 18 countries

32
HSE (Health, Safety, Environment) checks at production facilities

NFR

More than ever, acting sustainably in the chemicals industry means taking responsibility for products and manufacturing processes. All over the world, we are seeing a high level of convergence of environmental and production standards. What used to be positive distinguishing features in the area of sustainability are now increasingly essential worldwide to the mere ability to produce and sell chemical products. Yet we would be failing in our commitment to quality if we simply restricted ourselves to meeting standards – even if they are more exacting than in the past. Instead, our commitment is to make our production safe and sustainable in every respect, thus ensuring our long-term competitiveness.

Our Production, Technology, Safety & Environment (PTSE) Group function, the head of which reports directly to the Board of Management member Dr. Hubert Fink, is responsible for this. PTSE develops and maintains company-wide standards that ensure responsible use of chemicals at LANXESS. They define requirements and govern responsibilities for health protection, environmental protection, handling of chemicals, plant safety and safety precautions in the workplace. Continuous training of our employees and regular audit-based reviews of our health, safety and environmental management systems are aimed to ensure that the requirements are incorporated into our processes systematically and sustainably.

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Uniform standards in production

LANXESS operates a total of 58 production sites and has a presence in 18 countries (investments ≥ 50%, as of December 31, 2020). Our wide range of products requires the use of many different chemical and technical processes. Uniform standards for planning, building and operating plants ensure a high level of process, plant and occupational safety.

Handling chemical substances and working with technical equipment involves health and safety risks. We identify these risks and potential threats systematically worldwide – for new and existing plants – and minimize them by implementing defined preventive and protective measures. Experts examine implementation of LANXESS guidelines and local regulations for safe operation of our plants on-site via targeted spot checks in audits whose frequency is geared toward the respective risk profile. Compliance with safety standards must be regularly verified worldwide for every plant via audit opinions. In 2020, a total of 32 production facilities (previous year: 38) were examined in the context of HSE compliance checks (health, safety and environment), including 16 (previous year: 16) in Germany. 15 HSE compliance checks planned outside Germany were postponed to 2021 as a result of the coronavirus pandemic.

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We use an electronic reporting system (Incident Reporting System – IRS) to record accidents and events worldwide in line with uniform regulations. Injuries, transportation accidents, near-accidents, environmental incidents, instances of damage and security-relevant incidents such as theft are documented. Each event is carefully analyzed in order to draw conclusions as to how we can avoid similar incidents in the future.

All measures count toward our goal of continuously reducing the number of events. The number of major incidents in the 2020 reporting year was in single digits.
Further information in GRI content index

Global hazardous-goods and transport-safety management system

With a global hazardous-goods and transport-safety management system, we ensure that we minimize or entirely avoid hazards. We coordinate, monitor and review implementation of relevant hazardous-goods and transport-safety regulations as well as in-house regulations centrally in a department that is specifically responsible for this.

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Central classification of our products in line with international, regional and local hazardous-goods regulations ensures that applicable laws are interpreted uniformly while taking regional and local aspects into account. Classification determines such things as the type of containment (packaging and tanks), marking and labeling, the permitted modes of transport and transportation routes as well as measures that operational staff must take if a transportation event occurs. The corresponding classification data is stored in the safety-data system for chemicals at LANXESS. In recent years, we have gradually connected an increasing number of countries and Group companies to the system. We successfully integrated the former Chemtura sites in North America into the central safety-data system in 2020. In 2021, we will include more former Chemtura sites in Germany and the UK.

To counter the deficiencies in load securing of general cargo, the PTSE Group function and the business units have worked closely together to develop a load-securing standard for LANXESS. After numerous field tests, it was initially used successfully at our locations in Brunsbüttel and Leverkusen, Germany. Since 2019, we have carried out load-securing training sessions for external service providers in Antwerp, Belgium, and Bitterfeld, Duisburg and Mannheim, Germany, where the new load-securing standard is already established. We also implemented the standard at all Indian sites. The expansion to other sites – especially the U.S. – planned for 2020 has been suspended for the time being due to the coronavirus pandemic.

Environmental responsibility

We regard preservation of natural resources – for example by using raw materials and energy as efficiently as possible – and identification of further potential for reducing emissions and waste as an ongoing task in the context of our environmental responsibility and expertise. We equip all new production sites in line with the state of the art, including in terms of environmental standards, taking local requirements into account.

LANXESS Water Program launched

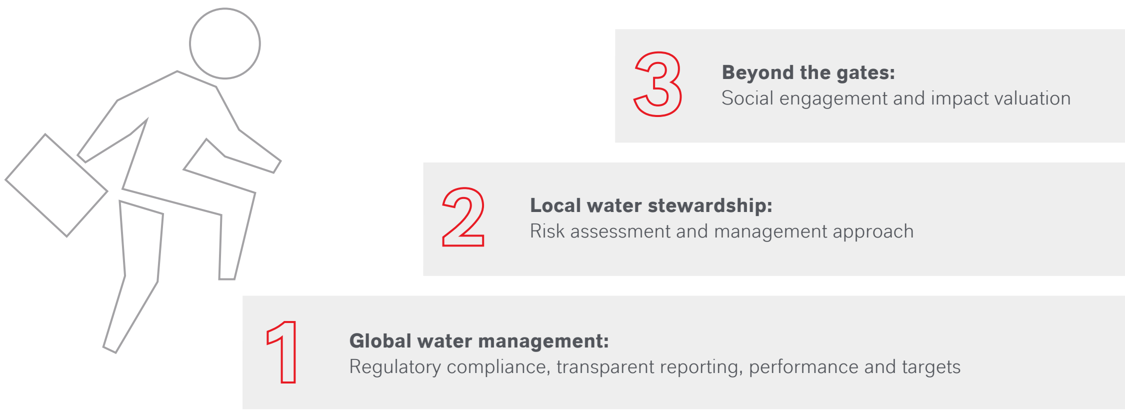
As a chemicals company, we rely on water for our production. We use it mainly for cooling (81%), as an input material in chemical processes (17%) or in the form of steam (2%). In addition, rivers are an important transportation tool, particularly for our networked sites in Germany.

Besides water's importance as an economic resource, LANXESS is also aware of its ecological and social significance. Access to water and sanitary facilities are a fundamental human right. Water availability and quality are global challenges that we can and must face up to locally as a company. We are therefore committed to the responsible use of water. In our own business activities and beyond, we use our products to advance the United Nation's Sustainable Development Goal 6 (SDG 6): "clean water and sanitation for all."

In order to push our engagement further, we launched our global LANXESS Water Program in 2020. We thus want to promote sustainable water management with the aim of continuously improving the way water is used.

Further information on our Water Background Paper

LANXESS Water Program



90% of water withdrawal conducted in areas with low water stress

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One of the most important indicators in discussions around water is water stress, calculated as the ratio of total annual water withdrawal to total renewable water reserves. In areas with high water stress, there is also competition between the users of water sources.

Our analysis of all LANXESS production sites using the WWF Water Risk Filter showed that a total of 14 of our 58 production sites are in water-stress areas. These sites account for 2.25% of our total water withdrawal. 90% of our water withdrawal takes place in areas with low water stress.

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We have developed an extensive water risk analysis in order to enlarge upon this assessment and serve as a basis for our LANXESS Water Program. This analysis is based on a total of ten factors such as water stress, water withdrawal and other risks and combines internal and external data and information.

The main indicators of water risk are the new water stress score developed by us (average of current and future water stress) and the specific water withdrawal per ton of a product. The results of this analysis make it possible to classify all sites according to their water risk and

NFR

to develop suitable targets and measures for the sites. Using our risk analysis, we have identified four sites in Jhagadia and Nagda, India; Latina, Italy; and Qingdao, China, which are located in particularly severely affected water risk regions. Initially, we will concentrate our measures on these sites.

By 2023, LANXESS aims to reduce absolute water withdrawal at water risk sites by 15% compared with 2019. Local Water Stewardship Programs are to be implemented at the four risk sites up to 2023. They are based on generally recognized science and on a LANXESS-specific standard that covers the development of site-specific targets and action plans, efficiency measures and joint water projects in order to counter the risks in the catchment.

We also campaign for the responsible use of water regardless of potential risk sites: In 2020, LANXESS received the “Diamond Award for Excellence in Environmental Leadership” from the Arkansas Environmental Federation and the “Sustainability Award in Waste Minimization” from the American Chemistry Council. These awards were in recognition of a new wetland constructed at the site in El Dorado, U.S., which LANXESS acquired in 2017 in the Chemtura acquisition. When we acquire companies, we also take responsibility for any pre-existing damage. In El Dorado, for example, decades

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of industrial use caused heavy metals to build up in soils close to the surface. There is a risk that pollutants will be washed out when it rains. The wetland created by LANXESS binds the escaping heavy metals and thus acts as a plant-based treatment facility. As a result, we can significantly reduce the leakage of heavy metals.

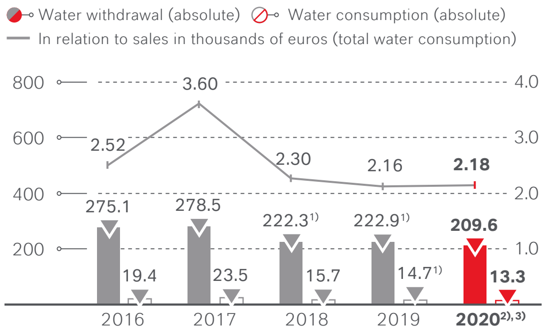
We are also making a major contribution to the protection of water as a resource with the products of our Liquid Purification Technologies business unit. For example, the Lewatit® ion exchange resin has articular use in the processing and reuse of process water and removes unwanted substances. LANXESS plans to further expand the promising business with ion exchange resins. In the coming years, an investment of between €80 million and €120 million is expected to be made in the construction of a new production facility.

Sparing use of water

Dealing with scarce water resources sensitively is an investment in the future. In order to break the link between our growth and water consumption and potential stresses from wastewater discharge, we have set ambitious targets at Group level. We are aiming for an annual reduction of both specific water consumption and specific total organic carbon (TOC) in wastewater flows by 2%.

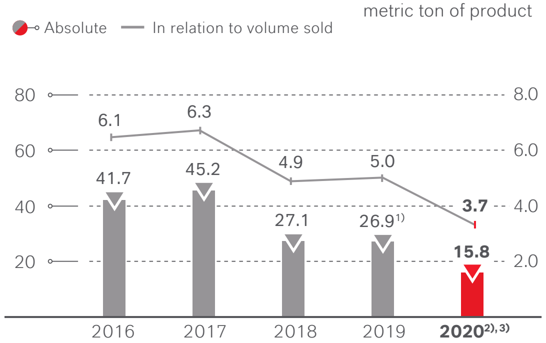
NFR

Water Withdrawal & Consumption
in million cubic meters — in cubic meters/thousand euros of sales



1) Figure restated
2) Continuing operations
3) LANXESS total: Water withdrawal: 210.2, Water consumption: 13.4, specific: 2.13

Wastewater Discharge (treated)
in million cubic meters — in cubic meters per metric ton of product



1) Figure restated
2) Continuing operations
3) LANXESS total: Wastewater discharge (treated): 15.8, specific: 3.6

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The comparison of water withdrawal and water consumption shows that, while large volumes of water are withdrawn (e.g. in the form of once-through cooling water), this water is later returned to the water cycle in the same quality. In 2020, LANXESS's water consumption is calculated by subtracting the volume of treated and untreated wastewater and the volume of sold steam from the water withdrawal. There was a significant reduction in water withdrawal, mainly due to the coronavirus situation. In fiscal year 2020, the volumes of treated and untreated wastewater were recorded separately for the first time and used in the calculation of water consumption. Together with the coronavirus effect, this led to significantly lower water consumption than in the previous year. Due to the sharp decline in the production volume, however, the target of a specific reduction of 2% was not achieved.

The volume of treated wastewater decreased significantly in 2020. This is attributable on the one hand to the methodological change described above and on the other hand to the coronavirus situation. The same applies to the specific figure. The assessment of qualitative indicators is also part of LANXESS's tracking of key environmental figures. One of the most important wastewater parameters is TOC (total organic carbon). In fiscal year 2020, the specific TOC after wastewater treatment increased to 0.20 kilograms/thousand euros (2019: 0.18 kilograms/thousand euro). The reduction target was therefore not achieved.

Sustainable waste management

Rigorous material-flow management from use of raw materials to product finishing is aimed at ensuring that

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we use resources as efficiently as possible and minimize our waste volumes. Where waste is unavoidable, we try to use or sell it as a secondary raw material or energy source. To keep the amount of waste that has to be disposed of to an absolute minimum, we take a wide range of measures to continuously improve recovery in our production processes.

To ensure continuous optimization of our material-flow management, we have committed ourselves to achieving the targets defined in the international program "Operation Clean Sweep" (OCS) of the Society of the Plastics Industry. OCS aims to prevent plastic particles and pellets from entering the maritime environment and having an undesired impact. By joining in 2016, we made a commitment to train employees in this area, to implement measures to prevent the release of pellets at our facilities and to require our business partners to also take active steps to prevent pellet emissions.

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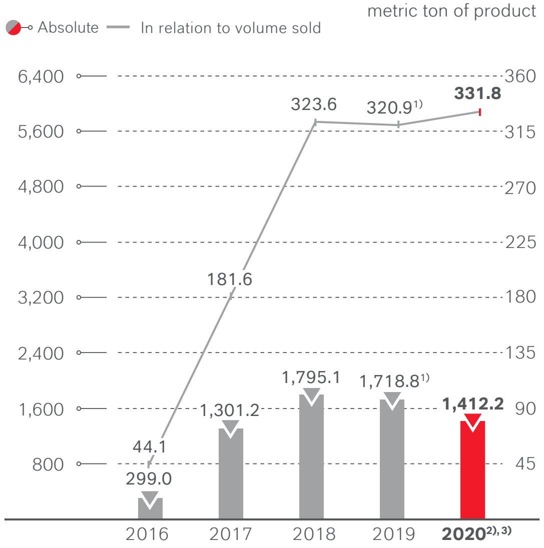
Total Waste

in thousand metric tons

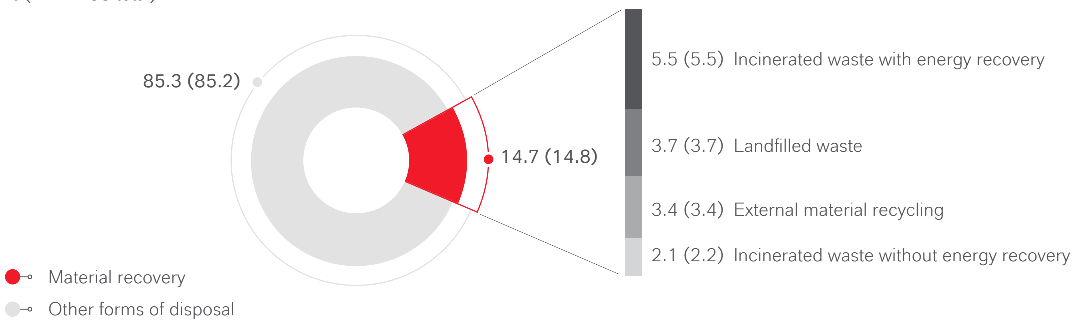
in kilograms of waste per metric ton of product



1) Figure restated
2) Continuing operations
3) LANXESS total: Total waste: 1,413.3, specific: 322.7

Waste for Disposal[1]

% (LANXESS total)



1) Continuing operations

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The total amount of waste generated decreased compared to the previous year. Due to the reduction in the volumes produced, the specific figure deteriorated compared to the previous year. In addition to portfolio changes and effects of the coronavirus pandemic, the considerable reduction was mainly due to a technical improvement at our El Dorado site in the U.S. The biggest share of our waste volumes comprises slightly polluted wastewater at this site, which is declared as waste. The significant increase in the total amount of waste generated in 2017 is primarily attributable to the inclusion of the Chemtura production sites, which were acquired in that year.

Systematic recording of key data

To record key data on safety and environmental protection systematically worldwide, we use an electronic data-entry system. This enables us to calculate a wide range of HSE performance data for each business unit and site worldwide, which is used as a valid data pool for strategic decisions as well as internal and external reporting. In addition, it maps the progress that we make with our global sustainability targets. Data is gathered only at production sites where we have investment of over 50%. Because of the planned sale of the leather business, we recognize the Leather business unit separately.

PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft audited our HSE key data and the requisite data-gathering processes with limited assurance for fiscal year 2020.

The current independent assurance report can be found here.

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Environmental and Safety Performance Data*

	2018	2019	2020 Continuing operations	2020 Leather business unit
Safety				
Occupational injuries to LANXESS employees resulting in at least one day's absence (per million hours worked) (LTIFR[1])	1.5	1.6	1.0	3.3
Volume sold[2] in thousand metric tons/year	**5,547**	**5,356**	**4,256**	**124**
Energy consumption in petajoules (10^{15} joules)[3]	**28.5[a]**	**27.1[a]**	**24.4**	**0.34**
Direct energy sources (GRI 302-1)				
Non-renewable	11.7[a]	11.3[a]	9.5	0.21
Renewable (biomass)	2.5[a]	1.9[a]	2.4	0.00
Indirect energy sources (GRI 302-1)[4]				
Electricity consumption	6.7[a]	6.55[a]	5.8	0.07
Heat and steam consumption	6.9[a]	6.7[a]	6.0	0.06
Energy consumption for cooling	0.5[a]	0.5	0.55	0.00
Other	0.2[a]	0.15	0.15	0.00
Water and wastewater in million cubic meters				
Total water withdrawal (GRI 303-3)	**222.3**	**222.9[a]**	**209.6**	**0.64**
Surface water	49.5	52.7	48.4	0.00
Groundwater	5.3	5.2	4.3	0.04
Third-party wastewater	1.2	1.1	1.2	0.00
Third-party water	166.3	163.9[a]	155.7	0.60
Total water withdrawal in water-stress areas (GRI 303-3)	**–**	**5.7[a]**	**4.7**	**0.04**
Volume of once-through cooling water (GRI 303-4)	**178.5**	**181.4[a]**	**169.7**	**0.49**
Total wastewater discharge (GRI 303-4)				
Wastewater discharge (treated)[5]	27.1	26.9	15.8	0.04
Wastewater discharge (untreated)[5]	–	–	178.8	0.48
Wastewater emissions (after treatment) in thousand metric tons				
Total nitrogen	0.5	0.4	0.4	0.001
Total organic carbon (TOC)[6]	1.2	1.2	1.2	0.006
Heavy metals[7]	0.0027	0.0023[a]	0.0021	0
Total water consumption in million cubic meters (GRI 303-5)[8]	**15.7**	**14.7[a]**	**13.3**	**0.13**
Emissions to air in thousand metric tons				
Total greenhouse gas emissions CO_2e (GRI 305-1, GRI 305-2)	3,177[a]	2,950[a]	2,533	32
Direct (Scope 1)[9]	1,490[a]	1,459[a]	1,263	12
Indirect (Scope 2)[10]	1,687[a]	1,491[a]	1,270	20
Ozone-depleting substances (GRI 305-6)	0.00785	0.00716	0.004	0
NO_x, SOX and other emissions (GRI 305-7)				
NO_x[11]	2.8	2.6	2.1	0.01
SO_2[12]	1.0	0.9	0.9	0.00
CO	2.2	1.7	2.1	0.00
NH_3	0.025	0.048[a]	0.021	0.00
NMVOC[13]	0.7	0.7	1.2	0.02
Waste in thousand metric tons				
Total weight of waste (GRI 306-2)	1,795.1	1,718.8[a]	1,412.2	1.1
Incineration with energy recovery	65.0	66.1[a]	77.1	0.0
Incineration without energy recovery	25.0	29.3	30.5	0.2
Landfilling	141.7	152.1[a]	52.1	0.6
Material recovery	65.0	58.9[a]	47.9	0.3
Other forms of disposal	1,498.4	1,412.4[a]	1,204.6	0.0
Type of waste				
Hazardous	718.7	687.8	566.45	0.6
Non-hazardous	1,076.4	1,031.0[a]	845.75	0.5

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%. 2018: For the reporting in 2020, only continuing operations are shown for 2018 (not including ARLANXEO). All charts on environmental and safety performance data likewise present the figures for continuing operations for reporting year 2018. 2020: The production site in Jarinu, added due to the acquisition of IPEL-Itibanyl Produtos Especiais Ltda., was included in the key environmental figures from February 2020. 2018/2019/2020: Some of the data is based on estimates and projections.

1) LTIFR: accident rate per planned 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) From 2020, treated and untreated wastewater were recorded separately.
6) Chemical oxygen demand (COD) is calculated as follows: [COD] = [TOC] * 3. For 2020, the COD is 3.6 kt (not including Leather BU).
7) Heavy metals (arsenic, cadmium, chromium, copper, mercury, nickel, lead, tin, zinc).
8) According to GRI 303-5, total water consumption is calculated by subtracting the total water discharge from the total water withdrawal. 2018-2019: Total water withdrawal less the volume of once-through cooling water, wastewater and the volume of sold steam. 2020: Total water withdrawal less wastewater (treated and untreated) and the volume of sold steam.
9) 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: 2016: 212 kt CO_2, 2017: 215 kt CO_2, 2018: 230 kt CO_2, 2019: 184 kt $CO_2$2, 2020: 268 kt CO_2 (not including Leather BU).
10) All Scope 2 greenhouse gases are calculated as CO_2e. In 2020, the conversion factors used were provided by the energy producers. Where these were not available, factors from the IEA (International Energy Agency) from 2018 were used for fiscal year 2020, factors from 2017 were used for fiscal year 2019 and factors from 2016 were used for fiscal year 2018. 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 2020 amounted to 1,645 kt (not including Leather BU).
11) Nitrogen oxide (NO_x) calculated as NO_2 (excluding N_2O – nitrous oxide).
12) Sulfur dioxide (SO_2) + SO_3 calculated as SO_2.
13) Total VOC (volatile organic compounds) excluding methane and acetone.
a) Values restated due to supplementary notifications or change in calculation method.

Roughly
1.5 million
people reached with our projects

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Corporate citizenship

Our understanding of sustainable sites also includes being a strong and reliable partner for the people locally and in the respective region and taking responsibility for development of the social environment. Our social commitment is based on our corporate expertise and objectives and focused on education, climate protection, water and culture. Our goals in all these areas are identical:

- Mobilizing resources and people for social commitment
- Achieving positive impacts on the company, the environment and society

As a company, we aim to play a positive part in improving living conditions, education, training and equal opportunities as well as health and safety. In addition, we are working to attract talented persons, engage in extensive dialog with our stakeholders, have a positive influence on employee motivation and constantly improve our reputation.

As in the previous year, we provided around €1.5 million globally for our projects in 2020.

The regional focal points of our activities in the reporting year were the EMEA and USMCA regions.

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As soon as we heard about the outbreak of the coronavirus pandemic, we made the necessary arrangements to provide disinfectant around the world. In February 2020, we donated one ton of our Rely+On Virkon disinfectant to hospitals in Wuhan, China, followed by a total of ten tons for hospitals, authorities and public institutions in 13 countries around the world. In Germany, we donated the water-soluble powder to the North Rhine-Westphalia's Ministry of Labor, Health and Social Affairs as well as supplying a total of 470 schools and public institutions.

In decisions on social commitment, we initially assess our projects according to whether they pursue purely charitable ends ("charitable gift"), whether we are investing in the social environment of our sites ("community investment") or whether we are investing in corporate objectives such as image, sales and income while also generating social value ("commercial initiative").

In total, roughly 1,500,000 (previous year: roughly 300,000) people benefited from our projects in 2020, which also included the disinfectant donations. We use a system of performance indicators to measure the social impact of our activities above and beyond the number of people who benefit. For nearly all of our projects in 2020, we performed an impact assessment, taking into account positive effects in the area around the site and positive environmental effects and impacts on our business. Specific feedback from people who benefit from

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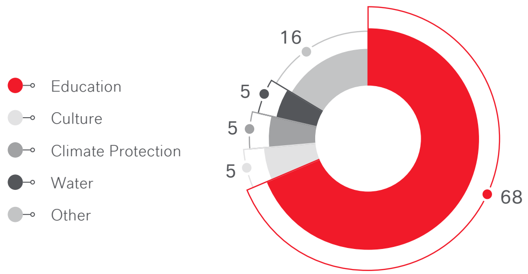
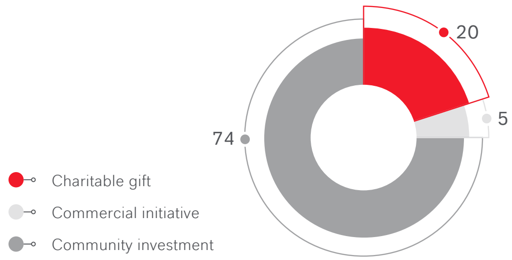
our projects is a key factor in this context. We regard these indicators as important benchmarks, with which we manage our measures in an impact-oriented manner.

Social Activities by Topic[1)]
%



1) Number of projects: 129

Social Activities by Type of Investment[1)]
%



1) Number of projects: 129

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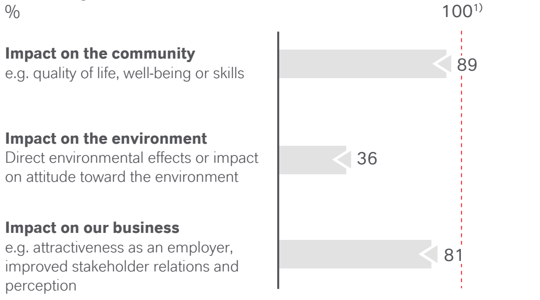
Impact Dimensions of Evaluated Activities and Projects



1) Number of projects: 129

Over **500** education projects launched since 2008

Commitment to education, climate protection, water and culture

We began promoting education under the umbrella of the LANXESS education initiative in 2008. Since then, we have initiated more than 500 projects at our sites worldwide to get young people interested in the natural sciences at an early age. In Germany, the LANXESS laboratory days again met with a great response, with children from secondary schools spending a day in modern laboratories conducting experiments under expert guidance. In total, we held four of these events at our sites in Leverkusen, Dormagen and Krefeld in the reporting year. In addition, we supported schools with project funding of around €144,000. The schools used the donations to purchase STEM teaching materials.

In order to facilitate digital learning in times of coronavirus – and thereafter – we provided a total of 57 schools near our sites with licenses to the interactive online platform 123chemie.de. The aim of preparing young people for the digital future was the focus when issuing new teaching material on industry and working world 4.0. We distributed the material to 169 high schools at the German LANXESS sites. In Poland, we joined forces with the Children's University Foundation to support a workshop with eight modules to teach technical knowledge to elementary school children in the second to fourth grades. In total, students from 64 school classes took up the offer. It remains our particular ambition to also provide children growing up in difficult circumstances or under difficult conditions with access to science education. For example, we continued our partnership with "Save the Children Japan" in the reporting year and, because of the coronavirus pandemic, held online workshops in several Japanese cities. In a cooperation project with the "Aha Open Education Center," children in the Republic of Korea who otherwise have no access to education were given the opportunity to test theoretical knowledge in a series of practical experiments.

We are working to protect the climate with a multi-stage energy-saving project at a children's home in Mexico City, for example. The Hogar y Futuro children's home not only gives children a new home, but also offers lessons for around 300 preschool-age children as a charitable organization. After replacing the wiring and putting in an energy-saving lighting system, we installed a photovoltaic system on the roof of the home in 2019 and 2020. It ensures that the facility is supplied with hot water all year round. As well as a cost saving of approximately 33% thanks to the reduced energy consumption, the combination of various energy-saving measures resulted in an overall reduction in CO_2 emissions if around 2.89 tons/year. In addition, we facilitate lessons in which the children learn about how to save energy and the ways that modern technology can be used to protect the environment.

When it comes to saving energy in order to reduce CO_2 emissions, every individual can and must make a contribution. This is the fundamental principle of a Japanese campaign that we have been involved with for seven years. As part of the campaign, we turned out the lights on two days at three LANXESS sites in Japan, recommended that employees do the same in their home offices, and provided climate protection training in an online seminar.

In Porto Feliz, Brazil, our Inorganic Pigments business unit is involved with several reforestation projects for climate and water protection as well as the living environment of the local population. At the end of 2020, seedlings of native trees were planted by hand in two nature reserves totaling around 3,000 m², and another 200 seedlings were planted on the grounds of three schools.

The "Clean Water for a Better Life" research competition in China, which we held for the sixth time in a row, and digitally for the first time, in 2020, looked at the treatment and reuse of dirty water, research into and treatment of drinking water and the management of natural water resources. We use the competition to

Greenhouse gas emissions reduced by
50%
from 2004 to 2018

VOC emissions reduced by
78%
since 2015

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support talented young academics. At the same time, it raises public awareness of the significance of water as a resource. One of the many places in the world suffering from water scarcity and climate change is Burani, a village in Kenya. In the last few years, the water table there has fallen from 45 meters to 145 meters. Since 2020, membrane elements of our Lewabrane brand have been installed in a solar-powered plant in Burani. The extremely salty untreated water is transformed into clean water through reverse osmosis. The filtered water is offered as drinking water in a water kiosk.

As part of our cultural commitment, we have been sponsoring the international literature festival lit.Cologne as a lead partner since 2010 and the Kölner Philharmonie for several years. The Ozawa International Chamber Music Academy in Japan, which we have supported for ten years, gives talented young musicians from all over Asia the opportunity of first-class musical training. In 2020, the program was altered because of the pandemic. It ended with a concert in Nagano Prefecture, which was attended by a physical audience of around 100 people and an online audience of around 3,400.

Further information on our corporate citizenship activities

CLIMATE ACTION AND ENERGY EFFICIENCY

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With the Paris Climate Agreement, the international community committed to limiting global warming to less than two degrees Celsius above the pre-industrial level. Accordingly, all signatory nations have set ambitious reduction targets. For instance, in Germany, the "Climate Protection Plan 2050" sets out the interim goal of cutting greenhouse gas emissions by at least 55% compared with the base year of 1990 by 2030. Industry is expected to contribute to this with a reduction of between 49% and 51%.

Since it was founded, LANXESS has made substantial progress in its goal of becoming more environmentally friendly. Between 2004 and 2018, we halved our greenhouse gas emissions from around 6.5 million tons of CO_2e to about 3.2 million tons. Moreover, we have already achieved our most recent targets much earlier than originally planned: improving energy efficiency and reducing the associated CO_2 emissions and emissions of volatile organic compounds by 25% compared to 2015.

Our journey to climate neutrality

1. We drastically reduce emissions from internal sources.
2. We reduce our specific energy requirement.
3. We purchase very low-emission or climate-neutral energy.

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In light of this, it was time to set new, ambitious targets and thus fulfill our responsibility as a global specialty chemicals company: LANXESS is to be climate neutral by 2040. By 2030, we aim to halve our greenhouse gas emissions again to around 1.6 million tons of CO_2e. We will thus have achieved a 75% reduction compared to the emissions when LANXESS was founded. To measure our emissions, we look at the emissions of greenhouse gases defined in the Kyoto Protocol and calculate their greenhouse effect in comparison to carbon dioxide (CO_2e). We include emissions from our own production (Scope 1) and from external energy sources (Scope 2) in the calculation.

Clear strategy to lower emissions

We are taking a three-pronged approach to achieve our target:

1. **Launch climate protection projects**
   Over the next few years, several special projects will significantly lower greenhouse gases. For example, we are currently building a facility for the decomposition of nitrous oxide at the site in Lillo, Belgium. The new facility began operations in 2020 and will reduce our annual emissions of this particularly harmful greenhouse gas by up to 150,000 tons of CO_2e. After a second expansion in 2023, CO_2e emissions will fall by another 300,000 tons.

€100 million
investment volume for climate protection projects

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In addition, we are also switching the entire energy supply at our Indian site to renewable energy sources, specifically biomass and solar power. This will cut our CO_2e emissions by a further 150,000 tons from 2024. Under these projects and other measures, we want to decrease our CO_2e emissions by a total of 800,000 tons by 2025. We will invest up to €100 million in order to achieve this.

2. **Break the link between emissions and growth**
   LANXESS is growing. But despite increasing production, emissions of greenhouse gases in our individual business units are set to shrink. In addition to technological efficiency, changes to governance instruments also play a significant role, with the impact on the company's carbon footprint becoming an investment criterion for organic growth and acquisitions. This gives business units that achieve better than average reductions in greenhouse gas emissions a direct financial advantage. In the reporting year, the Board of Management and the Supervisory Board decided the reduction in CO_2e will be used as an assessment criterion for the compensation system for managers and the Board of Management in the future.

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3. **Strengthen process and technological innovations**
   We are revising many of our existing production processes in order to go climate neutral by 2040. For example, we will continue to improve our composite structures, e.g. when it comes to heat exchange between plants and air purification. However, other procedures must first be developed on a large industrial scale. We will therefore focus our research activities more closely on climate-neutral process and technological innovation.

   By implementing the above measures, we want to decrease our annual emissions to less than 300,000 tons by 2040. We will neutralize the remaining emissions via appropriate offsetting measures. In this way, we will not only make a significant contribution to climate protection in the years to come, but will also become an even more sustainable partner for our customers.

Uncertainty over emissions trading

In Europe, 13 of our plants and sites are subject to European emissions trading. Trading with CO_2 emissions rights, known as certificates, is intended to reduce emissions of the environmentally harmful gas CO_2 cost-effectively. Because all of our plants covered by emissions trading are state-of-the-art and compete at the international level, we expect to receive enough

LANXESS is IN4climate

We have been involved since 2018 as an active partner in the IN4climate.NRW initiative, a new working platform for industry, science and the North Rhine-Westphalian government, the only one of its kind in Germany to date. The aim of the initiative is to devise strategies for how industry in North Rhine-Westphalia can become highly competitive, generate additional growth and play its part in attaining the Paris climate change targets. Specifically, the partners work together in innovation teams to address how production processes and value chains can be made climate neutral on a long-term basis, or what role industry might play in the development of climate-friendly products. For example, the "Hydrogen" working group is looking at the infrastructure required for the use of hydrogen as a reducing agent and heating medium. Meanwhile, the "Circular Economy" working group wants to gain access to raw materials for chemistry through thermolysis of plastics, and the "Heat" working group is investigating the greenhouse gas-neutral generation of heat. The regional government wishes to continue the project, which was initially limited to four years, and integrate it into the newly planned, state-owned company "Energie- und Klimaagentur." The project is receiving €16 million in funding from the regional government.

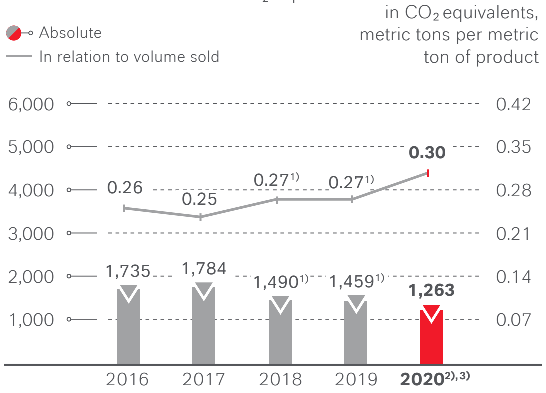
certificates from free allocation to cover the expected CO_2 emissions by the end of the third trading period in 2030. At present, however, we cannot precisely estimate the effects of changes to the EU emissions trading system planned under the Green Deal.

We also cannot precisely estimate the effects of the planned national Emissions Trading System (n-ETS), as the carbon leakage regulation stipulating important details on special treatment for the industry is not yet available. Similarly, important rules for the period after 2022, especially regarding the future treatment of hazardous waste, which may have relevant effects for LANXESS, have not yet been specified.

CDP gives LANXESS top score

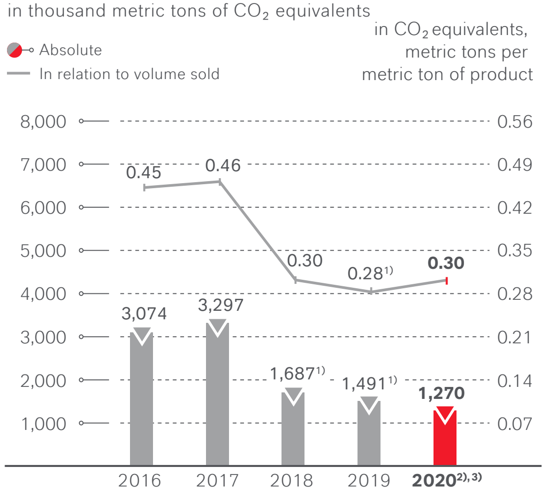
For more than a decade, we have been participating in the international climate protection initiative CDP (formerly the Carbon Disclosure Project), each year sharing data and information on climate protection and the reduction of emissions. We received the best possible score of "A" in the assessment for 2020, which puts LANXESS among the top 5% of more than 5,800 companies examined by the initiative in 2020. These gratifying results gave us encouragement to continue systematically pursuing our climate protection strategy.

Greenhouse Gas Emissions (Scope 1)
in thousand metric tons of CO_2 equivalents



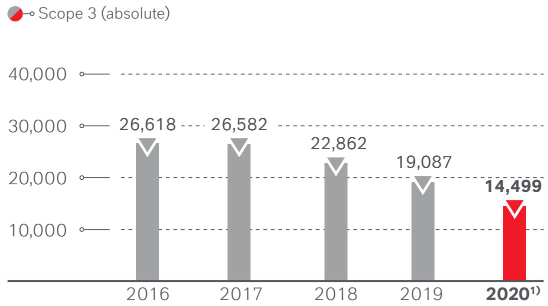
1) Figure restated
2) Continuing operations
3) LANXESS total: Scope 1: 1,275, specific: 0.29

Greenhouse Gas Emissions (Scope 2)
in thousand metric tons of CO_2 equivalents



1) Figure restated
2) Continuing operations
3) LANXESS total: Scope 2: 1,290, specific: 0.29

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



1) Continuing operations

In 2020, we further reduced our absolute Scope 1 emissions. The reduction of nitrous oxide emissions in Belgium continued and contributed significantly to the reductions. In addition, Scope 1 emissions from the use of coal were reduced via the increased use of biomass. However, due to the decline in the production volume as a result of coronavirus, specific Scope 1 emissions increased slightly year-on-year.

The reduction trend is also continuing for Scope 2 emissions. This is due on the one hand to reduced energy consumption as a result of coronavirus and on the other hand to lower emission factors, e.g. of our site operator in the Lower Rhine region. Because of the reduced production volume in the reporting year, there was also a slightly increase in the specific figure here.

The impact of coronavirus also led to a reduction in total Scope 3 emissions.

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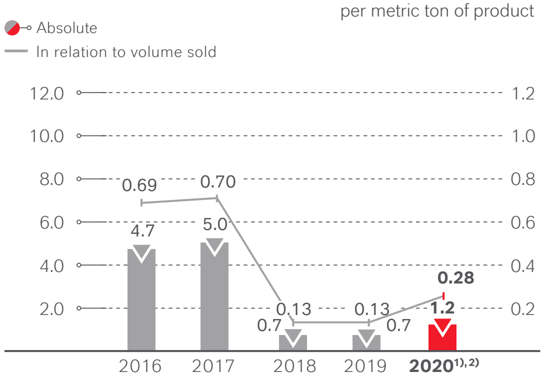
Other atmospheric emissions

VOC Emissions
in metric tons
in VOC, kilograms per metric ton of product



1) Continuing operations
2) LANXESS total: VOC: 1.2, specific: 0.28

In fiscal year 2020, VOC emissions increased again in both absolute and specific terms for the first time since the sale of ARLANXEO. This is attributable to increased combustion of residual gas at one of our sites.

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Systematic energy management

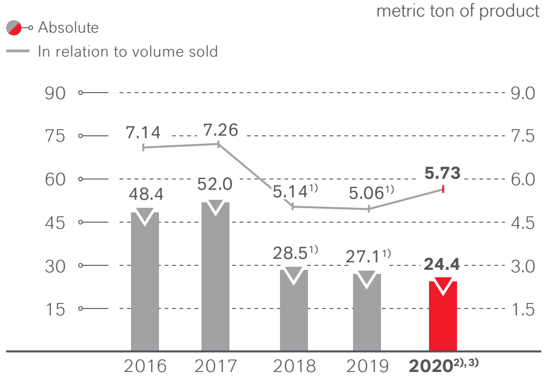
A high level of energy efficiency improves not just our emissions footprint, but also our cost position, thus ultimately making LANXESS more competitive. Our global energy management promotes projects to increase energy efficiency in our plants. In each business unit, energy officers ensure communication and the ongoing improvement of energy-related performance. Technical experts from the central departments help the local teams to identify and implement effective projects to increase efficiency.

With our Leverkusen, Krefeld-Uerdingen and Dormagen sites in Germany, since the end of 2017, we have been part of the Energy Efficiency Networks Initiative, established by the German federal government and leading industry associations. With its partners, the network@CHEMPARK, in which the three sites are involved, surpassed the target set at the start of the cooperation. When the term of this network came to a close at the end of 2020, it had achieved a saving of considerably more than 100 GWh or 30,000 tons of CO_2 per year.

NFR

We continue to support the network initiative in other regions. For example, our Mannheim site is participating in the ChePap 2 network and the Bitterfeld in the new Bitterfeld-Wolfen 2.0 network.

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



1) Figure restated
2) Continuing operations
3) LANXESS total: Energy: 24.7, specific: 5.65

Our absolute energy consumption continued to decrease in 2020. This is particularly attributable to the lower use of fuels. In specific terms, however, there was a deterioration due to the decline in our production volumes as a result of coronavirus.

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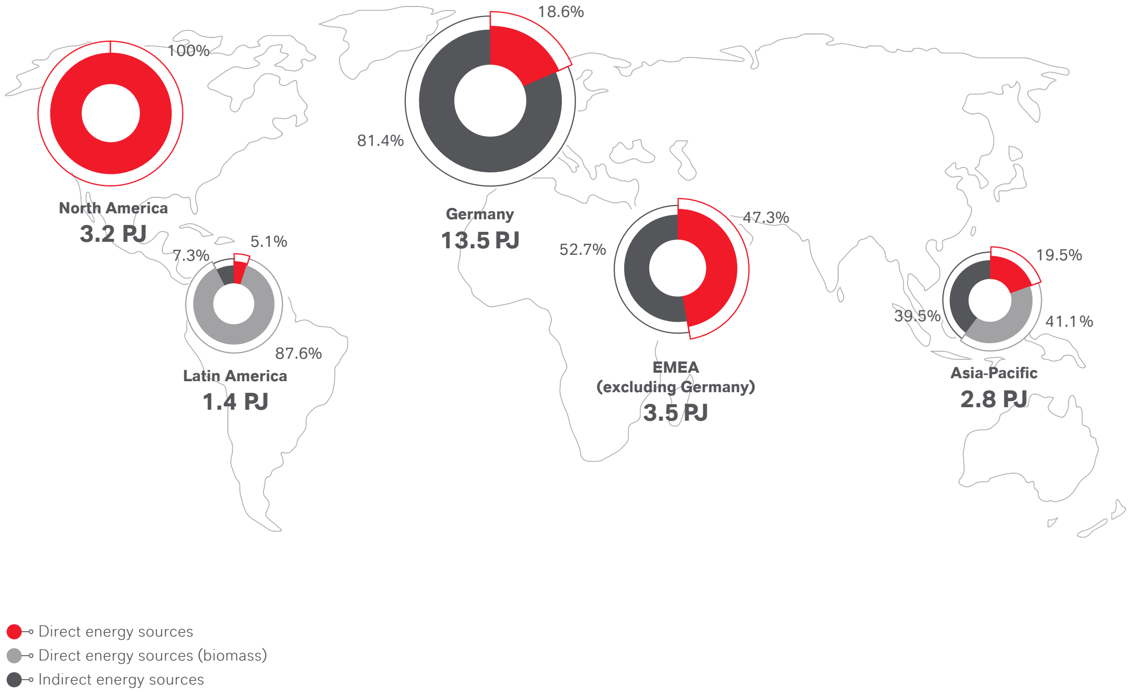
Direct and Indirect Energy Consumption by Region

in petajoules/%



Continuing operations

Sustainable logistics

We select our transportation solutions individually worldwide in line with the principles of safety, punctuality and cost-efficiency. In doing so, we also take into account

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the CO_2 emissions resulting from transportation. In particular, we are eager to step up our use of ships. In this context, we are currently making targeted investments in digital solutions that tell us the status of ship transports

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early on so that we can plan the subsequent land transport with means of transport with the lowest possible emissions in a forward-looking manner. Furthermore, we are increasingly using comparatively low-emission combined-transport options, where most of the distance involved is covered by train, barge or sea vessel, thus keeping initial and final journeys by road to an absolute minimum. Europe in particular has a strong infrastructure for these types of transportation. However, increased use of rail means that combined transport is even an option for long-distance connections to China.

To transport our rail freight in Germany, we continue to use the TÜV SÜD-tested Eco-Plus service of the logistics company DB Cargo. The power required for transportation is obtained from regenerative energy sources. As a result, we can reduce our CO_2 emissions in national rail transportation by approximately 80% compared with conventional options.

SUSTAINABLE PRODUCT PORTFOLIO

In signing the "Responsible Care® Global Charter" LANXESS committed itself to comprehensive product responsibility. This initiative launched by the International Council of Chemical Associations (ICCA) made a significant contribution to the development of the "Global Product Strategy" (GPS). It aims to provide basic information and risk assessments of materials in order to minimize harmful effects of chemicals on human health and the environment and to manufacture and distribute products in a way that avoids harm to people and the environment. In line with the above obligations, our product responsibility covers the safe handling of chemical materials and products throughout their lifecycle – from research and development, procurement and production, storage and transportation through to marketing, further processing and disposal.

Approx. 1,000 registration dossiers submitted to ECHA

The "Guideline on Product Safety Management at LANXESS" stipulates how product responsibility is to be exercised throughout the Group and ensures collaboration between all of the parties involved. This particularly applies to substances in our product portfolio that are classified as hazardous. With the "Central Product Monitoring" guideline, we systematically manage the global monitoring of our products and their application with regard to possible health and environmental effects. Our product developers and product safety experts incorporate the experience gathered into their assessments. Our guideline "Development of New or Changed Products, Processes and Applications" stipulates that development ideas already have to be examined systematically with regard to their potential economic, environmental and social impact. In this way, we ensure that unsustainable products, processes or applications no longer occur in our development process.

Particularly in the case of consumer applications – for example, use as an additive in food or animal feed, in contact with drinking water or food, or in cosmetic, pharmaceutical, or medical products – it is extremely important to us that our products meet high national and international standards, certificates, and quality seals. We thereby actively support our customers with the authorization of materials to be used in contact with drinking water, for example, or with further processing of our products into certified goods for end consumers. By intensively exchanging information with our customers and suppliers, we achieve greater transparency and safety throughout the whole product lifecycle.

Management of chemicals control regulations

Complying with global chemicals control regulations is an essential prerequisite for the saleability and safe handling of our chemicals and products across the whole value chain.

LANXESS ensures the implementation of binding and voluntary requirements using an electronic safety data system. Safety data sheets in more than 40 languages provide our customers worldwide with data on the materials and inform them of the protective measures required when handling the respective chemicals. We regularly adapt our electronic safety data system to take account of new features in the GHS (Globally Harmonized System of Classification and Labeling of Chemicals) in the different countries. The GHS is a system under the auspices of the United Nations that aims to globally harmonize existing classification and labeling systems from different sectors such as transportation, consumer protection, employee protection, and environmental protection. We take account of regional aspects in the implementation of the GHS, such as the CLP Regulation (Regulation on Classification, Labeling and Packaging of Substances and Mixtures) in Europe.

We explicitly support the goal of the EU chemicals regulation REACH: to ensure a high level of protection for human health and the environment. We have so far registered all relevant materials for LANXESS that we produce in or import to Europe in quantities of more than one metric ton per year on schedule in line with the REACH process. In the last ten years, approximately 1,000 registration dossiers have been submitted to the central European Chemicals Agency (ECHA). We systematically evaluate all necessary information on our materials and their uses for the registration. In doing so, we consider the whole product lifecycle and determine safe conditions for use.

However, the registration of all phase-in materials is only part of REACH, because REACH means the registration, evaluation, and authorization of chemicals. In the future, new materials must be registered before they are produced or imported. This already applies for quantities of more than one metric ton per year and per LANXESS

100%
of the product portfolio analyzed in regard to sustainability aspects

company. Existing dossiers must also be updated constantly, as the content requirements will change over time. In this context, we support the voluntary Action Plan of the European Chemical Industry Council (Cefic) and have signed an associated declaration of intent. We are thus committed to re-evaluating all our existing REACH registration dossiers and to updating them according to the latest requirements by 2026 at the latest.

Similar chemicals control regulations to those in the EU now also exist in many other countries, and the number of them is still increasing. Before manufacturing or exporting our products, we therefore check their saleability under the applicable chemicals laws in the countries concerned. We register our materials and products in accordance with local requirements. We support the responsible authorities' material assessment programs by supplying all available information and determining new data where necessary. Here we benefit from our experience from the REACH process. We are currently dealing with increasing requirements particularly in the Republic of Korea, Taiwan, Turkey, the U.S., Russia, and the Eurasian Economic Union.

Comprehensive analysis of our product portfolio from a sustainability perspective

In order to take effective sustainable action, we need to know the effects of our business activities – both positive and negative – as precisely as possible. With a specially developed assessment system, we have established a strategic management tool that enables us to systematically assess and improve the sustainability performance of our product portfolio with regard to economic, environmental and social aspects. The system analyzes the effects and benefits of our products based on nine criteria, which cover the three dimensions of sustainability – economy, environment, and society – and which we consider relevant for our company and for society as a whole.

Criteria of our Product Portfolio Analysis

	social	environmental	economical
Support of the Agenda 2030	x	x	
Production process safety	x		
Human health risk	x	x	
Environmental risk	x	x	
Water use and water risk		x	
Energy, emissions and waste efficiency		x	
Demand trend			x
Profitability			x
Legislative and reputational risk			x

Based on this list of criteria, we carry out an annual assessment of our entire product portfolio – followed by a review by an internal panel of experts – as part of our strategy process. This process has revealed which of our products satisfy the sustainability requirements we have defined and can help us to deliver solutions for key sustainability challenges.

Evaluation Processes

Throughout the LANXESS Group, we work intensively with the results of this assessment in order to further improve the sustainability performance of our product portfolio. This enables us to make fact-based management decisions in order to replace critical products or remove them from the portfolio. By 2023, we will develop a specific action plan for all end products that contain more than 0.1% critical substances.

BUSINESS-DRIVEN INNOVATION

517
employees in the area of research and development

With process-, product-, application- and business model-oriented innovation, we not only make LANXESS more competitive but also help our customers run their businesses successfully and sustainably. We put the needs and expectations of our customers at the center of product and application development and frequently pursue projects together with the customer concerned or other high-powered partners. In addition, our developments are driven by our sustainability targets, such as the goal of being climate neutral by 2040. Our work is also shaped by the macroeconomic efforts to promote the shift to a circular economy.

In the reporting year, we faced the challenges of the coronavirus pandemic. Although we were largely able to continue our own laboratory activities, travel restrictions made it more challenging to maintain existing cooperations and particularly difficult to start new ones. Similarly, assisting our customers' test series presented a particular challenge. Despite delays in work flows, however, we made good progress overall.

With regard to artificial intelligence, for example, the optimization of the development of customer-specific high-performance plastics through artificial intelligence bore its first fruits. The High Performance Materials business unit was one of LANXESS' first business units to use artificial intelligence to optimize glass fibers. We can thus develop even better, tailor-made products for our customers within shorter time frames. After around one and a half years of development work in cooperation with Citrine Informatics, a U.S. company specializing in the software-supported development of chemical products, we can begin series production with significantly improved glass fiber. This project is an important contribution to the future viability of LANXESS.

We are also making our plants and processes increasingly digital. A little over two-thirds of all plants are now equipped with new data analysis software. Our experts use the data thus gathered to identify patterns and trends and to detect production irregularities.

Based on this expanded data, we have already achieved the first successes in process innovation. Together with our engineers, our phosphorous chemicals plant in Leverkusen has successfully optimized the process for manufacturing phosphorous chemicals so that a reduction in steam not only lowered operating costs but also reduced CO_2 emissions by nearly 4,000 tons a year.

We pay particular attention to the development of products that have a tangible benefit for sustainability. For Aktiplast PP-veg, the processing promoter for natural rubber compounds used in the production of tires and technical rubber articles, we have switched to renewable raw materials. The substance is manufactured only from vegetable oils, so the proportion of renewable raw materials in Aktiplast PP-veg is now around 90%. The switch benefits us and our customers: LANXESS can reduce its carbon footprint, while customers can reduce their energy consumption, as the natural rubber compounds are easier to process.

Another product based on renewable raw materials is the new Adiprene Green product line. The urethane prepolymers are suitable replacements for fossil-based polyether prepolymers. They enable PU components with a reduced carbon footprint and also offer the advantage of easy handling and processing. Products from the Adiprene Green line are particularly well-suited for sophisticated applications such as wheels, rollers and roll covers.

LANXESS continues to pursue the goal of adapting its processes for a circular economy. Accordingly, we are making increased use of recycled raw materials in the production of thermoplastic compounds and composites. Current examples of products being manufactured in line with this strategy are three Durethans containing 30%, 35% and 60% recycled fibers by weight. The glass comes from waste left over from glass fiber production. A feature of these products is that they have the same properties as conventional material. The customer can process the sustainable and certified Durethan compounds with recycled fibers like conventional materials in existing plants. The compounds are mainly used in the automotive industry.

In the Polymer Additives business unit, sustainability is the central issue in several projects. One of these is the "PolyStyrene Loop" project, in which LANXESS is working with partners to develop an innovative recycling concept. The aim was to separate HBCD – a material that used to be used for thermal insulation and fire protection in buildings and is now considered a pollutant – from construction waste. For the first time, polystyrene foam contaminated with HBCD can be processed in a new plant. The pilot plant with a capacity of 3,000 tons – based on a process developed by the Fraunhofer Institute – is currently being built in Terneuzen, the Netherlands, and is scheduled to commence operations in the second half of 2021. In 2020, LANXESS received the "Blue Tulip Award" for this project. In eight future-oriented categories, the award honors innovative concepts and successful cooperations that protect ecosystems.

For us, innovation also means developing new uses for existing products. The pilot plant constructed with our partner Standard Lithium Ltd. in El Dorado for the extraction and processing of lithium salt is being run in test mode, and the first product tests look promising. Lithium salt is required on a large scale for lithium-ion batteries and is therefore a crucial raw material for the desired expansion of electric mobility. LANXESS operates three plants manufacturing bromine products in El Dorado. The bromine is obtained from the brine extracted at the site, which also contains lithium. Our partner Standard Lithium provides the technology for extracting the lithium.

Further information on research and development

VALUING CUSTOMER RELATIONSHIPS

Our customers' satisfaction is not only an indicator of our success, but above all also a requirement for it. We therefore work continuously on the meaningful and best possible integration of customers' constantly changing needs into our products and processes. In addition, we aim to build on and consolidate our relationships with our customers. In the reporting year, the coronavirus pandemic substantially interrupted and severely restricted our direct interaction with our customers. In dialog with our customers, we therefore concentrated on digital channels and formats, which included webinars for new products. In order to continue our product development without delay, we held (in some cases whole-day) meetings for certain technical projects during which customers and LANXESS development teams cooperated virtually. Interactive formats made it possible for these meetings to be conducted internationally.

When forming our customer relationships, the top priorities are customer satisfaction and avoiding customer complaints. Based on a central customer relationship management (CRM) system and a uniform complaint management platform, each of our business units has its own market- and customer-oriented complaint management and optimization processes. Shared elements of these processes include clear targets, for example in relation to the reduction of customer complaints or processing times for customer complaints, as well as a corresponding statistical analysis of the feedback received, and structured monthly reporting to the management of the respective business unit. The expansion of the global CRM system with a new module for improved management of long-term projects helps our business units to implement projects successfully in close coordination with customers. Various bodies and dialog forums such as the quarterly Marketing & Sales Community forum, which we are carrying out digitally in light of the social distancing restrictions currently in effect, also guarantee the regular exchange of experiences between our business units and Group functions.

We work closely with our clients in order to develop the most customer-specific solutions possible. For example, one of our plants is located in Charleston, South Carolina U.S. – a region that from June to November is regularly hit by tornadoes. In order to deliver on time, the Polymer Additives business unit developed an extensive contingency plan for the storage of important materials and substances close to affected customers.

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Customer loyalty index increased

In order to conserve resources in our logistics, the Lubricant Additives business unit began to introduce Drumguard, an innovative and certified load securing system, in the reporting year. The new load securing system for the transport of plastic drums saves packaging and time. Our customers also benefit, as the load securing system is reusable and thus saves costs. Alternatively, there is a well-developed global return network.

In order better to meet growing customer requests for small production volumes, Saltigo has initiated an investment program to further increase the capacity of our pilot plants. Moreover, Saltigo will register an entire product family for our insect repellent active ingredient Saltidin, which our customers can use as a reference in order to make it easier for them to register Saltidin-based products EU-wide.

In our digitalization offensive, we use software to improve the speed and efficiency of the communication between our customer service teams and their respective customers. In light of the large number of simultaneous orders, it is a major challenge for our customer service employees to keep track of changes across the entire order acceptance, production and delivery process. Here, we are assisted by software solutions that continuously search our ERP systems for changes in order data records, factor in external information and compare it with dynamic specifications. The responsible customer service advisors thus obtain constantly updated information about the key influencing factors and changes that Order Management, for example, has made to the orders – such as postponements of delivery dates or quantity changes. Our customer service is therefore able to inform customers immediately and promptly tackle any problems arising from the changes. In sales, we used new software in the reporting year that enables flexible access to customer information regardless of internet connection or technical equipment. This benefits our customers because we are better informed about their specific needs and our consultants because it is easier for them to stay informed.

Customer satisfaction surveys are essential for LANXESS in order to determine potential for improvement in customer relationships and to check whether customer requirements have changed. LANXESS conducts an anonymous online survey of all relevant customers in all business units once every two years. In the 2019/2020 survey, the customer retention index (CRI) score was 77 and thus slightly higher than in the previous 2017/2018 survey (75). In terms of content, the survey aimed to evaluate LANXESS' performance overall and to indicate whether customers would recommend LANXESS. Customers were also asked if they intended to continue the business relationship in the future and to assess the advantages resulting from this relationship.

Based on these encouraging results of the customer satisfaction analysis, we will continue to implement targeted measures in the business units in order to at least maintain this very good level of customer satisfaction and keep successfully retaining our customers in the long term.

LANXESS

ON THE CAPITAL MARKET

CONTENTS

LANXESS on the Capital Market

Under difficult market conditions, the LANXESS share performed positively compared with the industry in Europe and above average compared with the DAX. Overall, it increased by 4.9% year-on-year.

We are coming out of a challenging, very volatile year 2020, which was shaped by the effects of the coronavirus pandemic. After a good start, the stock market dropped sharply in March as a result of the coronavirus pandemic and recovered only slowly over the summer months. When expectations of the rapid and wide-scale availability of vaccines materialized in November, this set off a rally that led to positive overall development of our relevant stock indices. The DAX ended the year up 3.5% at 13,719 points. The MDAX moved up by 8.8% to 30,796 points. The international, sector-specific benchmark index for LANXESS, the MSCI World Chemicals Index, posted an upturn of around 17%.

Our share made a solid start to the stock market year, dropped sharply in line with the general market development in March and reached its low in the downtrend at €25.68 on March 19, 2020 (intraday XETRA). This was followed by a steady recovery over the summer months to the high for the year of €64.86 on December 28, 2020 (intraday XETRA). The LANXESS share closed the last trading day of the year at €62.76. Compared to the previous year, its value rose by 4.9%.

Compared with the rest of the industry, LANXESS is one of the European chemicals companies with the best year-on-year share price performance. Despite the difficult global economic conditions, the price of our share developed positively after the slump, which we attribute to the improved resilience of our product portfolio.

LANXESS Stock at a Glance

		2017	2018	2019	2020
Capital stock/no. of shares[1]	€/no. of shares	91,522,936	91,522,936	87,447,852	**87,447,852**
Market capitalization	€ billion	6.07	3.68	5.23	**5.49**
High/low[1]	€	70.67/59.89	74.78/39.61	64.58/39.47	**64.86/25.68**
Closing price	€	66.29	40.20	59.82	**62.76**
Earnings per share adjusted for exceptional items and amortization of intangible assets[2]	€	3.84	4.48[3]	4.73[3]	**3.50[3]**
Dividend per share	€	0.80	0.90	0.95	**1.00[4]**

1) As of end of year (intraday XETRA): December 31 of the years 2017, 2018, 2019, and 2020.
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.
3) Continuing operations only.
4) Dividend proposal to the Annual Stockholders' Meeting on May 19, 2021.

STOCK REPURCHASE

The Board of Management of LANXESS AG resolved on March 10, 2020, in line with the authorization granted by the Annual Stockholders' Meeting on May 23, 2019, to buy own shares at a total volume of up to €500 million (excluding incidental expenses), divided into two tranches of €250 million each, on the stock exchange. The first tranche of the stock repurchase began on March 12, 2020. In light of the coronavirus pandemic, the Board of Management decided on April 6, 2020, to suspend the stock repurchase program until further notice with immediate effect. LANXESS AG had repurchased 1,101,549 own shares by this date. This equates to 1.26% of the company's outstanding capital stock. Until the program was suspended, the total repurchase volume amounted to €36,698,254.49, equating to an average price of around €33.32 per repurchased share. The Board of Management of LANXESS AG will assess the situation continuously and decide on a resumption of the stock repurchase program at the appropriate time. The repurchased shares have not yet been canceled.

Capital Market Information

Class	No-par shares
ISIN	DE0005470405
WKN (German securities identification number)	547040
Selective indices	MDAX, DAX 50 ESG, Dow Jones STOXX 600 Chemicals[SM], MSCI Germany Standard, MSCI Germany Mid Cap, Dow Jones Sustainability Index World und Europe, FTSE4Good
Investment grade ratings	Standard & Poor's: BBB (stable) Moody's: Baa2 (stable) Scope: BBB+ (stable)

DIVIDEND POLICY

LANXESS has been pursuing a consistent dividend policy for years. Our goal remains to increase the dividend each year or at least to keep it at a stable level. At the Annual Stockholders' Meeting on May 19, 2021, the Board of Management and the Supervisory Board will propose a dividend of €1.00 per share.

STOCKHOLDER STRUCTURE

LANXESS's stockholder structure predominantly consists of institutional investors pursuing a growth- or value-oriented investment strategy. Their share was roughly stable at around 92% as of the end of 2020 (previous year: 93%). The remaining roughly 8% of LANXESS stocks are held by private investors.

As in the past, the regional focus of our investors in 2020 was in the U.S., Germany and Great Britain. The percentage of U.S. stockholders most recently increased slightly to around 38% (previous year: 35%). As of the reporting date, the percentage of LANXESS stocks held in Germany increased slightly to around 27% (previous year: 25%), while the holdings of investors from Great Britain were unchanged at around 14% (previous year: 14%)

The share of investors from elsewhere in Europe was stable year-on-year at around 15% (previous year: 15%). By contrast, the share of investors in other regions decreased sharply to around 6% (previous year: 11%).

Further information on an overview of the institutional investors that are required to report a holding of at least 3% of the outstanding LANXESS stocks to us

BONDS

Securing the Group's liquidity and creditworthiness is an important aim of LANXESS's financial management. With standardized documentation, our debt issuance program offers the opportunity to issue bonds quickly and flexibly. However, we did not use this opportunity in fiscal year 2020.

Therefore, there are still four LANXESS bonds and one hybrid bond on the market at present:

Overview of LANXESS's Main Bonds

ISIN/WKN	Volume	Duration	Coupon
XS1501363425	€500 million	October 7, 2016 – October 7, 2021	0.250%
XS0855167523	€500 million	November 21, 2012 – November 21, 2022	2.625%
XS1820748538	€500 million	May 16, 2018 – May 16, 2025	1.125%
XS1501367921	€500 million	October 7, 2016 – October 7, 2026	1.000%

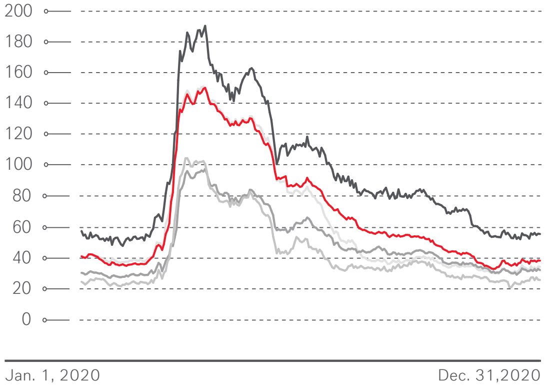
LANXESS Hybrid Bond (Subordinated)[1]

ISIN/WKN	Volume	Duration
XS1405763019	€500 million	December 6, 2016 – December 6, 2076
Coupon		**Redemption options**
4.500% until the first redemption option; subsequent adjustment of interest rate as described in prospectus		First option on June 6, 2023, and thereafter annually; additional redemption rights in defined special circumstances

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

In addition to the absolute price performance, another important parameter for corporate bonds is the relative measurement of the company-specific credit risk in comparison to a reference interest rate. This credit risk premium is reflected in the credit spread.

LANXESS Eurobond Spreads vs. Corporates Index in the BBB Range[1]
Basis points



1) The LANXESS hybrid bond that matures in 2076 is not included in the overview

Driven by the coronavirus pandemic, the international capital markets saw a massive increase in risk premiums for corporate bonds in 2020.

During the second half of the year, the risk premiums declined continuously, driven by the central banks' expansionary monetary policies and fiscal support from numerous governments. As of December 31, 2020, the level was therefore not far away from the historic lows. The LANXESS bonds largely followed this trend. The LANXESS Group therefore continues to have very competitive access to capital market finance.

All existing LANXESS Eurobonds are listed on the Luxembourg Stock Exchange. Further information on their respective bond conditions

RATINGS

Our strategic corporate goal is to maintain a sound investment-grade rating. LANXESS's creditworthiness has been assessed by the rating agencies Standard & Poor's and Moody's Investors Service for many years already, and by Scope Ratings since 2018.

In the year under review, all three rating agencies confirmed their assessment of LANXESS's creditworthiness. The agencies took a positive view of our continuous transformation into a specialty chemicals company with a focus on stable businesses in medium-sized markets and the accordingly lower cyclicality. The completed sale of our shares in the chemical park operator Currenta and the associated direct inflow of around €890 million (gross) served as additional confirmation of the rating agencies' assessment of LANXESS's improved financial profile. Standard & Poor's gives LANXESS a "BBB" rating with a stable outlook, Moody's a "Baa2" rating with a stable outlook, and Scope Ratings a "BBB+" rating likewise with a stable outlook.

Overview of the development of LANXESS ratings and rating outlook since 2016

Detailed information, downloadable publications, and contacts

CORPORATE GOVERNANCE

Corporate Governance Statement
pursuant to Sections 289f, 315d of the German Commercial Code

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.

In the Corporate Governance Statement pursuant to Sections 289f, 315d of the German Commercial Code, LANXESS AG reproduces the latest declaration of compliance issued by the Board of Management and the Supervisory Board and describes the work of the Board of Management and the Supervisory Board and of the Supervisory Board committees, the corporate governance practices followed in the Group and the diversity concept for the cooperation of the Board of Management and the Supervisory Board. The statement also includes additional information on corporate governance that was previously published in the company's Corporate Governance Report.

DECLARATION OF THE BOARD OF MANAGEMENT AND THE SUPERVISORY BOARD OF LANXESS AG PURSUANT TO SECTION 161 OF THE GERMAN STOCK CORPORATION ACT ON THE GERMAN CORPORATE GOVERNANCE CODE

On December 10, 2020, the Board of Management and the Supervisory Board of LANXESS AG issued the following declaration of compliance pursuant to Section 161 of the German Stock Corporation Act:

"1. From the issuance of the last declaration of compliance on December 11, 2019, until the publication of the new version of the German Corporate Governance Code (GCGC) dated December 16, 2019, on March 20, 2020, LANXESS AG fully complied with the recommendations of the Government Commission on the German Corporate Governance Code ('Government Commission') as amended on February 7, 2017, which were published on April 24, 2017, by the Federal Ministry of Justice and Consumer Protection in the official portion of the Federal Gazette.

2. Since the publication on March 20, 2020, of the Government Commission's recommendations as amended on December 16, 2019, LANXESS AG has complied with these recommendations with the following exception and will continue to comply with them with the following exception:

After the publication of the new version of the GCGC, the Supervisory Board resolved upon a new compensation system for the Board of Management, which complies with the recommendations of the new GCGC. Although the rationale states that amendments to the Code need not be taken into account in current Board of Management contracts, the new compensation system was, with one exception, implemented in existing Board of Management contracts with effect as of January 1, 2021. If not already reflected in the Board of Management contracts, recommendation G.6, according to which the share of long-term variable compensation should exceed that of short-term variable compensation, was not yet implemented in some of the existing Board of Management contracts in order to preserve the agreed weighting of the individual elements of compensation and thus the total compensation amount. In the case of future (re) appointment of Board of Management members, the Supervisory Board will apply recommendation G.6 to all new Board of Management contracts pursuant to the new compensation system."

The declaration of compliance can be viewed on LANXESS AG's website. Declarations of compliance from previous years are also permanently available on the website.

CORPORATE GOVERNANCE PRACTICES GOING ABOVE AND BEYOND THE LEGAL REQUIREMENTS

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 self-imposed regulations, is therefore a fundamental requirement for all corporate activities. For this reason, LANXESS has established a Group-wide compliance management system (CMS), which is defined in the CMS policy applicable throughout the Group.

The goal of the CMS is to appropriately and effectively ensure compliance throughout the LANXESS Group, so as to counter unlawful or unethical conduct within the LANXESS Group at an early stage and introduce suitable measures to prevent misconduct. The CMS is supported by the compliance organization, which is made up of the Group Compliance Officer, regional Compliance Officers and a network of local Compliance Officers in the countries in which LANXESS has subsidiaries. The compliance organization acts, in particular, as the central point of contact and provider of advice for all employees on compliance-related issues. The compliance function to which the global compliance organization belongs reports directly and regularly to the Board of Management.

One of the fundamental elements of the CMS is a compliance culture based on LANXESS's corporate values of respect, responsibility, 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, so that all LANXESS employees live by and practice this compliance culture.

The aim of the LANXESS Compliance Program, which is part of the CMS, is to establish appropriate organizational measures and processes to prevent individual misconduct (prevention) or to identify misconduct as quickly as possible (identification) and react with appropriate sanctions (response). The "LANXESS Code of Conduct – Code for Integrity and Compliance at LANXESS," which applies throughout the Group, is the cornerstone of the Compliance Program. It defines binding principles of conduct and provides employees with information and guidance on compliance. LANXESS Code of Conduct

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 compliance responsibilities. These functions are developing and implementing individual compliance programs that encompass, in particular, specific Group policies, standard operating procedures and training concepts. The compliance organization supports the Group functions during both the design and implementation phases on an overall and global level.

An effective internal control system, appropriate monitoring activities and audits performed by Internal Auditing and those functions with special compliance responsibilities are designed to ensure that requirements are met. In the event of indications of compliance violations, there is a global whistleblower platform (SpeakUp) for employees and external third parties to report suspected violations (anonymously if desired), which are then investigated by the compliance organization.

We consider corporate responsibility a prerequisite for operating successfully in the future and creating value for all stakeholders. With this in mind, sustainability is a key factor for success that is at the heart of LANXESS's corporate culture and a component of our business strategy. For us, actively demonstrating corporate responsibility involves knowing and evaluating the impact of our actions – whether positive or negative – and maintaining a dialog with stakeholders that enables us to satisfy their expectations to the best of our ability. We subscribe to globally recognized standards and frameworks such as the UN Global Compact, the standards of the International Labour Organization (ILO) and Responsible Care®. The principles of responsible business operations and sustainable development are expressed in our Corporate Policy, which defines our general corporate philosophy and the conduct expected of every single employee in relation to our stakeholders in a total of eleven guidelines. Overview of the implementation of corporate responsibility at LANXESS

WORK OF THE BOARD OF MANAGEMENT AND THE SUPERVISORY BOARD

LANXESS AG is a stock corporation established under the laws of Germany. One of the fundamental principles of German stock corporation law is the two-tier management system with the governing bodies of management board and supervisory board. This system is characterized by a clear separation between the management board as the body that manages a company and the supervisory board as the body that advises and oversees management. The management board and the supervisory board work closely together in a relationship of mutual trust for the benefit of the company.

The Board of Management of LANXESS AG has five members, namely Matthias Zachert (Chairman), Dr. Anno Borkowsky, Dr. Stephanie Coßmann, Dr. Hubert Fink and Michael Pontzen. Information on members of the Board of Management

The Board of Management is appointed to manage and represent the company. It is responsible for conducting business in the company's interests with the goal of creating sustainable value. The principal tasks of the Board of Management include defining the company's goals and strategic alignment, managing and overseeing the operating units, setting human resources policy, arranging the company's financing, and establishing an effective risk management system. The Board of Management has a duty to ensure compliance with legislation, regulatory requirements and the company's internal directives. It is also responsible for preparing the quarterly and half-year financial statements, the financial statements of LANXESS AG, the consolidated financial statements of the LANXESS Group and the management report for LANXESS AG and the LANXESS Group.

The Chairman coordinates the work of the Board of Management. As a rule, Board of Management decisions are adopted with a simple majority. In the event of a tie, the Chairman has the casting vote. Resolutions of the Board of Management are generally passed at regularly held meetings. The rules of procedure for the Board of Management that are enacted by the Supervisory Board contain further regulations concerning the form of cooperation within the Board of Management, the allocation of duties and the matters requiring resolution by the full Board of Management. The Board of Management has not formed any committees.

The company's Supervisory Board 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 generally serve for a five-year term. However, appointments can also be made for shorter terms. No Supervisory Board member is a former member of the Board of Management of LANXESS AG.

Information on the members of the 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. The Supervisory Board makes decisions on the Board of Management's proposed appropriation of the distributable profit and on its report to the Annual Stockholders' Meeting. The Supervisory Board reaches its decisions with a majority of the votes cast unless a different majority is stipulated by law. In the event of a tie, the Chairman of the Supervisory Board has two votes in a second ballot on the resolution, even if this also results in a tie. The German Codetermination Act contains special requirements concerning resolutions. The Chairman of the Supervisory Board coordinates the work in the Supervisory Board, chairs its meetings and represents the concerns of the body externally. Supervisory Board resolutions are usually adopted at regularly held meetings. An overview of the attendance of Supervisory Board members at meetings of the Supervisory Board and its committees in fiscal year 2020 can be found in the Report of the Supervisory Board.

The Supervisory Board has issued its own rules of procedure, which, in addition to defining the tasks and responsibilities of the Supervisory Board and the personal qualifications of its members, establish the processes for convening, preparing and chairing meetings as well as the procedures for voting. Supervisory Board's rules of procedure

The Board of Management provides full and timely reports to the Supervisory Board 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 specified the Board of Management's notification and reporting obligations 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, the risk situation, risk management and compliance. Certain transactions and measures of major or long-term importance require the Supervisory Board's approval. Measures requiring approval include, but are not limited to: the adoption of the corporate planning, the acquisition, sale or encumbrance of real property, shareholdings or other assets, and borrowings and certain other types of financial transactions. Thresholds have been set for some of these transactions.

The Supervisory Board assesses, at regular intervals, how effective it as a whole and its committees fulfill their tasks. An external, interview-based self-assessment was carried out in fiscal year 2019. The results were presented to the Supervisory Board. The Supervisory Board discussed the recommendations for action derived from this and appropriate suggestions for their implementation.

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

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. Composition of the Supervisory Board Committees

The Presidial Committee discusses key issues and prepares the meetings and resolutions of the Supervisory Board. In addition, it makes decisions on transactions requiring approval that are already included in the company's annual planning. The Presidial Committee may also resolve on the exercise of participation rights pursuant to Section 32 of the German Codetermination Act and on transactions requiring approval that cannot be deferred. It consults regularly about long-term succession planning for the Board of Management and prepares the personnel decisions to be made by the Supervisory Board. The Presidial Committee is chaired by Dr. Matthias L. Wolfgruber. The other members are Birgit Bierther, Manuela Strauch, Hans van Bylen, Ralf Sikorski and Theo H. Walthie.

The Audit Committee supports the Supervisory Board in overseeing the conduct of the business and deals with matters relating to the supervision of accounting, the accounting process, effectiveness of the internal control system, the risk management system and the internal auditing system, as well as auditing, including the independence of the auditor and the work additionally performed by the auditor, and compliance. It prepares the Supervisory Board's resolutions concerning the annual and consolidated financial statements and recommends an auditor whom the Supervisory Board then proposes to the Annual Stockholders' Meeting for appointment. As of December 31, 2020, Audit Committee comprised the following members: Pamela Knapp (Chairwoman), Hans van Bylen, Werner Czaplik, Armando Dente, Dr. Hans-Dieter Gerriets, and Lawrence A. Rosen. The members of the Audit Committee are all familiar with the sector in which LANXESS AG operates. In accordance with German stock corporation law, the Audit Committee must have at least one member who is an expert in the areas of accounting and auditing. In addition, the Chairman or Chairwoman of the Audit Committee must be independent and have specific knowledge and experience in applying accounting principles, audits, and internal control procedures ("financial expert"). Ms. Knapp as Chairwoman of the Audit Committee fulfills these requirements because of her earlier professional practice.

The Mediation 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 Chairman is Dr. Matthias L. Wolfgruber. The other committee members are Dr. Heike Hanagarth, Werner Czaplik and Ralf Sikorski.

The Nominations Committee comprises solely 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 the Nominations

Committee are Dr. Matthias L. Wolfgruber (Chairman), Lawrence A. Rosen and Theo H. Walthie.

The respective committee chairmen or chairwomen report regularly to the Supervisory Board on the work of the committees.

SETTING OF TARGETS FOR FEMALE REPRESENTATION ON THE BOARD OF MANAGEMENT AND IN MANAGERIAL POSITIONS PURSUANT TO SECTIONS 76, PARAGRAPH 4, AND 111, PARAGRAPH 5, OF THE GERMAN STOCK CORPORATION ACT

Under the German Act on Equal Participation of Women and Men in Executive Positions in the Private and the Public Sector, certain companies in Germany are required to set targets for female representation on the supervisory board, the management board, and the next two management levels down, and to specify a deadline for meeting these targets. The law does not require targets to be set for the supervisory boards of listed and co-determined companies like LANXESS AG. Instead, a mandatory minimum quota of 30% women and 30% men applies. In the context of separate fulfillment, LANXESS AG's twelve-member Supervisory Board currently has four female members: Birgit Bierther, Dr. Heike Hanagarth, Pamela Knapp and Manuela Strauch. This is a ratio of over 30% women. New appointments in the future will also comply with the statutory requirements.

In fiscal year 2017, the Supervisory Board set a new target for female representation on the Board of Management. Accordingly, at least one woman was to be appointed to the Board of Management by June 30, 2022. The company achieved this target early by appointing Dr. Stephanie Coßmann as a member of the Board of Management and Labor Relations Director with effect as of January 1, 2020.

As of June 30, 2017, for the first and second management levels below the Board of Management, the previous targets for female representation have been exceeded due to the measures initiated by LANXESS to increase the number of women in management positions. On this basis, the Board of Management and the Supervisory Board adopted new targets to be implemented by June 30, 2022: the targets for female representation in the first and second levels of management were set at 15% and 25% respectively. The share of women at the first level of management was 16.7% in 2020, hence the target was exceeded again. Owing to organizational changes, the share of women at the second level of management was 23.4%. The company is striving to increase female representation.

DIVERSITY CONCEPT FOR THE COMPOSITION OF THE BOARD OF MANAGEMENT AND THE SUPERVISORY BOARD

LANXESS AG's Board of Management and Supervisory Board as a whole should reflect the principles of diversity. Both the Board of Management and the Supervisory Board of the company observe principles that particularly encompass diversity in terms of age, gender, educational/professional background and internationality/ethnicity. This diversity contributes to a greater wealth of experience and a wider range of expertise and skills within the Board of Management and the Supervisory Board.

Board of Management diversity concept

The Supervisory Board's decisions on the filling of specific Board of Management positions are based on the interests of the company, taking all individual circumstances into account. The Supervisory Board aims to put together a Board of Management with strong leadership qualities and the most diverse and complementary composition as possible. The goal is for all Board of Management members to have the knowledge, skills and professional expertise required to successfully perform their Board of Management duties.

When appointing members of the Board of Management, the Supervisory Board considers their personal suitability, professional qualifications, integrity, leadership qualities, international experience, previous achievements and knowledge of the company and the chemical industry. Diversity is an additional criterion, especially with regard to age, gender, educational and professional background, and internationality/ethnicity.

Age

In line with recommendation B.5 GCGC, the Supervisory Board has adopted a standard age limit of 70 for the Board of Management. This is designed to enable members of the Board of Management to contribute their professional and life experience for a sufficient length of time for the benefit to the company. The Supervisory Board also seeks to ensure a balanced mix of ages so that the management of the company is guided both by long-term professional and life experience and by the perspective of a younger generation. The balance also ensures continuity in the management of the company.

Gender diversity

LANXESS also strongly believes that gender diversity is a key component of diversity. The company therefore promotes, for example, family friendly workplace initiatives. As already mentioned, the Supervisory Board has therefore set itself the target of appointing at least one woman to the Board of Management by June 30, 2022. The company achieved this target by appointing Dr. Stephanie Coßmann as a member of the Board of Management and Labor Relations Director with effect as of January 1, 2020.

Educational and professional backgrounds

LANXESS is of the firm belief that a diverse range of educational and professional backgrounds is necessary to enable the governing bodies to fulfill the duties and responsibilities placed on them by law, the company's articles of association and the rules of procedure to the best of their ability and in the interests of the company. Varying educational and professional backgrounds also guarantee varying perspectives and approaches to solving business challenges. The members of the company's Board of Management have educational qualifications in business, science or law and diverse international management experience.

Internationality/ethnicity

LANXESS is a global company with a correspondingly wide range of customers and suppliers. LANXESS employees come from many different countries. This is why membership of the Board of Management must also be international. By international, we do not mean only in the sense of a specific nationality. A different cultural background also plays a role here. Cross-cultural characteristics and experiences, which can also be acquired through education or professional activity, are crucial. The Board of Management membership must therefore be characterized by an openness to other cultures and an understanding of international issues and relations. In many cases, the experience and skills of the members of the Board of Management have been acquired while working abroad or in an international field. Further information about all members of the Board of Management of LANXESS AG

The diversity concept described above is implemented in the Supervisory Board's process for appointing Board of Management members. Board of Management staffing issues are prepared in the Supervisory Board's Presidial Committee and then discussed and decided upon in the Supervisory Board. In the long-term succession planning for the Board of Management, the Presidial Committee and the Supervisory Board regularly communicate with the Board of Management regarding suitable internal candidates for the Board of Management, taking the current Board of Management mandates into account. If necessary, external candidates are also evaluated. When selecting the candidates, the Supervisory Board considers the requirements laid down in the diversity concept for the Board of Management.

The current composition of the Board of Management complies with the diversity concept.

Goals for composition, skills profile and diversity concept of the Supervisory Board

With the goals for its composition, skills profile and diversity concept, the Supervisory Board aims to ensure that the Board of Management receives qualified advice and supervision. Therefore, proposed candidates for appointment to the Supervisory Board should be able to perform the duties of a Supervisory Board member in an international chemicals company by virtue in particular of their personality and integrity, their professional skills and the time they have available. Sufficient diversity and independence are also taken into account. In addition to German stock corporation law and the recommendation of the GCGC, proposed appointments to the Supervisory Board consider the skills profile and the targets for the composition of the Supervisory Board. New Supervisory Board members are provided with the information relevant to their work in an onboarding process.

Goals for composition, skills profile

The members of the Supervisory Board of LANXESS AG are expected to possess the necessary expertise, skills and professional experience to perform their duties. They autonomously undertake training and are supported in their efforts by the company. In addition to the requirements applicable to each individual member of the Supervisory Board such as integrity, professionalism and independence, the entire Supervisory Board should be composed in such a way to ensure that the Board of Management receives qualified supervision and advice. The Supervisory Board of LANXESS AG has devised a skills profile which stipulates that in-depth specialist knowledge and experience are represented in the Supervisory Board from fields such as the chemical industry, management of major international companies, production, marketing and sale of chemical products, corporate governance/compliance, M&A, corporate financing, accounting, and digitalization. In its current composition, the entire Supervisory Board fulfills these goals and completes the skills profile. The Supervisory Board members are all familiar with the sector in which LANXESS operates and possess the knowledge, skills and experience that are crucial to the company. In its proposals to the Annual Stockholders' Meeting for filling vacant positions on the Supervisory Board, the Supervisory Board will continue to take account of the targets for the composition of the Supervisory Board and, at the same time, endeavor to complete the skills profile for the entire body. Overview of the skills profile and its fulfillment

Independence

The Supervisory Board of LANXESS AG should ensure the provision of impartial advice and supervision to the Board of Management. It must include what it considers to be an appropriate number of independent members, but this number must in any event be more than half of the shareholder representatives, taking the company's ownership structure into account. Supervisory Board members are to be considered independent from the company and its Board of Management if they have no personal or business relationship with the company or its Board of Management that may cause a substantial – and not merely temporary – conflict of interest. In particular, it must be taken into consideration whether the respective Supervisory Board member or a close family member

- was a member of the company's Board of Management in the two years prior to appointment;
- currently is maintaining (or has maintained) a material business relationship with the company or one of the entities dependent upon the company (e.g. as customer, supplier, lender or advisor) in the year up to his/her appointment, directly or as a shareholder, or in a leading position of a non-group entity;
- is a close family member of a Board of Management member; or,
- has been a member of the Supervisory Board for more than twelve years.

Moreover, no more than two former members of the Board of Management of the company may be members of the Supervisory Board. Supervisory Board members may not be members of governing bodies of, or exercise advisory functions at, significant competitors of the company or a Group entity, and may not hold any personal relationships with a significant competitor.

The Supervisory Board deems all current Supervisory Board members to be independent. In its assessment of employee representatives, the Supervisory Board also assumes 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. The Supervisory Board also states that, for example, no former members of the Board of Management of LANXESS AG are members of the Supervisory Board. Moreover, no Supervisory Board members have a family relationship with anyone who performs or has performed a Board of Management or executive function at the company or a Group entity. No Supervisory Board members are in a contractual service relationship with the company or its management personnel. In addition, no Supervisory Board members are partners or employees of the audit company working for LANXESS. No Supervisory Board members have been in office for more than twelve years. Furthermore, the Supervisory Board sees no conflicts of interest on the part of any of its members that could cast doubt on their independence.

Age limit and length of membership

The Supervisory Board has defined an age limit for its members, which is contained in the rules of procedure for the Supervisory Board. Supervisory Board members may not currently continue to serve after the end of the Annual Stockholders' Meeting following their 75th birthday. The Supervisory Board has stipulated a maximum length of membership of the Supervisory Board of generally not more than twelve years, bearing in mind that stability in the composition of the Supervisory Board promotes trusting cooperation within the board and with the Board of Management.

Diversity

In general, the Supervisory Board should be guided by the principles of diversity in its composition. LANXESS is a global company with a correspondingly wide range of customers and suppliers. LANXESS employees come from many different countries. This is why membership of the LANXESS Supervisory Board must also be international. By international, we do not mean merely in the sense of a specific nationality. A different cultural background (ethnicity) also plays a role here. Cross-cultural characteristics and experiences, which can also be acquired through education or professional activity, are crucial. The global reach of LANXESS AG and the different cultural characteristics of Supervisory Board members have 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. The company's Supervisory Board contains members from four different countries (Germany, Belgium, Netherlands, and the U.S.), who acquired much of their experience and skills while working abroad for long periods.

Diversity applies equally to gender. LANXESS AG's twelve-member Supervisory Board currently has four female members: Birgit Bierther, Dr. Heike Hanagarth, Pamela Knapp and Manuela Strauch. This is a ratio of over 30%. The company therefore complies with the legal requirements for gender diversity and will also take these into account when filling positions on the Supervisory Board in future.

Time available

Each Supervisory Board member ensures that they have sufficient time available to discharge their duties. They must be willing and able to engage with the work and to undertake necessary training. A Supervisory Board member who belongs to the management board of a listed company must not have, in aggregate, more than two supervisory board mandates in non-group listed companies or comparable functions, and must not accept the chair of a supervisory board in a non-group listed company. A member that does not belong to the management board of a listed company must not have, in aggregate, more than five supervisory board mandates at non-group listed companies or comparable functions, with an appointment as chairman or chairwoman of the supervisory board being counted twice.

Proposals of candidates to the Annual Stockholders' Meeting must take the Supervisory Board's targets for its composition into account and, at the same time, endeavor to complete the skills profile for the entire body. Candidate proposals and succession in the Supervisory Board are based on the self-set targets and the skills profile of the Supervisory Board. The current composition of the Supervisory Board complies with the targets and the skills profile.

STOCKHOLDERS AND STOCKHOLDERS' MEETINGS

The stockholders of LANXESS AG exercise their rights at the Annual Stockholders' Meeting, where they can vote on the resolutions submitted. The Annual Stockholders' Meeting resolves on all matters reserved for its decision by law, with binding effect on the stockholders and the company. Each share confers one vote.

The items resolved on by the Annual Stockholders' Meeting include appropriation of the distributable profit, ratification of the actions taken by the members of the Board of Management and the Supervisory Board, appointment of the auditors and election of the stockholder representatives to the Supervisory Board. The Annual Stockholders' Meeting also resolves on amendments to the articles of association, measures affecting the company's capital and the approval of intercompany agreements. Each year there is an Annual Stockholders' Meeting at which the Board of Management and Supervisory Board give an account of the last fiscal year. The German Stock Corporation Act requires the convening of an Extraordinary Stockholders' Meeting in certain situations.

All stockholders who register in time and prove their eligibility to attend the Annual Stockholders' Meeting and exercise their voting rights shall be allowed to participate in the Annual Stockholders' Meeting. Stockholders may exercise their voting rights at the Annual Stockholders' Meeting in person, through a proxy of their own choosing or through a company-nominated proxy who acts according to their instructions. Stockholders may also cast mail-in votes in writing or electronically.

Due to the special circumstances of the coronavirus pandemic, LANXESS AG held its 2020 Annual Stockholders' Meeting on August 27, 2020, as a virtual Annual Stockholders' Meeting without the physical presence of the stockholders or their authorized representatives on the basis of the German Act to Mitigate the Consequences of the COVID-19 Pandemic under Civil, Insolvency and Criminal Procedure Law of March 27, 2020 (COVID-19 Act).

COMPENSATION REPORT

The compensation report, which describes the compensation system and the amount of compensation paid to the members of the Board of Management and Supervisory Board for their service in fiscal year 2020, is part of the combined management report for LANXESS AG and the LANXESS Group. It also contains a description of the adjusted Board of Management compensation system in place since the start of 2021, which will be presented to the stockholders for approval at the 2021 Annual Stockholders' Meeting. Compensation report

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 €20,000. 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, 2020, was less than 1% of all shares issued by the company.

RISK MANAGEMENT AND COMPLIANCE

The Board of Management sees systematic and effective risk and opportunity management as an important part of good corporate governance and as an integral component of value-oriented management. This is a systematic, Group-wide process, which helps the Board of Management to identify, assess, manage and minimize risks and opportunities. The risk management system is continuously updated and adapted to the changing conditions. The Board of Management regularly informs the Supervisory Board of potential risks and their development. The Audit Committee regularly reviews the effectiveness of the risk management system and the internal control and auditing system.

Key characteristics of the risk management system and internal control system can be found in the combined management report for LANXESS AG and the LANXESS Group.

ACCOUNTING AND AUDITING

LANXESS AG prepares its consolidated financial statements and interim financial statements in line with the International Financial Reporting Standards (IFRS), as applicable in the European Union. The annual financial statements of LANXESS AG are prepared in accordance with the provisions of the German Commercial Code. After being adopted and approved by the Supervisory Board, the annual financial statements and consolidated financial statements of LANXESS AG as well as the combined management report are published within 90 days after the end of the fiscal year. The company's accounting for fiscal year 2020 was audited by the auditor PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft (PwC). The condensed financial statements and interim management report included in the 2020 half-year financial report were also reviewed by PwC. PwC was appointed following an external tender procedure, which last took place in 2016. Jörg Sechser has been the responsible auditor since 2017. The audits are conducted in line with German auditing regulations and in compliance with the German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (IDW). The statutory requirements and rotation obligations in Sections 319 and 319a of the German Commercial Code are fulfilled. The auditor has agreed to immediately inform the Supervisory Board of any possible reasons for disqualification or conflicts that may arise, as well as any material findings or events in the course of the audit.

OFFICES HELD BY BOARD OF MANAGEMENT MEMBERS

Offices Held by Serving Board of Management Members (as of December 31, 2020)

Member of the Board of Management	External offices	Offices within the LANXESS Group
Matthias Zachert		
Chairman of the Board of Management	• Member of the Supervisory Board of Siemens AG, Berlin and Munich	• Chairman of the Executive Board of LANXESS Deutschland GmbH
Dr. Anno Borkowsky		
Member of the Board of Management		• Member of the Executive Board of LANXESS Deutschland GmbH • Chairman of the Board of Directors of LANXESS Hong Kong Ltd. • Chairman of the Board of Directors of LANXESS Corp. • Chairman of the Board of Directors of LANXESS Chemical (China) Co. Ltd. • Chairman of the Board of Directors of LANXESS India Private Ltd.
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 • Executive member of the Board of Administration of LANXESS N.V.
Michael Pontzen		
Member of the Board of Management and Chief Financial Officer		• Member of the Executive Board of LANXESS Deutschland GmbH • Member of the Board of Directors of LANXESS Corp. • Member of the Board of Directors of LANXESS Solutions Korea Inc.
Dr. Stephanie Coßmann		
Member of the Board of Management and Labor Relations Director		• Member of the Executive Board of LANXESS Deutschland GmbH • Member of the Board of Administration of LANXESS N.V.

SUPERVISORY BOARD OF LANXESS AG

Serving Members

Dr. Matthias L. Wolfgruber (Chairman)

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

Further offices:
- LANXESS Deutschland GmbH, Cologne[1] (Chairman)
- ALTANA AG, Wesel[1] (Chairman of the Supervisory Board since May 29, 2020)
- Grillo Werke AG, Duisburg[1] (office relinquished as of March 31, 2021)
- ARDEX GmbH, Witten (Chairman of the Advisory Board) (office relinquished as of March 31, 2021)
- Cabot Corporation, Boston, Massachusetts, U.S.

Birgit Bierther

- Chairwoman of the LANXESS Works Council at the Cologne site

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

Hans van Bylen (since August 27, 2020)

- Self-employed consultant
- Former Chairman of the Management Board of Henkel AG & Co. KGaA
- Former President of Verband der Chemischen Industrie e.V. (VCI)

Further offices:
- LANXESS Deutschland GmbH, Cologne[1] (since August 27, 2020)
- Ontex Group NV, Erembodegem (Aalst), Belgium (Chairman)
- Etex NV, Luchthaven Brussel Nationaal, Belgium
- SN Airholding NV, Brussels, Belgium

Werner Czaplik

- Chairman of the LANXESS Central Works Council and of the LANXESS Group Works Council
- Member of the LANXESS Works Council at the Leverkusen site

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

Serving Members

Armando Dente (since August 27, 2020)

- District manager at IGBCE, Cologne-Bonn district

Further offices:
- LANXESS Deutschland GmbH, Cologne[1] (since August 27, 2020)
- INEOS Deutschland Holding GmbH, Cologne[1]
- INEOS Manufacturing Deutschland GmbH, Cologne[1]

Dr. Hans-Dieter Gerriets

- Chairman of the LANXESS Group Managerial Employees' Committee and Chairman of the LANXESS Managerial Employees' Committee; manager of a production facility in the Advanced Industrial Intermediates business unit of LANXESS Deutschland GmbH

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

Dr. Heike Hanagarth

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

Further offices:
- LANXESS Deutschland GmbH, Cologne[1]
- Gilde Buy Out Partners BV, Utrecht, Netherlands
- NXT Boardroom GmbH, Munich (Advisory Board)

Pamela Knapp

- Member of the Boards of Management and Supervisory Boards of various European commercial enterprises
- Former CFO of GfK SE

Further offices:
- Compagnie de Saint-Gobain S.A., Courbevoie, France (Member of the Board of Directors – Conseil d'Administration)
- Peugeot S.A., Rueil-Malmaison, France (Member of the Supervisory Board – Conseil de Surveillance)
- Signify NV, Eindhoven, Netherlands (Member of the Supervisory Board since May 13, 2020)
- HKP Deutschland GmbH (member of the Advisory Board since January 1, 2020)

Serving Members

Lawrence A. Rosen

- Member of the Supervisory Boards of various commercial enterprises
- Former member of the Board of Management of Deutsche Post AG, Bonn

Further offices:
- LANXESS Deutschland GmbH, Cologne[1]
- Qiagen N.V., Venlo, Netherlands (Chairman of the Supervisory Board since August 11, 2020)
- Deutsche Post AG (since August 27, 2020)

Ralf Sikorski

- Vice Chairman of the German Mining, Chemical and Energy Industrial Union, Hanover

Further offices:
- LANXESS Deutschland GmbH, Cologne[1] (Vice Chairman)
- Chemie Pensionsfonds AG, Munich[1]
- RAG AG, Herne[1]
- RWE AG, Essen[1]
- RWE Power AG, Cologne and Essen[1] (Vice Chairman)
- RWE Generation SE, Essen[1]
- KSBG – Kommunale Verwaltungsgesellschaft GmbH, Essen[1] (Vice Chairman)

Manuela Strauch

- Chairwoman of the LANXESS Works Council at the Uerdingen site
- Member of the LANXESS Central Works Council
- Vice Chairwoman of the LANXESS Group Works Council

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

Theo H. Walthie

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

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

1) Statutory supervisory boards.

The information about offices held refers to memberships in other supervisory boards and comparable supervisory bodies of companies in Germany and abroad (as of December 31, 2020).

Report of the Supervisory Board

DEAR STOCKHOLDERS,

Fiscal year 2020 was significantly influenced by the coronavirus pandemic. In the spring, demand in numerous major customer markets rapidly collapsed. In some industries, like automotive, plants were closed for weeks. The aviation industry is still in a similar situation. For LANXESS, too, this led to considerable declines in demand. With forward-looking planning and the use of short-time work and similar instruments in other countries, however, LANXESS almost completely avoided production shutdowns as a result of coronavirus. I would like to thank our employees, whose efforts enabled us to react quickly and flexibly to this situation and thus to exceed the previous year's earnings again in the fourth quarter.

In this crisis, it has become apparent that the systematic restructuring of the Group and the more balanced portfolio have made LANXESS much less prone to economic fluctuations. Consumer Protection was established as a highly profitable specialty chemicals segment, which achieved excellent growth in 2020. The Advanced Intermediates, Specialty Additives and Engineering Materials segments, the latter of which was most affected by the pandemic due to its exposure in the automotive market, are also in a much more robust position today. Despite the crisis, the EBITDA margin pre exceptionals declined only slightly and was within the strategic target range at 14.1%.

The strong statement of financial position with very sound liquidity enabled LANXESS to act flexibly and freely at all times in this year characterized by uncertainty. When the sale of the 40% interest in Currenta was completed in April, LANXESS received a gross inflow of €890 million, which provides the Group with additional opportunities for further growth.

LANXESS also focused on climate protection in 2020. For example, in addition to the ambitious targets for the reduction of greenhouse gases, a new strategy was also announced for sustainable water management. LANXESS's leading positions in renowned rankings were improved or confirmed, reinforcing its aspirations and the success of its activities in the ESG field. In addition, the Supervisory Board approved a new compensation system for the Board of Management that also links future compensation to the achievement of sustainability targets. This concept will be submitted for the stockholders' approval at the 2021 Annual Stockholder's Meeting.

Despite continuing uncertainty, LANXESS expects a revival in demand and an improvement in business prospects in 2021. LANXESS will continue to focus on the ongoing development of its product portfolio and on profitable growth.

During the reporting year, the Supervisory Board duly and fully performed the tasks and duties incumbent upon it under the law, the articles of association and the rules of procedure for the Supervisory Board. It regularly advised the Board of Management in its management of the company and monitored its activity. In the process, we were satisfied at all times by the legality, usefulness and propriety of the Board of Management's work.

The Supervisory Board was directly involved in all decisions of fundamental importance for the company. The Board of Management informed us regularly in written and oral reports about business performance, the situation of the Group, including the risk situation and risk management, strategic development, compliance, management development, the Group's digitalization projects and current issues. On the basis of these reports, we discussed significant business transactions in detail. We thoroughly examined the reports and the resolutions proposed by the Board of Management and discussed them at length in meetings of the full Supervisory Board and its committees. If the law, articles of association or other provisions required the Supervisory Board to approve the actions of the Board of Management, we discussed these actions in detail and adopted resolutions on them.

The chairs of the Supervisory Board/Presidial Committee and Audit Committee and the Board of Management were in regular contact outside of the Supervisory Board's meetings and discussed in particular the company's current situation and material transactions.

PRINCIPAL TOPICS DISCUSSED BY THE SUPERVISORY BOARD

The Supervisory Board met a total of eight times in the reporting year. We regularly discussed the sales and earnings performance of the Group and its segments, as well as the financial position. Additionally, the Board of Management kept us updated about the effects of the coronavirus pandemic on LANXESS, the overall state of the economy, the situation in the chemical industry, the performance of LANXESS stock, investment and acquisition plans, and sustainability issues. The Supervisory Board addressed the following important issues:

The focus of the Supervisory Board meeting held on March 10, 2020, was the review of the annual financial statements and consolidated financial statements for fiscal year 2019 and the proposal for use of the distributable profit. We discussed and approved the non-financial Group report 2019, which shows the sustainability aspects pursued by the company. The Supervisory Board also discussed motions for resolution by the Annual Stockholders' Meeting. The Board of Management then presented the internal control, risk management and auditing systems, and we satisfied ourselves of their efficacy. In addition, the Supervisory Board decided upon the variable compensation for the Board of Management members for fiscal year 2019 on the basis of the identified target attainment. We also adjusted the Supervisory Board's rules of procedure on the basis of the new version of the German Corporate Governance Code (GCGC). For example, we lowered the age limit for the Supervisory Board to 75 years, limited the maximum length of membership of the Supervisory Board to twelve years, and stipulated extensive requirements regarding the independence of Supervisory Board members.

At an extraordinary meeting of the Supervisory Board on April 3, 2020, the Board of Management gave us detailed information about the coronavirus crisis, its effects on LANXESS and the measures the company had taken. At the same time, we also assured ourselves of the effectiveness of the financial crisis management measures initiated by the Board of Management in order to preserve financially critical processes as well as cost and efficiency measures and liquidity provisioning.

The meeting on May 5, 2020, again focused on the effects of the coronavirus crisis on the company and the countermeasures taken. As a sign of solidarity with the Board of Management members' and upper management's waiver of part of their compensation, the Supervisory Board members agreed in individual statements to waive 20% of their fixed compensation for the fiscal year. Other topics of discussion with the Board of Management were the suspended stock repurchase and the postponed Annual Stockholder's Meeting. In this context, the Board of Management informed us about the new legislation making it easier to hold a virtual Annual Stockholder's Meeting without the physical presence of the stockholders. In addition to a full report on environmental protection and occupational and plant safety, which was subsequently discussed by the full Supervisory Board, the company gave us a comprehensive overview of cybersecurity management at LANXESS. We were also presented with the compliance management system. We discussed with the Board of Management the measures initiated and ongoing projects to further strengthen compliance management at LANXESS.

At another extraordinary meeting on July 1, 2020, the Board of Management again reported about the coronavirus situation and the current infection rate at LANXESS and presented us with the safety concept developed at LANXESS for the administrative buildings. We approved the implementation of the Annual Stockholder's Meeting, postponed to August 27, 2020, as a virtual Annual Stockholder's Meeting without the physical presence of the stockholders or their authorized representatives as well as the notice convening the Annual Stockholder's Meeting. Finally, the Board of Management and the Supervisory Board held a detailed discussion of business opportunities and ongoing projects in electric mobility.

At the meeting on August 12, 2020, we dealt with a significant M&A project at the company. As a result of the extensive discussions, we approved the sale of the Leather business unit's organic leather business to TFL Ledertechnik. The Board of Management also informed us about the status of the preparations for the virtual Annual Stockholder's Meeting.

Following the Annual Stockholder's Meeting on August 27, 2020, there was a constituent meeting of the Supervisory Board with the serving stockholder representatives and those elected by the Annual Stockholder's Meeting as well as the employee representatives appointed by court order as a result of the coronavirus pandemic. Dr. Matthias L. Wolfgruber was re-elected as Chairman of the Supervisory Board. Ralf Sikorski was again appointed as Vice Chairman. In addition, some of the committees gained new members.

The meeting on November 4, 2020, focused on the discussion of a new, adjusted compensation system for the members of the Board of Management. The Supervisory Board looked very intensively at the new regulatory framework, market developments and the criteria designed by investors, and adopted the new compensation system on the basis of the preliminary work and the recommendation of the Presidial Committee. This will be submitted for approval at the 2021 Annual Stockholder's Meeting. By revising the compensation system, the Supervisory Board intends to strengthen the link between LANXESS's strategic targets and the configuration of Board of Management compensation, while integrating sustainability targets and continuing to ensure appropriate and performance-based compensation. To implement the new compensation system, the Board of Management contracts were amended with effect as of January 1, 2021. The Board of Management also gave us a report on LANXESS's research and development activities. In addition, we obtained information about the work of the Global Business Services Group function on the Group-wide centralization of transactional processes and the quality and efficiency improvements thus made possible and about the status of the global Future Integrated Template (FIT) project.

At its meeting on December 10, 2020, the Supervisory Board reviewed in full and approved the corporate planning for 2021 proposed by the Board of Management. We also had a detailed discussion about the company's strategic alignment – including sustainability aspects – and capital expenditure policy. In addition, the Board of Management informed us of the status of ongoing M&A projects. As in previous years, current developments in corporate governance were a topic on the agenda of the December meeting. After reviewing compliance with the recommendations and suggestions of the GCGC, we resolved to issue a declaration of compliance. Lastly, the Supervisory Board defined the conditions for the Board of Management's variable compensation components and target total compensation for fiscal year 2021.

All members of the Supervisory Board and its committees performed their duties diligently and conscientiously. The stockholder representatives and employee representatives to the Supervisory Board always 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 and the Supervisory Board met without the attendance of the members of the Board of Management.

The attendance at meetings of the Supervisory Board and its committees was 100%. Due to the special circumstances of the coronavirus pandemic, the meetings were held virtually from April 2020. The attendance of Supervisory Board members at meetings of the Supervisory Board and the committees is disclosed individually.

Individual disclosure of LANXESS AG Supervisory Board members' meeting attendance in fiscal year 2020

Supervisory Board members	Supervisory Board		Presidial Committee		Audit Committee		Nominations Committee		Total	
	Attendance	%	Attendance	%	Attendance	%	Attendance	%	Attendance	%
Dr. Matthias L. Wolfgruber, Chairman	8/8	100	5/5	100			1/1	100	14/14	100
Ralf Sikorski, Vice Chairman	8/8	100	5/5	100					13/13	100
Birgit Bierther	8/8	100	5/5	100					13/13	100
Werner Czaplik	8/8	100			4/4	100			12/12	100
Armando Dente (since Aug. 27, 2020)	3/3	100			1/1	100			4/4	100
Dr. Hans-Dieter Gerriets	8/8	100			4/4	100			12/12	100
Dr. Heike Hanagarth	8/8	100							8/8	100
Dr. Friedrich Janssen (until Aug. 27, 2020)	5/5	100	3/3	100	3/3	100			11/11	100
Pamela Knapp	8/8	100			4/4	100			12/12	100
Thomas Meiers (until Aug. 27, 2020)	5/5	100			3/3	100			8/8	100
Lawrence A. Rosen	8/8	100			4/4	100	1/1	100	13/13	100
Manuela Strauch	8/8	100	5/5	100					13/13	100
Hans van Bylen (since Aug. 27, 2020)	3/3	100	2/2	100	1/1	100			6/6	100
Theo H. Walthie	8/8	100	5/5	100			1/1	100	14/14	100

WORK OF THE COMMITTEES

The Supervisory Board has four committees: the Presidial Committee, the Audit Committee, the Nominations Committee and the Committee formed pursuant to Section 27, Paragraph 3 of the German Codetermination Act. The committees are tasked with preparing the topics and resolutions to be discussed at meetings of the full Supervisory Board. They also, at times, exercise decision-making powers conferred on them by the Supervisory Board.

The Presidial Committee convened five times during the reporting year to prepare the meetings of the Supervisory Board and the decisions to be reached by the full Supervisory Board at its meetings concerning human resources measures in the company's Board of Management, especially the new Board of Management compensation system.

The Audit Committee met four times during the year. It dealt in particular with the annual financial statements of LANXESS AG, the consolidated financial statements and the combined management report for fiscal year 2019, the quarterly statements issued during fiscal year 2020, and the condensed consolidated financial statements and interim management report included in the 2020 half-year financial report. The Audit Committee was particularly concerned with the effects of the coronavirus pandemic on the company's financial position. It also reviewed the company's risk management and internal control systems. The Audit Committee also dealt with the concept for approving non-audit services and the non-financial Group report 2019. Other topics discussed were the significant findings by the internal audit department, corporate planning and compliance, the perception of LANXESS on the capital market, and the determination of the principal areas of focus for the audit of the 2020 financial statements. The Committee also found out about the Group's liquidity management, strategies to hedge currency risks, the status of the FIT project, and the recent audit of OTC derivatives contracts pursuant to Section 32 of the German Securities Trading Act. The external auditor reported on the auditing activities at two of the four Audit Committee meetings.

The Nomination Committee met once in fiscal year 2020. It prepared the Supervisory Board's nomination of stockholder representatives for the Supervisory Board elections. 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

The Supervisory Board dealt intensively with the amended GCGC in the past fiscal year. The joint declaration 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 declaration, LANXESS AG currently complies with all the GCGC's recommendations bar one exception. 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 Board of Management's declaration pursuant to Sections 289f and 315d of the German Commercial Code.

ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

The annual financial statements prepared by the Board of Management of LANXESS AG in accordance with the rules of the German Commercial Code, the consolidated financial statements prepared in accordance with the International Financial Reporting Standards (IFRS) and the combined management report for fiscal year 2020 were audited by PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, the auditor appointed by the Annual Stockholders' Meeting on August 27, 2020, and engaged by the Supervisory Board. The auditor issued an unqualified opinion in each case. The auditor carried out the audit in accordance with Section 317 of the German Commercial Code and Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC according to a selection procedure implemented by the company. The auditor responsible for the audit was Mr. Jörg Sechser.

The Supervisory Board convinced itself of the independence of the auditor and the persons acting on the auditor's behalf.

The audit reports and the documents relating to the financial statements were discussed at length with the Board of Management and the auditor at the Audit Committee meeting held on March 9, 2021. 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 10, 2021. The responsible auditor was present for the discussions concerning the financial statements of LANXESS AG and the consolidated financial statements of the LANXESS Group. He reported on the scope, focus areas and significant findings of the audits and went into particular detail on the key audit matters. He was also available to the Audit Committee and full Supervisory Board to provide additional information.

Based on the recommendation of the Audit Committee as well as on its own review and in-depth discussions about the financial statements of LANXESS AG, the consolidated financial statements of the LANXESS Group, the combined management report and the proposal for appropriation of the profit, the Supervisory Board endorsed the auditor's conclusions and had no objections to raise. The Supervisory Board has approved the annual financial statements of LANXESS AG and the consolidated financial statements of the LANXESS Group, which were prepared by the Board of Management. The Supervisory Board endorsed the Board of Management's proposal for use of the distributable profit after close examination and extensive deliberations that carefully weighed the best interests of the company and the stockholders.

CHANGES IN THE SUPERVISORY BOARD AND BOARD OF MANAGEMENT

The Supervisory Board was reconstituted in fiscal year 2020. At the end of the 2020 Annual Stockholder's Meeting, all employee representative mandates and four of the six stockholder representative mandates expired as scheduled.

Because the coronavirus pandemic prevented the election of employee representatives by delegates, the following employee representatives were appointed by order of Cologne District Court effective as of the end of the Annual Stockholder's Meeting of August 27, 2020: Birgit Bierther, Manuela Strauch, Werner Czaplik, Armando Dente, Dr. Hans-Dieter Gerriets and Ralf Sikorski. Thomas Meiers is no longer a member of the Supervisory Board.

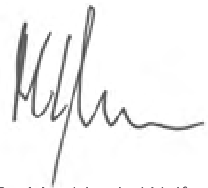
On August 27, 2020, the Annual Stockholder's Meeting of LANXESS AG elected Lawrence A. Rosen, Hans van Bylen, Theo H. Walthie and Dr. Matthias L. Wolfgruber to the company's Supervisory Board as stockholder representatives alongside the serving members Dr. Heike Hanagarth and Pamela Knapp. Dr. Friedrich Janssen, the long-time Chairman of the Audit Committee, left the Supervisory Board.

The new members of the Supervisory Board were familiarized with the company's circumstances and the work on our board as part of the Supervisory Board onboarding process.

There was also a change on the Board of Management: To succeed Dr. Rainier van Roessel, who departed as a Board of Management member in 2019, Dr. Stephanie Coßmann was appointed as a member of the Board of Management and Labor Relations Director for a period of three years with effect as of January 1, 2020.

The Supervisory Board once again thanks the members of the Board of Management, all of the Group's employees around the world and the employee representatives for their extraordinary commitment and outstanding work in this challenging fiscal year 2020.

Cologne, March 10, 2021
The Supervisory Board



Dr. Matthias L. Wolfgruber
Chairman

COMBINED MANAGEMENT REPORT

FUNDAMENTALS OF THE GROUP

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 domestic and foreign subsidiaries and affiliates.

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/ Specialty Additives/ Consumer Protection/ Engineering Materials
LANXESS Corporation, Wilmington, U.S.	Production and sales	Advanced Intermediates/ Specialty Additives/ Consumer Protection/ Engineering Materials
Saltigo GmbH, Leverkusen, Germany	Production and sales	Consumer Protection
LANXESS N.V., Antwerp, Belgium	Production and sales	Advanced Intermediates/ Engineering Materials
LANXESS Sales Netherlands B.V., Venlo, Netherlands	Sales organization	Specialty Additives
LANXESS India Private Limited, Thane, India	Production and sales	Advanced Intermediates/ Consumer Protection/ Engineering Materials

In the North America region, the likewise principal subsidiaries LANXESS Solutions US Inc., Wilmington, U.S., and Great Lakes Chemical Corporation, Wilmington, U.S., were merged into LANXESS Corporation, Wilmington, U.S., on October 1, 2020.

Management and control organization

LANXESS AG has a two-tier management structure consisting of the Board of Management, which manages the company, and the Supervisory Board, which oversees the Board of Management with the support of an Audit Committee formed from among its members to advise on financial matters. The Board of Management shapes Group strategy and manages resource allocation, infrastructure and organization. As the Group management company, LANXESS AG is responsible for financing and for communication with the company's key stakeholders.

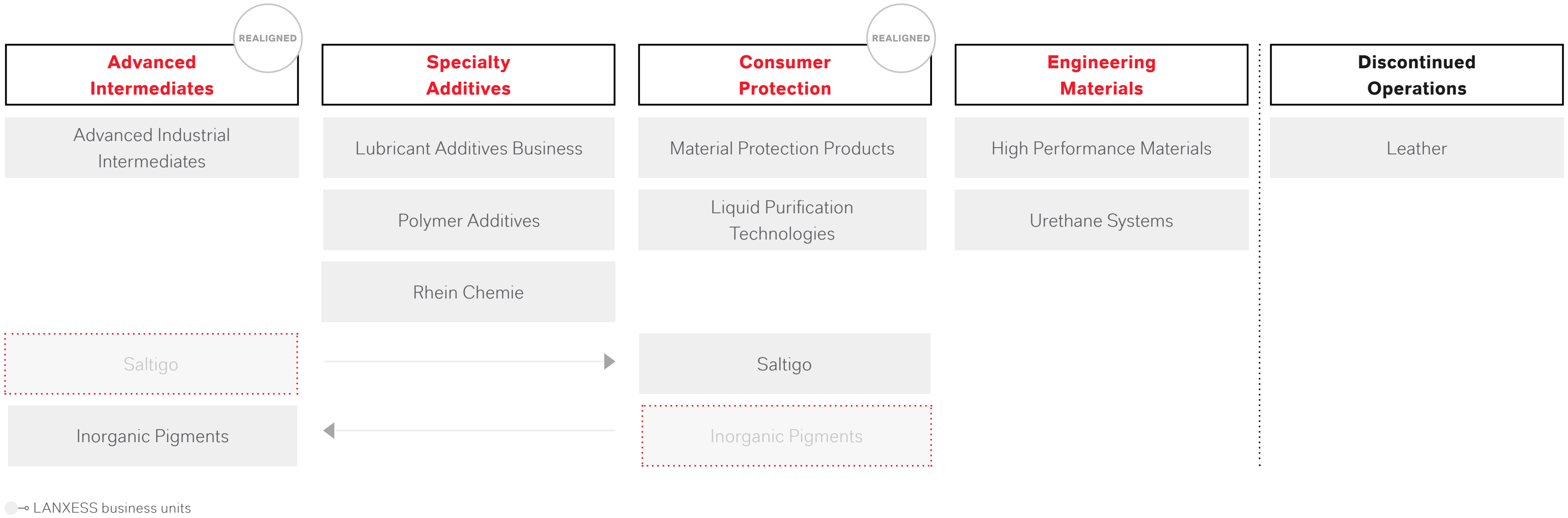
BUSINESS ACTIVITIES

Business organization and material changes in the Group portfolio

LANXESS is increasingly focusing on consumer protection products and therefore adjusted its reporting structure accordingly in the first quarter of the past fiscal year. The Saltigo, Material Protection Products and Liquid Purification Technologies business units make up the new Consumer Protection segment. Besides disinfectants and preservatives for material protection, the beverage industry and household applications, the product portfolio includes active ingredients for the agricultural and pharmaceutical industries, insect repellents and technologies for water purification. The Consumer Protection segment has replaced the former Performance Chemicals segment. At the same time, the Inorganic Pigments business unit has been part of the Advanced Intermediates segment since the start of fiscal year 2020. The previous year's figures have been restated accordingly.

In addition, we decided in 2019 to divest all operations of the Leather business unit, comprising chrome chemicals, the chrome ore mine and organic leather chemicals. In connection with this, LANXESS sold its chrome chemicals business on January 10, 2020. The sale of the chrome ore mine was agreed on November 15, 2019. We expect this transaction to be completed in the course of 2021. On August 12, 2020, we agreed the sale of the organic leather chemicals business. The transaction is still subject to the approval of the responsible Chinese authorities. We expect this transaction to be completed by the middle of 2021. The Leather business unit has been recognized as discontinued operations since December 2019.

New Segment Structure



On February 3, 2020, LANXESS completed the acquisition of the Brazilian biocide manufacturer IPEL-Itibanyl Produtos Especiais Ltda., Jarinu, Brazil. This acquisition enhances LANXESS's position as one of the world's leading manufacturers of biocidal active ingredients and formulations. The business with around 100 employees, production plants and laboratory facilities was integrated into the Material Protection Products business unit of the new Consumer Protection segment. In fiscal year 2020, as in the previous year, the acquired company generated sales of a lower eight-figure sum in euros.

On March 10, 2020, the Board of Management of LANXESS AG decided to repurchase own shares in two tranches of €250 million each (excluding incidental expenses) via the stock exchange within 24 months. The stock repurchase program began on March 12, 2020, but was suspended until further notice on April 6, 2020, as a result of the coronavirus crisis. 1,101,549 shares worth €37 million had been repurchased by this date. The repurchased shares have not yet been canceled.

At the end of April, LANXESS sold its 40% interest in the chemical park operator Currenta GmbH & Co. OHG, Leverkusen, Germany, to Macquarie Infrastructure and Real Assets (MIRA). This transaction resulted in cash inflows totaling €890 million (before payment of the income tax owed by LANXESS). In addition to the gain on disposal of €740 million, LANXESS received a profit participation of €150 million for fiscal year 2019. In the previous year, the profit participation for fiscal year 2018 amounted to €21 million. We have also agreed service and supply contracts for the three chemical parks in question in Leverkusen, Dormagen and Krefeld-Uerdingen, all Germany, initially for ten years, and have thus secured reliable infrastructure at competitive conditions into the future.

As of July 15, 2020, LANXESS agreed the sale of the reverse osmosis membranes business from the Liquid Purification Technologies business unit to SUEZ S.A., Paris, France. The transaction was completed on January 1, 2021. LANXESS is thus repositioning its water treatment technology business in order to focus on the ion exchange resins business in the future. In the statement of financial position as of December 31, 2020, the assets and liabilities to be disposed of were recognized as held for sale.

On January 14, 2021, LANXESS agreed the acquisition of the French company INTACE SAS, Paris, France. This manufacturer of special fungicides for the packaging and paper industry will enhance LANXESS's position as one of the world's leading manufacturers of biocides and antimicrobial active ingredients. We expect the transaction to be completed at the beginning of March 2021.

In addition, LANXESS signed an agreement on the acquisition of the French Theseo Group on February 9, 2021. The group, headquartered in Laval, France, is a leading manufacturer of disinfection and hygiene solutions in Europe and Latin America. The products are used in particular in livestock farming to prevent and control diseases. Theseo has around 100 employees at its sites in Laval, France; Wietmarschen, Germany; Hull, Great Britain; and Campinas, Brazil, and generated sales of a lower eight-figure sum in euros in 2020.

On February 14, 2021, LANXESS concluded an agreement with the U.S. private equity firm American Securities LLC regarding the acquisition of 100% of the shares in Emerald Kalama Chemical. The U.S. company is a one of the world's leading manufacturers of special chemicals, primarily for the consumer goods sector. LANXESS will finance the purchase price of around US$1.0 billion with existing liquidity. The transaction is still subject to the approval of the responsible authorities and is expected to be completed in the second half of 2021. Emerald Kalama Chemical has around 500 employees worldwide and operates production sites in Kalama, U.S.; Rotterdam, Netherlands; and Widnes, Great Britain. In 2020, the company generated sales of around US$425 million and EBITDA pre exceptionals of roughly US$90 million.

Dr. Stephanie Coßmann, formerly head of the Human Resources Group function, succeeded Dr. Rainier van Roessel as a member of the Board of Management effective January 1, 2020. Dr. van Roessel retired at the end of 2019.

This personnel change also resulted in changes in the allocation of responsibilities within the Board of Management. Alongside her role as member of the Board of Management and Labor Relations Director, Dr. Coßmann has also taken over responsibility for the Human Resources Group function from Dr. van Roessel. In addition, she has assumed responsibility for the Legal and Compliance Group function, which previously lay with Chairman of the Board of Management, Mr. Matthias Zachert. Mr. Zachert has taken over responsibility for the Liquid Purification Technologies and Material Protection Products business units from Dr. van Roessel. Responsibility for the Saltigo business unit remains with Dr. Hubert Fink, who has also taken charge of the Inorganic Pigments business unit. Dr. Anno Borkowsky has taken over the coordination of LANXESS's regional and country organizations. There was no change in responsibilities for Mr. Michael Pontzen.

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 manufacturing of chemical precursors.

Advanced Intermediates

Business units	Advanced Industrial Intermediates
	Inorganic Pigments
Sites	Sydney, Australia
	Antwerp, Belgium
	Porto Feliz, Brazil
	Liyang, Ningbo, China
	Bergkamen, Brunsbüttel, Dormagen, Krefeld-Uerdingen, Leverkusen, Germany
	Branston, Great Britain
	Jhagadia, Nagda, India
	Vilassar de Mar, Spain
	Baytown, Burgettstown, Bushy Park, Mapleton, U.S.
Applications	Agrochemicals
	Automotive
	Construction
	Aromas and flavors
	Rubber chemicals
	Semiconductors and photovoltaics
	Color pigments

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

Specialty Additives

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

In the Consumer Protection segment, we concentrate on consumer protection products and the custom synthesis of specialty active ingredients.

Consumer Protection

Business units	Material Protection Products
	Liquid Purification Technologies
	Saltigo
Sites	Jarinu, Brazil
	Changzhou, China
	Bitterfeld, Dormagen, Krefeld-Uerdingen, Leverkusen, Germany
	Sudbury, Great Britain
	Jhagadia, India
	Singapore, Singapore
	Memphis, Pittsburgh, U.S.
Applications	Agrochemicals
	Disinfection, preservation and material protection products
	Products for water treatment
	Pharmaceuticals

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

Engineering Materials

Business units	High Performance Materials
	Urethane Systems
Sites	Antwerp, Belgium
	Porto Feliz, Brazil
	Nantong, Wuxi, China
	Brilon, Hamm-Uentrop, Krefeld-Uerdingen, Germany
	Baxenden, Great Britain
	Jhagadia, India
	Latina, Italy
	Gastonia, Perth Amboy, U.S.
Applications	Automotive
	Electrical/electronics
	Construction
	Medical equipment
	Mining
	Rollers for conveyor belts and leisure
	Oil and gas
	Industrial and mechanical goods

STRATEGY

Value-based, responsible and reliable action, combined with clear strategic guidelines, serves as LANXESS's strategic compass. We build on integrated value chains, sustainable, competitive products and sites, and on our strength in mid-sized markets with generally above-average growth rates.

We have pressed ahead with our portfolio restructuring – through targeted acquisitions in promising growth sectors on the one hand and disposals of business units with below-average development prospects on the other hand – and now have a very balanced and resilient portfolio. The now much more balanced structure of our customer markets has proven a stabilizing factor during the crisis. We will continue on this path in order to make LANXESS an even more sustainable, profitable and growing specialty chemicals company. We also want to grow in our Consumer Protection segment by focusing on consumer protection products, especially in our business with biocidal active ingredients and formulations. The new Consumer Protection segment is an important strategic step into the future with regard to profitability and growth and is also significant in light of the coronavirus pandemic. Besides disinfectants and preservatives for material protection, the beverage industry and household applications, the product portfolio includes active ingredients for the agricultural and pharmaceutical industries, insect repellents and technologies for water purification.

We invest in our businesses in order to promote organic growth. Our focus is on expanding capacity and making additions to existing facilities and plants. We see targeted investments in our research and development activities as another driver of long-term growth. Our innovation strategy is based on three pillars: product research closely aligned to the market and customer requirements, centrally managed process research focusing on energy and raw material efficiency, and agile digitalization projects.

Clear financial targets for 2021

The targets we have set for 2021 envisage an average operating earnings margin – measured in terms of EBITDA pre exceptionals – of between 14% and 18% over the course of a business cycle. Moreover, the margin in any year should move around the average level by no more than two to three percentage points. A sound investment-grade rating remains a strict goal of our conservative financial policy.

Clear commitment to sustainability

LANXESS intends to accelerate and shape the change as a sustainable chemicals company with long-term success. We have clearly expressed this ambition in our climate protection targets. By 2030, we want to reduce greenhouse gas emissions from our production and emissions from the energy generation required for our production by another 50%, so that LANXESS will have reduced its emissions by 75% compared to 2004, the year it was founded. In 2040, we ultimately plan to be climate neutral by neutralizing the emissions still remaining at that date via appropriate offsetting measures. We regularly review the sustainability performance of our product portfolio and by 2023 will have developed a strategy plan for all end products in which the concentration of critical substances exceeds 0.1%. Our engagement for sustainable development is also demonstrated by the fact that ESG ("environmental, social and governance") criteria are accounted for in our key credit facility. The interest rate terms of the syndicated credit facility signed in December 2019 of €1 billion depend in part on the successful reduction of our greenhouse gas emissions and the increase in the proportion of women at the top three levels of management. In the future, we will also include the reduction of the lost time injury frequency rate (LTIFR: accidents per million hours worked) for accidents with days lost and an additional sustainability target as assessment criteria for the compensation system for managers and the Board of Management. For the time being, this relates to the improvement of our carbon footprint.

VALUE MANAGEMENT AND CONTROL SYSTEM

Value Management and Control System

		2016	2017	2018	2019	2020
EBITDA pre exceptionals[1]	€ million	995	925	986	1,019	862
EBITDA margin pre exceptionals[1]	%	12.9	14.2	14.4	15.0	14.1
Capital employed[2]	€ million	7,479	7,463	5,204	5,588	5,272
ROCE	%	6.9	9.3	11.4	10.0	7.5
Days of sales in inventory (DSI)	Days	67.2	64.7	68.6	65.7	64.1
Days of sales outstanding (DSO)	Days	51.1	50.7	46.0	42.3	44.6
Net financial liabilities	€ million	2,394	2,252	1,923	2,522	1,012
Net financial liabilities after deduction of short-term money market investments and securities	€ million	269	2,252	1,381	1,742	1,012
Net financial debt ratio		0.3x	1.7x	1.4x	1.7x	1.2x
Investment ratio[1]	%	5.7	6.1	7.0	7.5	7.5

1) Figures from 2017 not including ARLANXEO and from 2018 not including the Leather business unit.
2) Capital employed from 2018 adjusted as of December 31 of each year. See "Profitability" for details.

To achieve our strategic goals, we need indicators that we can use to measure the outcomes of our activities. The most important indicator of our financial performance – and thus the company's key controlling indicator – is EBITDA (operating earnings before depreciation, amortization, write-downs, and reversals) pre exceptionals. We view other financial performance ratios such as return on capital employed (ROCE), days of sales in inventory (DSI), days of sales outstanding (DSO) and the net financial debt ratio as company-specific leading indicators or as a basis for monitoring.

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

Earning power

The key indicator for steering the earning power of the LANXESS Group and the individual segments is EBITDA pre exceptionals. It is calculated from EBIT by adding back depreciation and impairments of property, plant and equipment as well as amortization and impairments of intangible assets, subtracting reversals of impairment charges on property, plant, equipment and intangible assets, and excluding exceptional items. The latter are effects that, by nature or extent, have a significant impact on the earnings position, but for which inclusion in the evaluation of business performance over several reporting periods does not seem to be appropriate. Exceptional items may include write-downs, reversals of impairment charges or the proceeds from the disposal of assets, certain expenses for strategic projects in the fields of IT and digitalization, 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 (target) planning process, targets are set for this benchmark of our company's success, which are then taken into account in determining variable income components for the Board of Management, senior executives and the rest of the workforce.

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 through short-term alignment effects, generally has no impact on the absolute margins that are significant to our profitability. We therefore set sales targets for neither the short nor medium term.

The earnings margins are calculated from the ratios of the respective earnings indicators to sales. For example, the EBITDA margin (pre exceptionals) is calculated as the ratio of EBITDA (pre exceptionals) to sales and serves as an indicator of relative earning power at Group level and for the individual segments.

Company-specific leading indicators

Leading indicators support the timely identification of material changes in the company's earnings, asset and financial position and the initiation of appropriate measures.

Our annual budget (target) 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 three times each fiscal year as the basis for updating the full-year budget (target) and the associated key values used to control the Group. In addition, forecasts of the key values for our earning power are prepared each month in a semi-automated process.

Certain parameters used in budgets (target) 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.

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.

In the 2020 reporting year, ROCE was 7.5% and thus on a par with our weighted average cost of capital (WACC) after adjustment for comparability. In the previous year, ROCE was 10.0%. The capital employed of the reporting year was adjusted for an amount of around €1,641 million. This resulted from the investment in shares of money market funds that can be sold at any time and the assets not allocated to continuing operations in the statement of financial position. The capital employed of fiscal year 2019 was adjusted for an amount of around €985 million. On December 31, 2019, this resulted from unused financial resources invested in short-term securities and the assets not allocated to continuing operations in the statement of financial position.

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 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 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.

Capital employment

To optimize our working capital at the operational level, we use two key performance indicators: DSO (days of sales outstanding) and DSI (days of sales in inventory). These show receivables and inventories in relation to sales for the previous quarter. In fiscal year 2020, DSI was at 64.1 days (previous year: 65.7 days) and DSO at 44.6 days (previous year: 42.3 days).

Expenditures for property, plant and equipment are subject to rigorous capital discipline and are systematically aligned with the product areas that show the greatest potential for success. We prioritize investment projects on the basis of financial indicators such as pay-back period, net present value and ROCE. The investment rate is an indicator that describes cash outflows for capital expenditures divided by sales.

Debt

Net financial liabilities are the total of current and non-current financial liabilities less liabilities for accrued interest, cash, cash equivalents and near-cash assets and amounted to €1,012 million. As a result of investment in shares of money market funds that can be sold at any time, near-cash assets increased to €1,523 million. As of December 31, 2020, no other short-term money market investments and securities were held. Thus net financial liabilities after deduction of short-term money market investments and securities also amounted to €1,012 million at the end of 2020. However, there were short-term money market investments and securities in the previous year. Adjusted for these, the comparative figure as of December 31, 2019, was €1,742 million. The reduction resulted primarily from the purchase price payment received for the sale of the 40% interest in the chemical park operator Currenta. This transaction resulted in cash inflows totaling €890 million (before payment of the income tax owed by LANXESS). The reduction was lessened by the outflow of cash funds for the addition to German pension assets, the payment of the dividend and the stock repurchase. 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 short-term money market investments and securities, the net financial debt ratio as of December 31, 2020, decreased to 1.2 from 1.7 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 2019, they increased by €27 million to €1,205 million. Including this additional component of debt, adjusted for related deferred tax assets of €339 million (previous year: €288 million) and reduced by the receivables relating to pension obligations recognized under other non-current assets of €13 million (previous year: €78 million), the total net debt ratio in relation to EBITDA pre exceptionals was 2.2, compared with 2.5 at the previous year's reporting date.

Net financial liabilities

€ million	2016	2017	2018	2019	2020
Non-current financial liabilities	2,734	2,242	2,686	2,777	2,265
Current financial liabilities	78	633	59	66	566
Less:					
Liabilities for accrued interest	(23)	(35)	(25)	(25)	(25)
Cash and cash equivalents	(355)	(538)	(797)	(296)	(271)
Near-cash assets	(40)	(50)	0	0	(1,523)
Net financial liabilities	2,394	2,252	1,923	2,522	1,012
after deduction of short-term money market investments and securities	(2,125)	0	(542)	(780)	0
Net financial liabilities after deduction of short-term money market investments and securities	**269**	**2,252**	**1,381**	**1,742**	**1,012**

BUSINESS PROCESSES AND EMPLOYEES

Procurement

LANXESS uses its centrally managed global procurement organization – Global Procurement & Logistics – to ensure a reliable supply of raw and other materials and services. “Global Categories” closely coordinate with our business units to pool their requirements in the raw materials, technical goods, packaging materials, energy, services and logistics segments. Our worldwide procurement network facilitates purchasing synergies, so that we can move efficiently in the market and exploit price advantages. We avoid delivery bottlenecks or reliance on individual suppliers using strategies like multiple sourcing. As a result, despite a difficult procurement and logistics situation due to the coronavirus pandemic, there were no delivery shortfalls or bottlenecks in the reporting period that had a material effect on our business development.

Procuring chemical raw materials is a high priority at LANXESS. Our aim is to secure our supplies on the basis of long-term contracts. The availability of raw materials has always been a crucial factor in facility location decisions. We procure key raw materials and utilities in the form of steam and biomass from the immediate vicinity at several of our production sites. In this way, we not only minimize the costs and environmental impact of our transportation activities, but also reduce the risk of delivery shortfalls caused by transportation issues in particular.

Our biggest suppliers of chemical raw materials in 2020 included BASF, BP, Chevron, Covestro, ExxonMobil, INEOS, Olin, Sasol and Shell Chemicals.

Among the most important strategic raw materials by far for our production operations in 2020 were benzene, chlorine and caustic soda, cyclohexane, phosphorous, polyamides and toluene. In all, strategic raw materials accounted for a procurement volume of approximately €1.4 billion in fiscal year 2020 (previous year: approximately €1.5 billion). This equates to around 58% of our total procurement spend for raw materials and goods in 2020, which amounted to approximately €2.4 billion (previous year: €2.8 billion). Our total procurement spend in 2020 was around €4.2 billion (previous year: around €4.8 billion).

Production

LANXESS is a global producer of specialty chemicals. Our production facilities make anywhere from very small batches of custom-synthesized products to basic, specialty and fine chemicals as well as polymers in quantities of several ten thousand metric tons.

Our production facilities are organizationally assigned to individual business units. The most important production sites are located in Leverkusen, Dormagen, the Uerdingen district of Krefeld and Bergkamen, Germany; Antwerp, Belgium; Trafford Park, Great Britain; Latina, Italy; Baytown, El Dorado and Perth Amboy, U.S.; Elmira, Canada; Jhagadia and Nagda, India; and Changzhou, Nantong and Ningbo, China. For a detailed breakdown of our production sites by segment, please see “The segments in brief” in this combined management report.

Sales organization

We sell our products globally, to several thousand customers in around 150 countries across all continents. LANXESS's longstanding customer base includes leaders in each of its user industries. We have well-established customer relationships in all sales regions. To meet our customers' needs, we have set up flexible marketing and sales structures. We manage our sales throughout the world through 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 56 of our own production sites in 18 countries. Wherever possible, customers are supplied from production sites in the same region, yielding advantages in terms of time and costs.

Sales markets

Because of our broad offering, we have business relationships with a large number of customers all over the world. These customers need an individualized, well-focused approach, which we are able to provide because our sales organizations are managed through business units.

LANXESS serves the following industries in particular: chemicals, mobility, agriculture, animal health, nutrition, health, consumer goods, energy, natural resources, industrial applications and construction.

Shares of Sales by Industry Sector

%	2020
Chemical industry	~20
Mobility[1]	~20
Agriculture and animal health	~15
Nutrition, health and consumer goods	~15
Energy, natural resources and industrial applications	~15
Construction	~15

1) Includes sales in the automotive, aviation and shipping industries including relevant electronic components.

In fiscal year 2020, our top ten customers accounted for about 20% (previous year: 19%) of total sales. None of our customers accounted for more than 10% of Group sales. 33 (previous year: 44) customers accounted for annual sales in excess of €20 million. 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.

Organizational focus

Our research programs are aligned with the needs of customers in the end markets. We have therefore consolidated our product innovation activities in the respective business units.

The business units focus their activities on optimizing products and product quality, as well as on developing new products. The Global Technology & Innovation department within our Production, Technology, Safety & Environment Group function supports and complements the business units' research and development activities, with the focus on process innovation. The emphasis here is on planning new processes and integrating new technologies into our existing production processes with the aim of achieving cost and technology leadership. Group-wide issues are identified and coordinated by the Corporate Development Group function.

Our main research and development units are at the sites in Leverkusen, Dormagen, the Uerdingen district of Krefeld and Mannheim, Germany, and Naugatuck, U.S. We also operate a center for engineering plastics in Hong Kong and are currently building a modern Application Development Center at the Shanghai Chemical Industry Park (SCIP) in China. At our research and development sites, we test materials such as innovative flame retardants and engineering plastics for lightweight automotive engineering applications.

Cost trend and employees

Research and development expenses in 2020 totaled €108 million, or 1.8% of sales (previous year: €114 million or 1.7%). The High Performance Materials, Material Protection Products, Advanced Industrial Intermediates and Lubricant Additives business units together accounted for the largest share of these expenses.

Material Protection Products, Urethane Systems, Liquid Purification Technologies and Lubricant Additives Business were the business units with the highest research intensity as measured by the ratio of research and development expenses to sales.

Research and Development Expenses

	2016	2017	2018	2019	2020
Research and development expenses (€ million)	131	103	109	114	108
% of sales	1.7	1.6	1.6	1.7	1.8

Figures from 2017 not including ARLANXEO and from 2018 not including the Leather business unit.

At the end of 2020, 517 people – against 516 in the previous year – were employed in our research and development laboratories worldwide.

Number of Employees in Research and Development

	2016	2017	2018	2019	2020
Year end	589	521	496	516	517
% of Group employees	3.5	3.4	3.5	3.6	3.6

Figures from 2017 not including ARLANXEO and from 2018 not including the Leather business unit.

Fields of activity and patent strategy

We focus our research and development activities on market-driven projects with a short-to medium-term time horizon. The total number of projects in 2020 was 209 compared to 182 in the previous year, 134 (previous year: 114) of which aimed to develop new products and applications or improve existing ones. The remaining 75 projects (previous year: 68) concerned process technology issues with a view to reducing costs, improving efficiency or increasing capacity.

The results of our innovation activities are protected by patents, where this is possible and expedient. In the course of 2020, we submitted 35 priority applications worldwide. As of December 31, 2020, the full patent portfolio included approximately 686 patent families covering around 5,220 property rights.

Employees

As of December 31, 2020, the LANXESS Group had a total of 14,756 employees, against 15,479 at the closing date of the previous year. The number of employees in continuing operations remained stable, so there were 14,309 as of the reporting date after 14,304 in the previous year.

As of December 31, 2020, the LANXESS Group had 1,787 employees in continuing operations in the EMEA region (excluding Germany), against 1,806 in the previous year. In Germany, headcount rose from 7,558 to 7,627. The number of employees in the North America region amounted to 1,979 after 2,031 as of December 31, 2019, while the workforce in Latin America amounted to 797 after 716 in the previous year. The increase in the Latin America region mainly results from the acquisition in Brazil. At the reporting date, we employed 2,119 people in the Asia-Pacific region, which was 74 fewer than at the closing date of the previous year. The decline on the previous year essentially resulted from a site closure in China and the sale of the subsidiary LANXESS Electronic Materials L.L.C., Pyeongtaek, Republic of Korea.

Personnel expenses in fiscal year 2020 totaled €1,307 million (previous year: €1,345 million). Wages and salaries, at €1,031 million (previous year: €1,080 million), accounted for the greater part of this figure. Social security contributions amounted to €172 million (previous year: €162 million), while pension plan expenses were €93 million (previous year: €90 million) and social assistance benefits €11 million (previous year: €13 million).

ECONOMIC REPORT

LEGAL ENVIRONMENT

There were no changes in the legal environment in fiscal year 2020 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

Fiscal year 2020 was primarily characterized by the effects of the coronavirus pandemic. Lockdowns, closed borders and production shutdowns severely damaged the world economy. The damage was additionally exacerbated in some areas by continuing populist or protectionist tendencies and trade conflicts, especially between the U.S. and China.

The sharp, 4.0% decline in the world economy as a result of the coronavirus pandemic affected all regions, with the Asia-Pacific region being the least affected.

GDP and Chemical Production in 2020

Change vs. prior year in real terms (%)	Gross domestic product	Chemical production
USMCA (formerly NAFTA)	(4.0)	(4.0)
Latin America	(8.5)	(3.0)
EMEA (incl. Germany)	(6.5)	(4.5)
Germany	(5.5)	(6.5)
Asia-Pacific	(1.5)	0.0
World	**(4.0)**	**(1.5)**

Source for 2020 growth rates: IHS Markit

One euro was worth US$1.23 at the end of 2020. The value of the U.S. currency thus declined by 9.8% from the closing price of US$1.12 at the end of 2019. The U.S. dollar was also slightly weaker on average over the year at US$1.14, against US$1.12 in the previous year. Due to the regional positioning of our business, a weaker U.S. dollar tends to have a negative effect on our earnings. Centralized hedging activities limit any impact that cannot be neutralized by ensuring that production and sales take place in the same currency area.

Compared with the previous year, procurement prices for raw materials and energy largely declined. The decline was particularly pronounced for aromatics.

The chemical industry

Global chemical production shrank by 1.5% in fiscal year 2020. The Asia-Pacific region remained constant. In Germany, there was a decline of 6.5%.

Evolution of major user industries

Global automobile production was down 11.0% year-on-year in the reporting year. The development in EMEA (including Germany) and America was very negative overall. A decline of 3.5% was seen in Asia-Pacific, which was much smaller than in the other regions. The Latin American automotive industry tumbled by 28.5%, but had little impact on the global trend as it is less significant than other regions.

Agrochemicals saw slight growth of 0.5%, driven in particular by positive development in the Asia-Pacific region and in Latin America. The USMCA economic area posted a decline.

The global construction industry dropped 4.0%. The development was concentrated in EMEA and Latin America and was countered by Germany's growth of 3.0%.

Development in the customer industries fell short of expectations, especially in the automotive sector. Thanks to the balanced portfolio, however, this had little influence on business as a whole.

Evolution of Major User Industries in 2020

Change vs. prior year in real terms (%)	Automotive	Agrochemicals	Construction
USMCA (formerly NAFTA)	(18.0)	(2.5)	(1.0)
Latin America	(28.5)	0.5	(15.5)
EMEA (incl. Germany)	(21.0)	0.0	(7.0)
Germany	(24.5)	(0.5)	3.0
Asia-Pacific	(3.5)	0.5	(2.0)
World	**(11.0)**	**0.5**	**(4.0)**

Source for 2020 growth rates: IHS Markit

KEY EVENTS INFLUENCING THE COMPANY'S BUSINESS

The business performance was mainly influenced by the effects of the coronavirus pandemic and resulting weak demand from the automotive industry, especially in the Engineering Materials segment. Nevertheless, we benefited from our more balanced product portfolio compared with the previous year, our Consumer Protection segment's strong business performance, and above-average earnings performance in the fourth quarter overall. The lower procurement prices for raw materials and energy were passed on to customers via lower selling prices. Due to the sale of our 40% interest in the chemical park operator Currenta GmbH & Co. OHG, Leverkusen, Germany, and additional liquidity reserves in the form of undrawn credit lines, we had a very good liquidity and financial position as of December 31, 2020.

COMPARISON OF FORECAST AND ACTUAL BUSINESS

Comparison of Forecast and Actual Business 2020

	Forecast for 2020 in Annual Report 2019	Actual 2020
Business development: Group		
EBITDA pre exceptionals	• Between €900 million and €1,000 million • Forecast accounts for the effects of the coronavirus pandemic, which was still classified as an epidemic at the time	• €862 million • Economic environment shaped by the coronavirus pandemic
Business development: segments		
Advanced Intermediates	• Business development roughly at previous year's level • Development of inorganic pigments business at previous year's level	• EBITDA pre exceptionals well below the previous year: €336 million (previous year: €383 million) • Weaker demand due to the coronavirus pandemic in the Advanced Industrial Intermediates business unit
Specialty Additives	• Business performance slightly below the previous year's level overall • Weaker demand from the automotive industry, especially for the rubber-based additives business	• EBITDA pre exceptionals well below the previous year: €284 million (previous year: €353 million) • Difficult market environment with weak demand due to the coronavirus pandemic
Consumer Protection	• Business development on a par with the previous year • Demand for disinfectants at previous year's level • Slight improvement in demand for agrochemicals business over the course of 2020	• EBITDA pre exceptionals well up on the previous year: €233 million (previous year: €198 million) • Positive development of the Material Protection Products business unit's disinfectant business • Agrochemicals business slightly positive
Engineering Materials	• Business development well below the previous year • Continued weak demand in the automotive industry in particular • In particular, forecast includes a negative earnings effect due to scheduled maintenance shutdown of several weeks at the Antwerp, Belgium, production site of the High Performance Materials business unit	• EBITDA pre exceptionals well below the previous year: €151 million (previous year: €238 million) • Weak demand from the automotive industry, particularly as a result of the coronavirus pandemic • Planned maintenance shutdown and difficulties with the subsequent resumption of production in Antwerp, Belgium
Reconciliation	• Considerable deterioration of earnings against previous year • The reasons for this are general inflation of the cost base and remnant costs from the portfolio measures in the Leather business unit and the organometallics business and from the full sale of ARLANXEO	• EBITDA pre exceptionals slightly better than in the previous year: minus €142 million (previous year: minus €153 million) • Cost savings particularly as a result of the coronavirus pandemic
Capital expenditures		
Cash outflows for capital expenditures	• Around €500 million	• €456 million • Lower capital expenditures as a result of the coronavirus pandemic

Segments' forecast business development restated in line with the changed segment structure.

In the combined management report for fiscal year 2019, we expected EBITDA pre exceptionals to be between €900 million and €1,000 million in 2020. This expectation accounted for negative effects of the coronavirus epidemic. However, once the latter turned into a pandemic as fiscal year 2020 went on, we initially lowered our forecast and subsequently specified it at EBITDA pre exceptionals between €820 million and €880 million. The actual earnings from continuing operations amounted to €862 million.

We had expected LANXESS AG's net income according to German commercial law in the reporting year to be substantially lower than in the previous year. The net income of the previous year was primarily influenced by the disclosure of hidden reserves in connection with the sale of the interest in Currenta GmbH & Co. OHG in 2020 and the resulting sharp rise in income from investments in affiliated companies. Largely due to this one-time effect and the impact of the coronavirus pandemic, the net loss was minus €67 million after net income of €463 million in the prior-year period.

BUSINESS PERFORMANCE OF THE LANXESS GROUP

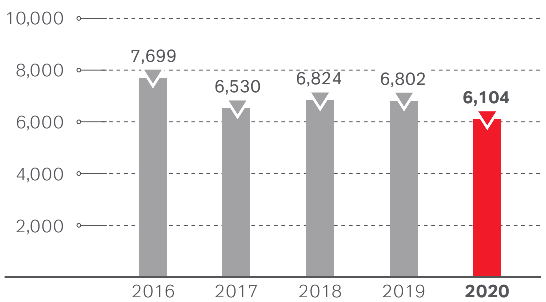
- Balanced portfolio mitigates effects of the coronavirus pandemic on sales and earnings
- Strong business performance of the Consumer Protection segment
- Above-average earnings performance in the fourth quarter of 2020
- Group sales down to €6,104 million from previous year's €6,802 million
- EBITDA pre exceptionals of €862 million, down on the previous year's figure of €1,019 million
- EBITDA margin pre exceptionals of 14.1% after 15.0% in the previous year
- Earnings per share from continuing operations pre exceptionals and amortization of intangible assets decreased from €4.73 to €3.50

Sales and earnings

Sales of the LANXESS Group in the reporting period, which was hit by the effects of the coronavirus pandemic, amounted to €6,104 million, down €698 million, or 10.3%, against the previous year's figure of €6,802 million. The sales development was mainly influenced by weaker demand as a result of the coronavirus pandemic and a reduction of selling prices driven by raw material prices. Shifts in exchange rates, particularly due to a weaker U.S. dollar, also reduced sales. By contrast, the contribution from the Brazilian biocide manufacturer acquired in February 2020 had a slight positive effect. Adjusted for currency and portfolio effects, the LANXESS Group recorded a 9.5% decrease in operational sales in fiscal year 2020.

Group Sales

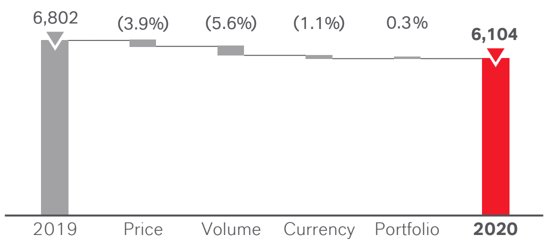
€ million



Figures from 2017 not including ARLANXEO and from 2018 not including the Leather business unit.

Effects on Sales

€ million/%



Key Financial Data

€ million	2019	2020	Change %
Sales	6,802	6,104	(10.3)
Gross profit	1,759	1,556	(11.5)
EBITDA pre exceptionals	1,019	862	(15.4)
EBITDA margin pre exceptionals	15.0%	14.1%	–
EBITDA	910	757	(16.8)
Operating result (EBIT) pre exceptionals	557	396	(28.9)
Operating result (EBIT)	407	253	(37.8)
EBIT margin	6.0%	4.1%	–
Financial result	(61)	821	> 100
Income before income taxes	346	1,074	> 100
Net income from continuing operations	240	908	> 100
Net income from discontinued operations	(35)	(23)	34.3
Net income	205	885	> 100
Earnings per share (€)	2.32	10.22	> 100
Earnings per share from continuing operations adjusted for exceptional items and amortization of intangible assets (€)	4.73	3.50	(26.0)

Sales by Segment

€ million	2019	2020	Change %	Proportion of Group sales %
Advanced Intermediates	2,251	1,999	(11.2)	32.7
Specialty Additives	1,965	1,728	(12.1)	28.3
Consumer Protection	1,050	1,110	5.7	18.2
Engineering Materials	1,450	1,190	(17.9)	19.5
Reconciliation	86	77	(10.5)	1.3
	6,802	**6,104**	**(10.3)**	**100.0**

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

Order book status

Most of our business is not subject to long-term agreements on fixed volumes or prices. Instead, our business is characterized by long-standing relationships with customers and revolving master agreements. Our activities are focused on demand-driven orders with relatively short lead times, which do not provide a basis for long-term forward-looking statements about our capacity utilization or volumes. The business is managed primarily on the basis of regular Group-wide forecasts of the Group's operating result. For additional information, please see "Company-specific leading indicators" in this management report.

Any disclosure of the Group's order book status at a given reporting date therefore would not be indicative of the Group's short- or medium-term earning power. For this reason, no such disclosure is made in this report.

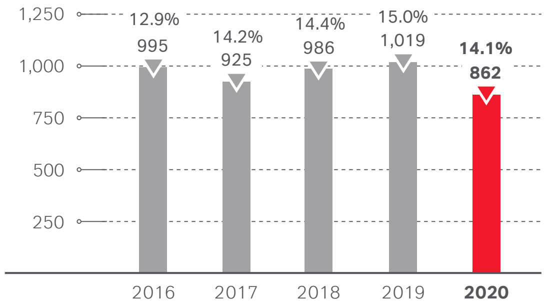
Gross profit

The cost of sales decreased by 9.8% year on year to €4,548 million. In the previous year, the cost of sales amounted to €5,043 million. The decline resulted primarily from reduced procurement prices for raw materials and energy as well as from lower sales volumes. Shifts in exchange rates likewise had a positive impact on our manufacturing costs. Capacity utilization of 74% was 4 percentage points below the previous year. While gross profit was €1,556 million, down by €203 million, or 11.5%, against the previous year's figure, the gross margin was kept roughly level with the previous year at 25.5%. In particular, lower sales volumes, lower capacity utilization and associated idle costs, and lower selling prices had a negative impact on earnings performance. The change in exchange rates also had a slightly negative impact overall. By contrast, reduced procurement prices for raw materials and energy had a positive impact on earnings.

EBITDA pre exceptionals and operating result (EBIT)

EBITDA and EBITDA Margin Pre Exceptionals

€ million



Figures from 2017 not including ARLANXEO and from 2018 not including the Leather business unit.

In an economic environment shaped by the coronavirus pandemic, the operating result before depreciation, amortization, write-downs and reversals (EBITDA) pre exceptionals decreased by €157 million, or 15.4%, to €862 million in fiscal year 2020, after €1,019 million in the previous year. This decline in earnings was attributable to weak demand from the automotive industry, especially in the Engineering Materials segment, a significant, planned maintenance shutdown and difficulties with the subsequent resumption of production in Antwerp, Belgium, and lower sales volumes in the Advanced Intermediates and Specialty Additives segments due to the coronavirus pandemic. At the beginning of the year, the production facilities in China, Italy, India and Argentina had to be partially closed as a result of government measures in response to the coronavirus pandemic. In addition, the lower procurement prices for raw materials in the Advanced Intermediates, Specialty Additives and Engineering Materials segments led to a reduction in selling prices. By contrast, our Consumer Protection segment posted an extremely positive earnings performance. Please see the table below and "Segment Information" for details on the individual segments.

EBITDA Pre Exceptionals by Segment

€ million	2019	2020	Change %
Advanced Intermediates	383	336	(12.3)
Specialty Additives	353	284	(19.5)
Consumer Protection	198	233	17.7
Engineering Materials	238	151	(36.6)
Reconciliation	(153)	(142)	7.2
	1,019	**862**	**(15.4)**

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

All functional cost areas developed positively. This was predominantly due to lower costs due to volume effects, shifts in exchange rates, and general measures to reduce costs. Owing primarily to volume effects, exchange rate effects, and lower travel costs, selling expenses fell by 4.8% to €773 million. Research and development costs amounted to €108 million, compared to €114 million in the previous year, while general administration expenses decreased by €7 million to €267 million. The Group EBITDA margin pre exceptionals came in at 14.1%, against 15.0% in the previous year.

The operating result (EBIT) of the Group totaled €253 million compared with €407 million in the previous year. Depreciation, amortization and write-downs came to €504 million, as in the previous year, and included write-downs of €40 million, of which €38 million constituted exceptional items. These primarily relate to the sale of the reverse osmosis membranes business on January 1, 2021, and the intended adjustment of our production network. Write-downs for the previous year amounted to €44 million, €41 million of which were exceptional items, relating to the sale of the business and the end to production of tin-based organometallics at the site in Bergkamen, Germany, and to the sale of the business with gallium-based organometallics in Pyeongtaek, Republic of Korea, in January 2020. No reversals of write-downs were recognized (previous year: €1 million).

Other operating result, which is the balance between other operating income and expenses, amounted to minus €155 million compared with minus €152 million in the previous year. Adjusted for exceptional items, it came to minus €12 million, which was €10 million lower than in the previous year.

There were net negative exceptional items of €143 million in the reporting year. They resulted from negative exceptional items of €154 million and positive exceptional items of €11 million, which impacted EBITDA. The exceptional items impacted EBITDA by €105 million and were primarily attributable to expenses in connection with the strategic realignment of the LANXESS Group and to strategic IT projects, digitalization projects and M&A activities. The exceptional items of €38 million, which did not impact EBITDA, related to the sale of the reverse osmosis membranes business to the French group SUEZ and intended adjustments to our production network. In the previous year, net negative exceptional items of €150 million resulted from negative exceptional items of €158 million and positive exceptional items of €8 million. The negative exceptional items largely related to expenses in connection with the sale of the business and the intended end to production of tin-based organometallics at the site in Bergkamen, Germany, the sale of the business with gallium-based organometallics in Pyeongtaek, Republic of Korea, in January 2020, strategic IT projects, digitalization projects, measures to realize remaining synergies in connection with the integration of Chemtura and M&A activities. Please see "Notes on EBIT and EBITDA (Pre Exceptionals)" for details about exceptional items.

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

Reconciliation of EBITDA Pre Exceptionals to Operating Result (EBIT)

€ million	2019	2020	Change %
EBITDA pre exceptionals	**1,019**	**862**	**(15.4)**
Depreciation and amortization/reversals of impairment charges	(503)	(504)	(0.2)
Exceptional items in EBITDA	(109)	(105)	3.7
Operating result (EBIT)	**407**	**253**	**(37.8)**

Financial result

The financial result came in at €821 million in fiscal year 2020, compared with minus €61 million for the previous year. The earnings increase resulted primarily from the sale of the 40% interest in the chemical park operator Currenta GmbH & Co. OHG, Leverkusen, Germany, to Macquarie Infrastructure and Real Assets (MIRA) at the end of April 2020. The transaction resulted in a cash gain on disposal of €740 million. Furthermore, LANXESS received a profit participation of €150 million for fiscal year 2019. In the previous year, the profit participation for fiscal year 2018 amounted to €21 million. The net interest result was minus €56 million, compared with minus €54 million in the previous year. The other financial result increased to €877 million as a result of the income in connection with the sale, compared with minus €7 million in the previous year.

Income before income taxes

Income before income taxes was primarily influenced by the sale of Currenta GmbH & Co. OHG and improved by €728 million to €1,074 million in fiscal year 2020.

Income taxes

Influenced by the sale of Currenta GmbH & Co. OHG, tax expense increased from €105 million in the previous year to €165 million in fiscal year 2020. The tax rate decreased from 30.3% to 15.4%, partly because the income in connection with the sale was subject only to corporation tax at the level of LANXESS.

Net income

Net income for the reporting year amounted to €885 million, of which €908 million was attributable to continuing operations. Due in particular to the proceeds from the sale of Currenta GmbH & Co. OHG, net income was considerably higher than the previous year's figure in fiscal year 2020. In the previous year, €240 million of the net income of €205 million was allocable to continuing operations. In fiscal year 2020, net income included earnings attributable to non-controlling interests of €17 million, compared with minus €14 million in the previous year. These earnings were almost exclusively attributable to discontinued operations. Net income from discontinued operations amounted to minus €23 million in the reporting year, compared with minus €35 million in the previous year, and resulted in both cases from the accounting in accordance with IFRS 5, according to which the Leather business unit was recognized as a discontinued operation.

Reconciliation of EBIT to Net Income

€ million	2019	2020	Change %
Operating result (EBIT)	**407**	**253**	**(37.8)**
Net interest expense	(54)	(56)	(3.7)
Other financial income and expense	(7)	877	> 100
Financial result	**(61)**	**821**	**> 100**
Income before income taxes	**346**	**1,074**	**> 100**
Income taxes	(105)	(165)	(57.1)
Income after income taxes from continuing operations	**241** [1]	**909** [1]	**> 100**
Income after income taxes from discontinued operations	**(50)**	**(7)**	**86.0**
Income after income taxes	**191**	**902**	**> 100**
Income attributable to non-controlling interests	(14)	17	> 100
Net income from continuing operations	**240**	**908**	**>100**
Net income from discontinued operations	**(35)**	**(23)**	**34.3**
Net income	**205**	**885**	**> 100**

1) Including income attributable to non-controlling interests of €1 million.

Earnings per share/earnings per share from continuing operations adjusted for exceptional items and amortization of intangible assets

Earnings per share are calculated by dividing net income by the weighted average number of LANXESS shares outstanding during the reporting period. Earnings per share were €10.22, well above the €2.32 recorded in the previous year. Earnings per share from continuing operations were €10.49 against €2.72 in the previous year. Due in particular to much better net income and a lower average number of shares outstanding, both the earnings per share and the earnings per share from continuing operations exceeded the prior-year figure. Earnings per share from discontinued operations were minus €0.27 against minus €0.40 in the previous year.

A total of 1,101,549 own shares were acquired as part of the stock repurchase in fiscal year 2020. The stock repurchase was taken into account pro rata temporis in the calculation of the average number of shares outstanding. In fiscal year 2020, this resulted in a weighted average number of shares outstanding of 86,587,838 after 88,334,641 in the previous year.

Earnings per Share

	2019	2020
Net income (€ million)	**205**	**885**
from continuing operations (€ million)	240	908
from discontinued operations (€ million)	(35)	(23)
Weighted average number of shares outstanding	88,334,641	86,587,838
Earnings per share (€)	**2.32**	**10.22**
from continuing operations (€)	2.72	10.49
from discontinued operations (€)	(0.40)	(0.27)

We also calculate earnings per share from continuing operations pre exceptionals and amortization of intangible assets, which are not defined by International Financial Reporting Standards. This value was calculated from the earnings per share from continuing operations adjusted for exceptional items, amortization of intangible assets and attributable tax effects.

Earnings per share from continuing operations adjusted for exceptional items and amortization of intangible assets were €3.50 against €4.73 in the previous year.

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

€ million	2019	2020
Net income from continuing operations	**240**	**908**
Exceptional items[1]	150	143
Amortization of intangible assets/reversals of impairment charges[1]	87	88
Income in connection with the sale of Currenta GmbH & Co. OHG[1]	0	(890)
Income taxes[1]	(59)	54
Net income from continuing operations adjusted for exceptional items and amortization of intangible assets	**418**	**303**
Weighted average number of shares outstanding	88,334,641	86,587,838
Earnings per share from continuing operations adjusted for exceptional items and amortization of intangible assets (€)	**4.73**	**3.50**

1) Excluding items attributable to non-controlling interests.

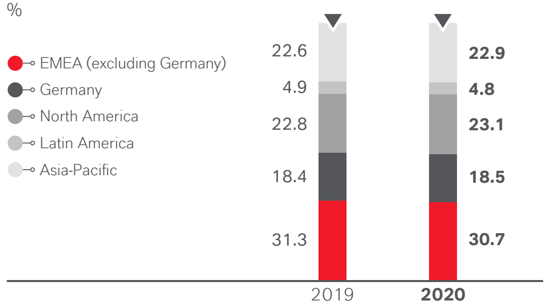
BUSINESS TRENDS BY REGION

Sales by Market

	2019		2020		Change
	€ million	%	€ million	%	%
EMEA (excluding Germany)	2,128	31.3	1,876	30.7	(11.8)
Germany	1,251	18.4	1,128	18.5	(9.8)
North America	1,554	22.8	1,408	23.1	(9.4)
Latin America	331	4.9	295	4.8	(10.9)
Asia-Pacific	1,538	22.6	1,397	22.9	(9.2)
	6,802	**100.0**	**6,104**	**100.0**	**(10.3)**

Sales by Market

%



In the reporting period, there were minor portfolio effects from the acquisition of the Brazilian biocide manufacturer IPEL-Itibanyl Produtos Especiais Ltda., Jarinu, Brazil, which primarily affected the Latin America region.

EMEA (excluding Germany)

Sales in the EMEA region (excluding Germany) fell by €252 million, or 11.8%, to €1,876 million. After adjustment for currency effects, sales decreased by 11.8%. The Engineering Materials, Advanced Intermediates and Specialty Additives segments' sales declined by low double-digit percentages. In contrast, the Consumer Protection segment reported growth of a low single-digit percentage. The decline in the region resulted primarily from the business performance in Italy, France and Belgium.

Germany

In Germany, the Group generated sales of €1,128 million in fiscal year 2020, down by €123 million, or 9.8%, on the previous year. After adjustment for minor currency effects, sales declined by 9.7%. Business declined in all segments, especially the Engineering Materials and Specialty Additives segments, which posted a low double-digit percentage drop in sales.

North America

Sales in this region came to €1,408 million, down by €146 million, or 9.4%, from the previous year. After adjustment for currency effects, sales declined by 7.9%. The declining business in the Specialty Additives, Engineering Materials and Advanced Intermediates segments, which in some cases amounted to a low double-digit percentage, was only partly compensated for by the sales growth in the Consumer Protection segment, which likewise amounted to a low double-digit percentage.

Latin America

In the Latin America region, sales fell by €36 million, or 10.9%, to €295 million. Adjusted for currency effects and the contribution from the Brazilian biocide manufacturer acquired in February 2020, the decline was 12.1%. Sales declined in the Engineering Materials segment in particular, but to a lesser extent in the Advanced Intermediates and Specialty Additives segments as well. In contrast, the Consumer Protection segment reported growth of a low double-digit percentage. The situation in the region was mainly hampered by development in Mexico and, to a lesser extent, in Argentina and Brazil.

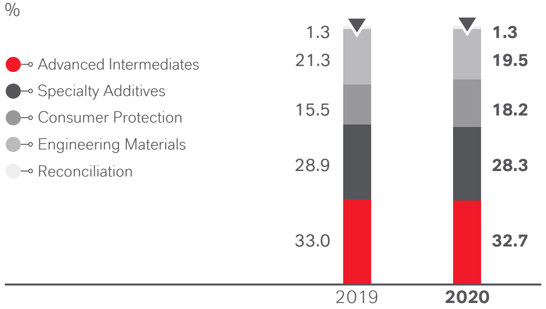
Asia-Pacific

Sales in the Asia-Pacific region decreased by €141 million, or 9.2%, to €1,397 million in fiscal year 2020. Adjusted for currency effects, there was a decline of 7.2%. This business performance was driven in particular by the Advanced Intermediates and Specialty Additives segments. The Engineering Materials segment also posted a sales decline. In contrast, the Consumer Protection segment's sales increased slightly on the previous year's figure. The main negative effects in the region were seen in the Republic of Korea, Japan, India and Thailand. Positive impetus came from China.

SEGMENT INFORMATION

- Advanced Intermediates: Weaker demand due to the coronavirus pandemic had negative effects on sales and earnings
- Specialty Additives: Sales and earnings fall short of previous year due to a difficult market environment
- Consumer Protection: Strong business performance with earnings and margin increase
- Engineering Materials: Sales and earnings decline due to weak demand from the automotive industry as a result of the coronavirus pandemic

Sales by Segment
%



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

Advanced Intermediates

Overview of Key Data

	2019		2020		
	€ million	Margin %	€ million	Margin %	Change %
Sales	2,251		1,999		(11.2)
EBITDA pre exceptionals	383	17.0	336	16.8	(12.3)
EBITDA	368	16.3	338	16.9	(8.2)
Operating result (EBIT) pre exceptionals	248	11.0	208	10.4	(16.1)
Operating result (EBIT)	198	8.8	207	10.4	4.5
Cash outflows for capital expenditures	161		145		(9.9)
Depreciation and amortization	170		131		(22.9)
Employees as of Dec. 31	3,831		3,736		(2.5)

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

Our Advanced Intermediates segment, which alongside the Advanced Industrial Intermediates business unit has comprised the Inorganic Pigments business unit instead of the Saltigo business unit since the first quarter of 2020, recorded sales of €1,999 million in fiscal year 2020, down 11.2% on the previous year's figure. Sales development was shaped by the coronavirus pandemic. Lower selling prices led to a decline in sales in both business units. Overall, there was a negative price effect on sales of 6.1% at segment level, with selling prices in the Advanced Industrial Intermediates business unit in particular below the previous year's level because lower raw material prices were passed on. In addition, lower volumes reduced sales by 4.0%. This was attributable to a decline in demand in the Advanced Industrial Intermediates business unit, which saw lower volumes in the first half of the year in particular as a result of the coronavirus pandemic. The Inorganic Pigments business unit kept volumes at the previous year's level. Shifts in exchange rates had a negative effect on both business units and reduced sales by 1.1% in total. Sales in all regions were below the level of the previous year.

Primarily as a result of the coronavirus pandemic, EBITDA pre exceptionals in the Advanced Intermediates segment amounted to €336 million, down by €47 million, or 12.3%, from €383 million in the previous year. In both business units, government-ordered closures in response to the coronavirus pandemic temporarily led to unscheduled production shutdowns in Asia at the beginning of the year. While the Inorganic Pigments business unit posted stable volumes overall, the weaker demand in the Advanced Industrial Intermediates business unit as a result of the coronavirus pandemic had negative effects on earnings. Lower raw material prices led to an adjustment of selling prices. Overall, currency effects improved earnings slightly. The EBITDA margin pre exceptionals of 16.8% was close to the previous year's figure of 17.0%.

In fiscal year 2020, net negative exceptional items amounted to €1 million, resulting from negative exceptional items of €5 million and positive exceptional items of €4 million, which fully impacted EBITDA. The negative exceptional items, €2 million of which impacted EBITDA, related to the strategic realignment of the LANXESS Group. In the previous year, net negative exceptional items of €50 million were incurred in the operating result. These mainly related to the strategic realignment of the organometallics business and the associated sale of the business and the intended end to production of tin-based organometallics at the site in Bergkamen, Germany, as well as the sale of the business with gallium-based organometallics in Pyeongtaek, Republic of Korea, in January 2020, and constituted exceptional items of which €15 million impacted EBITDA and €35 million did not impact EBITDA. Please see "Notes on EBIT and EBITDA (Pre Exceptionals)" for details.

Specialty Additives

Overview of Key Data

	2019		2020		
	€ million	Margin %	€ million	Margin %	Change %
Sales	1,965		1,728		(12.1)
EBITDA pre exceptionals	353	18.0	284	16.4	(19.5)
EBITDA	337	17.2	267	15.5	(20.8)
Operating result (EBIT) pre exceptionals	197	10.0	121	7.0	(38.6)
Operating result (EBIT)	179	9.1	89	5.2	(50.3)
Cash outflows for capital expenditures	120		94		(21.7)
Depreciation and amortization	158[1]		178		12.7
Employees as of Dec. 31	2,942		2,687		(8.7)

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

Our Specialty Additives segment posted sales of €1,728 million in fiscal year 2020, down by 12.1% from the previous year's figure of €1,965 million. In all the segment's business units, the coronavirus pandemic and the associated weak demand in the automotive, oil and gas, and aviation industries led to a decline in demand. Overall, the lower volumes diminished sales by 9.5% at segment level. In addition, slightly lower selling prices in all business units and the adverse development of exchange rates led to a slight sales decline of 1.3%. Sales in all regions were below the level of the previous year.

EBITDA pre exceptionals for the Specialty Additives segment was €284 million, down €69 million, or 19.5%, on the prior-year level. In a difficult market environment with weak demand because of the coronavirus pandemic, especially in the second quarter of 2020, all the segment's business units recorded lower sales volumes in the reporting year. The generally lower procurement prices for raw materials and energy, which were passed on to the market by adjusting selling prices, had a positive effect. Earnings were reduced by adverse exchange rate effects, especially a weaker U.S. dollar. The EBITDA margin pre exceptionals was 16.4%, against 18.0% in the previous year.

In fiscal year 2020, negative exceptional items totaled €32 million, €17 million of which impacted EBITDA. The exceptional items mainly related to measures to realize remaining synergies in connection with the integration of Chemtura and the intended adjustment of our production network. The net exceptional items in the previous year of €18 million resulted from negative exceptional items of €19 million and positive exceptional items of €1 million. The exceptional items mainly related to measures to realize remaining synergies in connection with the integration of Chemtura. Please see "Notes on EBIT and EBITDA (Pre Exceptionals)" for details.

Consumer Protection

Overview of Key Data

	2019		2020		
	€ million	Margin %	€ million	Margin %	Change %
Sales	1,050		1,110		5.7
EBITDA pre exceptionals	198	18.9	233	21.0	17.7
EBITDA	198	18.9	233	21.0	17.7
Operating result (EBIT) pre exceptionals	116	11.0	153	13.8	31.9
Operating result (EBIT)	116	11.0	136	12.3	17.2
Cash outflows for capital expenditures	61		69		13.1
Depreciation and amortization	82		97		18.3
Employees as of Dec. 31	2,286		2,439		6.7

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

In our new Consumer Protection segment, sales amounted to €1,110 million in fiscal year 2020, up €60 million, or 5.7%, on the prior-year figure of €1,050 million. Higher sales volumes and selling prices in the Material Protection Products business unit, due in particular to the ongoing demand for disinfectants, had a positive influence on sales. The positive development of the Saltigo business unit's agrochemicals business also contributed to the sales increase. At segment level, higher volumes resulted in sales growth of 3.6%. Only the Liquid Purification Technologies business unit saw lower sales volumes than in the previous year. Further, the integration of the Brazilian biocide manufacturer IPEL-Itibanyl Produtos Especiais Ltda., Jarinu, Brazil, acquired in February 2020 into the Material Protection Products business unit had a positive effect on sales of 1.8%. In addition, all business units posted higher selling prices, which increased the segment's sales by 1.3% in total. Currency developments had a negative effect on sales in all business units. Overall, there was a negative impact of 1.0% at segment level. With the exception of Germany, the segment reported higher sales in the other regions.

EBITDA pre exceptionals in the Consumer Protection segment increased by €35 million, or 17.7%, to €233 million, compared with the previous year's figure of €198 million. In particular, the positive development of the Material Protection Products business unit's disinfectant business, the Saltigo business unit's well developed project business in agrochemicals and the contribution from the Brazilian biocide manufacturer acquired in the first quarter contributed to the positive earnings performance. The overall effect of the changes in raw material, energy and selling prices also made a positive impact in all of the segment's business units. The Liquid Purification Technologies business unit's reverse osmosis membranes business, which was sold to the French group SUEZ as of January 1, 2021, resulted in a negative earnings effect in the low single-digit millions. The change in exchange rates had a slightly negative effect on earnings. The EBITDA margin pre exceptionals increased from 18.9% to 21.0%.

In the reporting year, negative exceptional items in the segment amounted to €17 million. The exceptional items did not impact EBITDA and related to the sale of the reverse osmosis membranes business to the French group SUEZ agreed on July 15, 2020, and completed on January 1, 2021. There were no exceptional items in the previous year. Please see "Notes on EBIT and EBITDA (Pre Exceptionals)" for details.

Engineering Materials

Overview of Key Data

	2019		2020		
	€ million	Margin %	€ million	Margin %	Change %
Sales	1,450		1,190		(17.9)
EBITDA pre exceptionals	238	16.4	151	12.7	(36.6)
EBITDA	238	16.4	150	12.6	(37.0)
Operating result (EBIT) pre exceptionals	172	11.9	84	7.1	(51.2)
Operating result (EBIT)	172	11.9	83	7.0	(51.7)
Cash outflows for capital expenditures	104		86		(17.3)
Depreciation and amortization	66		67		1.5
Employees as of Dec. 31	2,203		2,191		(0.5)

Sales in our Engineering Materials segment decreased by 17.9% year-on-year to €1,190 million in fiscal year 2020. In particular, the effects of the coronavirus pandemic, the associated weak demand from the automotive industry, and production shutdowns in Antwerp, Belgium, led to a significant decline in sales in the High Performance Materials business unit. Both sales volumes and selling prices of the two business units fell short of the previous year. Reduced volumes diminished sales by 9.3%. Overall, lower selling prices had a negative effect on sales of 7.7% at segment level. In addition, the change in exchange rates had a negative influence in both business units and decreased the segment's sales by 0.9%. Sales in all regions were below the level of the previous year.

The Engineering Materials segment's EBITDA pre exceptionals fell by €87 million, or 36.6%, to €151 million. In particular, the weak demand from the automotive industry as a result of the coronavirus pandemic in the first half of the year, a significant, planned maintenance shutdown and difficulties with the subsequent resumption of production in Antwerp, Belgium, led to a decline in earnings driven by prices and volumes. Lower raw material and energy prices were passed on to the market by adjusting selling prices. Shifts in exchange rates had virtually no impact on earnings. The segment's EBITDA margin pre exceptionals came in at 12.7%, against 16.4% a year ago.

The segment recorded negative exceptional items of €1 million in fiscal year 2020, which impacted EBITDA. There were no exceptional items in the previous year. Please see "Notes on EBIT and EBITDA (Pre Exceptionals)" for details.

Reconciliation

Overview of Key Data

€ million	2019	2020	Change %
Sales	86	77	(10.5)
EBITDA pre exceptionals	(153)	(142)	7.2
EBITDA	(231)	(231)	0.0
Operating result (EBIT) pre exceptionals	(176)	(170)	3.4
Operating result (EBIT)	(258)	(262)	(1.6)
Cash outflows for capital expenditures	62	62	0.0
Depreciation and amortization	27	31	14.8
Employees as of Dec. 31	3,042	3,256	7.0

EBITDA pre exceptionals for the reconciliation improved from minus €153 million in the previous year to minus €142 million due to cost savings particularly as a result of the coronavirus pandemic. There were net negative exceptional items of €92 million in the reconciliation in the reporting year. These resulted from negative exceptional items of €99 million and positive exceptional items of €7 million, which fully impacted EBITDA. The negative exceptional items, of which €96 million impacted EBITDA and €3 million did not impact EBITDA, primarily related to expenses in connection with the strategic realignment of the LANXESS Group, strategic IT projects, digitalization projects and M&A activities. In the previous year, net negative exceptional items of €82 million resulted from negative exceptional items of €84 million and positive exceptional items of €2 million. 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.

EBITDA is calculated from the operating result (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.

Reconciliation to EBIT/EBITDA

€ million	EBIT 2019	EBIT 2020	EBITDA 2019	EBITDA 2020
EBIT/EBITDA pre exceptionals	**557**	**396**	**1,019**	**862**
Advanced Intermediates	**(50)**	**(1)**	**(15)**	**2**
Strategic realignment[1]	(48)	(2)	(13)	1
Adjustment of the production network	(2)	1	(2)	1
Specialty Additives	**(18)**	**(32)**	**(16)**	**(17)**
Strategic realignment[2]	(19)	(19)	(17)	(17)
Adjustment of the production network	1	(13)	1	0
Consumer Protection	**0**	**(17)**	**0**	**0**
Strategic realignment[3]	0	(17)	0	0
Engineering Materials	**0**	**(1)**	**0**	**(1)**
Strategic realignment	0	(1)	0	(1)
Reconciliation	**(82)**	**(92)**	**(78)**	**(89)**
Strategic realignment	(8)	(7)	(6)	(7)
Adjustment of the production network	0	(10)	0	(10)
Strategic IT projects	(25)	(28)	(24)	(27)
Digitalization, M&A expenses and other	(49)	(47)	(48)	(45)
Total exceptional items	**(150)**	**(143)**	**(109)**	**(105)**
EBIT/EBITDA	**407**	**253**	**910**	**757**

Prior-year figures restated and in line with the changed segment structure.
1) The exceptional items mainly related to the sale of the business and the end to production of tin-based organometallics at the site in Bergkamen, Germany, and to the sale of the business with gallium-based organometallics in Pyeongtaek, Republic of Korea.
2) The exceptional items mainly related to the integration of Chemtura.
3) The exceptional items mainly related to the sale of the reverse osmosis membranes business on January 1, 2021.

STATEMENT OF FINANCIAL POSITION AND FINANCIAL CONDITION

Assets and liabilities

- Total assets of €8,880 million as of December 31, 2020, above the previous year's figure of €8,695 million
- Significant decrease in net financial liabilities after deduction of short-term money market investments and securities from €1,742 million to €1,012 million
- Increase in equity ratio from 30.4% to 33.8% due to the positive contribution to earnings from the sale of the interest in the chemical park operator Currenta

Structure of the statement of financial position

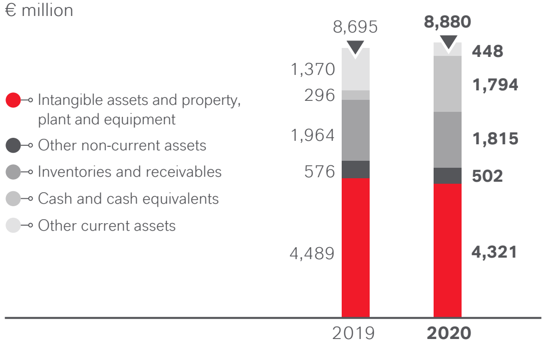
	Dec. 31, 2019		Dec. 31, 2020		Change
	€ million	%	€ million	%	%
ASSETS					
Non-current assets	5,065	58.3	4,823	54.3	(4.8)
Current assets	3,630	41.7	4,057	45.7	11.8
Total assets	**8,695**	**100.0**	**8,880**	**100.0**	**2.1**
EQUITY AND LIABILITIES					
Equity (including non-controlling interests)	2,647	30.4	2,999	33.8	13.3
Non-current liabilities	4,566	52.5	4,059	45.7	(11.1)
Current liabilities	1,482	17.1	1,822	20.5	22.9
Total equity and liabilities	**8,695**	**100.0**	**8,880**	**100.0**	**2.1**

Structure of the statement of financial position

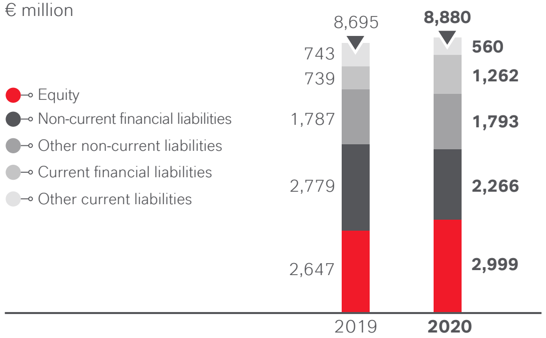
As of December 31, 2020, the LANXESS Group's total assets stood at €8,880 million, €185 million or 2.1% higher than at the end of the previous year. As of December 31, 2020, LANXESS recognizes the Leather business unit as a discontinued operation in accordance with IFRS 5, as in the previous year. Assets and liabilities assigned to discontinued operations were reclassified to "Assets held for sale and discontinued operations" and "Liabilities directly attributable to assets held for sale and discontinued operations." As of December 31, 2020, these items also included the assets and liabilities of the Liquid Purification Technologies business unit's reverse osmosis membranes business.

Non-current assets decreased by €242 million to €4,823 million. Property, plant and equipment declined from €2,724 million to €2,674 million and intangible assets decreased by €118 million to €1,647 million as of December 31, 2020. The decrease resulted primarily from the change in exchange rates. Cash outflows for purchases of property, plant and equipment and intangible assets amounted to €456 million, down from the prior-year figure of €508 million. Depreciation, amortization and write-downs were on a par with the previous year at €504 million. In the previous year, the depreciation, amortization and write-downs included reversals of write-downs of €1 million. The depreciation, amortization and write-downs in the current year included write-downs in connection with the sale of the reverse osmosis membranes business. At €326 million, deferred tax assets were up €2 million on the previous year. Other non-current assets fell by €84 million from €132 million to €48 million as of December 31, 2020. The decrease in other non-current assets resulted chiefly from the transfer of a pension plan in Great Britain to an insurance company. The ratio of non-current assets to total assets decreased from 58.3% to 54.3% as of December 31, 2020.

Structure of the Statement of Financial Position – Assets
€ million



Structure of the Statement of Financial Position – Equity and Liabilities
€ million



Current assets increased by €427 million, or 11.8%, compared with December 31, 2019, to €4,057 million. Trade receivables declined by €24 million, or 3.1%, to €745 million. At 44.6, days of sales outstanding (DSO) were above the previous year's figure of 42.3 days. Inventories were down by €125 million, or 10.5%, to €1,070 million. The decline in inventories was driven by the decline in raw material prices, negative currency effects and inventory management. At 64.1, days of sales in inventory (DSI) were below the previous year's figure of 65.7 days. In addition, the disposal of the chrome chemicals business affected the amount of assets held for sale or resulting from discontinued operations.

Cash and cash equivalents decreased from €296 million to €271 million. Near-cash assets increased from €0 million to €1,523 million as a result of the acquisition of shares of money market funds that can be sold at any time. The financial resources thus invested resulted from the disposal of current financial assets, which decreased from €864 million to €65 million in the reporting period, and from the sale of the 40% interest in the chemical park operator Currenta GmbH & Co. OHG, Leverkusen, Germany. The ratio of current assets to total assets was 45.7%, compared with 41.7% as of December 31, 2019.

Equity increased by €352 million, or 13.3%, to €2,999 million compared with December 31, 2019. The increase mainly resulted from the positive contribution to earnings from the sale of the interest in the chemical park operator Currenta. The repurchase of own shares and the dividend payment in 2020 had the opposite effect. The ratio of equity to the Group's total assets was 33.8% as of December 31, 2020, compared with 30.4% in the previous year.

Non-current liabilities decreased by €507 million to €4,059 million. Provisions for pensions and other post-employment benefits increased by €27 million to €1,205 million. The effect of lower discount rates for pension obligations (decline from 1.3% to 0.8% in Germany) was partially offset by the €100 million addition to German pension assets.

Other non-current provisions amounted to €349 million, coming close to the previous year's figure of €338 million. Other non-current financial liabilities decreased by €512 million from €2,777 million to €2,265 million, mainly due to the reclassification of a bond maturing in 2021 to current financial liabilities. The ratio of non-current liabilities to total assets was 45.7%, compared with 52.5% as of December 31, 2019.

Current liabilities came to €1,822 million, up by €340 million, or 22.9%, compared with December 31, 2019. Other current financial liabilities increased from €66 million to €566 million. The increase resulted from the above-mentioned reclassification of a bond from non-current to current financial liabilities. In addition, other current provisions fell by €77 million to €332 million. Trade payables increased by a total of €25 million to €681 million. The ratio of current liabilities to total assets was 20.5% as of December 31, 2020, after 17.1% at the end of 2019.

At €1,012 million at the end of 2020, net financial liabilities were down from €2,522 million as of December 31, 2019. However, there were short-term money market investments and securities in the previous year. Adjusted for these, the comparative figure as of December 31, 2019, was €1,742 million.

The Group's key ratios developed as follows:

Ratios

%		2016	2017	2018	2019	2020
Equity ratio	Equity[1] / Total assets	37.7	32.8	31.9	30.4	33.8
Non-current asset ratio	Non-current assets / Total assets	45.8	62.0	55.1	58.3	54.3
Asset coverage I	Equity[1] / Non-current assets	82.5	52.9	57.9	52.3	62.2
Asset coverage II	Equity[1] and non-current liabilities / Non-current assets	182.4	123.2	149.8	142.4	146.3
Funding structure	Current liabilities / Total liabilities	26.6	35.1	25.7	24.5	31.0

1) Equity includes non-controlling interests.

Capital expenditures

In 2020, our capital expenditures for property, plant and equipment and intangible assets amounted to €537 million, against €578 million in the previous year. Cash outflows made up €456 million of this total (previous year: €508 million). In the same period, depreciation and amortization totaled €504 million (previous year: €504 million). In the previous year, the depreciation and amortization were mitigated by reversals of write-downs of €1 million. In addition, the figure for depreciation and amortization in 2020 included write-downs of €40 million (previous year: €44 million), which were due among other things to the sale of the reverse osmosis membranes business from the Liquid Purification Technologies business unit to SUEZ S.A., Paris, France. In the previous year, the write-downs primarily related to the strategic realignment of our organometallics business.

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

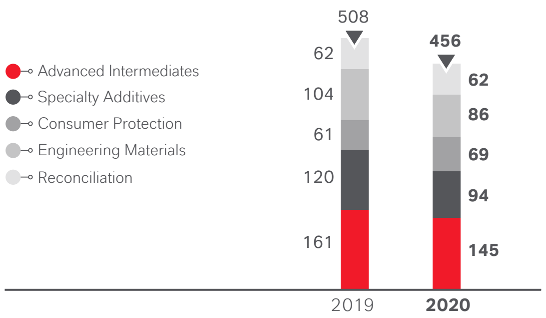
- Expansion and maintenance of existing facilities, construction of new facilities
- Measures to increase plant availability
- Projects to improve plant safety, enhance quality and comply with environmental protection requirements

Around one-third of the capital expenditures in 2020 went toward expansion or efficiency improvement measures, while the rest went to maintain existing facilities.

In regional terms, 53% of our capital expenditures in the reporting period were made in Germany, 24% in North America, 17% in the EMEA region (excluding Germany), 5% in Asia-Pacific and 1% in Latin America. Capital expenditures in Germany mostly comprised our investments to increase capacity and modernize facilities in all segments, but especially investments in the High Performance Materials, Advanced Industrial Intermediates and Saltigo business units. Capital expenditures in EMEA (excluding Germany) were partly attributable to investments to modernize facilities at the sites in Antwerp, Belgium, and Latina, Italy. A portion of the capital expenditures in the Asia-Pacific region related to the construction of a modern Application Development Center at the Shanghai Chemical Industry Park (SCIP) in China, which serves to increase innovation capacities.

Cash Outflows for Capital Expenditures by Segment

€ million



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

Capital expenditures in the Advanced Intermediates segment amounted to €169 million (previous year: €202 million). At €145 million (previous year: €161 million), cash outflows were higher than the depreciation and amortization of €131 million (previous year: €170 million). These included cash outflows in connection with the expansion of production capacity for hexanediol and menthol in the Advanced Industrial Intermediates business unit and capital expenditures of the Inorganic Pigments business unit at the site in Krefeld-Uerdingen, Germany.

Capital expenditures of €120 million were made in the Specialty Additives segment (previous year: €128 million). Cash outflows made up €94 million of this total (previous year: €120 million). By contrast, depreciation and amortization stood at €178 million (previous year: €158 million). A significant portion of the capital expenditures went toward the production network for flame retardants in the Polymer Additives business unit.

In the Consumer Protection segment, capital expenditures came to €75 million (previous year: €66 million), €69 million (previous year: €61 million) of which were cash outflows. By contrast, depreciation and amortization stood at €97 million (previous year: €82 million). For example, the capital expenditures related to several capital expenditures of the Saltigo business unit in connection with contract manufacturing. There were also various measures to increase capacity in the Material Protection Products business unit.

In the Engineering Materials segment, capital expenditures totaled €94 million (previous year: €111 million), €86 million (previous year: €104 million) of which were cash outflows. Depreciation and amortization came to €67 million (previous year: €66 million). Some of the capital expenditures in this segment went toward new production capacity for high-performance plastics of the Durethan and Pocan brands in the High Performance Materials business unit. These brands are used in particular in the IT and electrical/electronics industries and in the field of electric mobility. In addition, Durethan is used as a base resin in the production of continuous-fiber-reinforced thermoplastic composites of the LANXESS brand Tepex. In addition, the High Performance Materials business unit invested an eight-figure sum in euros in caprolactam production at the site in Antwerp, Belgium, as part of scheduled maintenance.

Financial position

› Operating cash flow strong, but negatively influenced by tax payment in connection with the sale of the Currenta interest
› Cash flow from investing activities positively influenced by the sale of the Currenta interest and the resulting money market investment
› Liquidity position remains very solid

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

Statement of Cash Flows

€ million	2019	2020	Change
Income before income taxes	346	1,074	728
Depreciation and amortization/reversals of impairment charges	503	504	1
Other items	(283)	(1,090)	(807)
Net cash provided by operating activities – continuing operations before change in net working capital	**566**	**488**	**(78)**
Change in net working capital	68	106	38
Net cash provided by operating activities – continuing operations	**634**	**594**	**(40)**
Net cash used in investing activities – continuing operations	**(697)**	**(350)**	**347**
Net cash used in financing activities – continuing operations	**(431)**	**(246)**	**185**
Change in cash and cash equivalents from continuing operations	(494)	(2)	492
Change in cash and cash equivalents from discontinued operations	(8)	(13)	(5)
Cash and cash equivalents as of December 31	**296**	**271**	**(25)**
of which continuing operations	296	271	(25)
of which discontinued operations	0	0	0

The following comments on the statement of cash flows relate to LANXESS's continuing operations.

Cash provided by operating activities, before changes in net working capital, decreased by €78 million to €488 million in fiscal year 2020. Income before income taxes improved from €346 million to €1,074 million. This was adjusted for the result from the sale of the 40% interest in Currenta GmbH & Co. OHG, Leverkusen, Germany, which is included in the "Other items" line. Tax payments, particularly in connection with the sale of the Currenta interest, effects from currency hedging of intercompany loans, and cash outflows for variable compensation as well as restructuring measures are also included here. Net of reversals of write-downs, the depreciation and amortization of €504 million were up €1 million on the previous year's figure of €503 million.

The change in net working capital against December 31, 2019, resulted in a cash inflow of €106 million after €68 million in the previous year. The inflow in the reporting period resulted in particular from the decrease in inventories due to lower raw material prices and the increase in trade payables. A slight increase in trade receivables had the opposite effect. The net cash provided by operating activities totaled €594 million, down on the previous year's figure of €634 million.

Investing activities resulted in a cash outflow of €350 million in fiscal year 2020, compared with €697 million in the prior-year period. The net cash outflow in the previous year resulted from cash outflows for financial assets in connection with the investment of the financial resources received from the sale of the 50% interest in ARLANXEO. A material cash inflow in this reporting period resulted from the financial resources received from the sale of the 40% interest in Currenta GmbH & Co. OHG, Leverkusen, Germany, in the second quarter. There was also cash inflow from financial and other assets held for investment purposes due to the maturity of short-term money market investments and from the sale of the chrome chemicals business. This was countered in fiscal year 2020 by cash outflows for financial and other assets held for investment purposes, primarily for investments in shares of money market funds that can be sold at any time, as well a cash outflow for the purchase price payment for the Brazilian biocide manufacturer IPEL-Itibanyl Produtos Especiais Ltda., Jarinu, Brazil. In contrast, cash outflows for purchases of intangible assets and property, plant and equipment decreased as planned from €508 million to €456 million. Interest and dividends received totaled €155 million, up €129 million on the previous year's figure, driven primarily by a profit participation in Currenta GmbH & Co. OHG, Leverkusen, Germany. In addition, a cash outflow of €100 million resulted from the addition to German pension assets.

Net cash used in financing activities came to €246 million, against €431 million the year before. The cash outflow in the reporting period was primarily due to the dividend payment to LANXESS shareholders of €82 million and the payment for stock repurchases of €37 million. The interest payments and other financial disbursements amounted to €79 million, compared with €66 million in the previous year. Moreover, the proceeds from borrowings and the repayments of borrowings reflected the temporary drawdown on and subsequent full repayment of the syndicated credit facility of €1 billion. Securing additional liquidity was solely a precaution in light of the coronavirus pandemic.

The net decrease in cash and cash equivalents from continuing operations in fiscal year 2020 was €2 million, against €494 million in the previous year. After taking into account currency-related and other changes in cash and cash equivalents of €10 million, cash and cash equivalents at the closing date amounted to €271 million, against €296 million at the previous year's closing date. On December 31, 2020, the Group continued to have a very solid liquidity position.

Free cash flow – the difference between the cash inflows from operating activities and the cash used for capital expenditures for property, plant and equipment and intangible assets – increased by €12 million to €138 million.

Principles and objectives of financial management

LANXESS pursues a conservative financial policy characterized by the forward-looking management of financial risks. Our aim is to be able to provide sufficient liquidity to our business operations at all times, regardless of cyclical fluctuations in the real economy or financial markets. The debt level is largely aligned with the ratio systems of the leading rating agencies for investment-grade companies and, along with free cash flow, is the focus of financial management. In addition to liquidity risk, financial management also covers other financial risks, such as interest and foreign exchange risks. Here too, we aim to mitigate the financial risks that arise and thereby increase planning reliability, partly by using derivative financial instruments. Detailed information about the management of these risks is contained in the "Opportunity and risk report."

LANXESS Group ratings

Access to the capital markets and good relations with German and international commercial banks are essential for achieving our financial management objectives. Accordingly, ongoing dialog and communication with banks, investors and rating agencies are of crucial importance. In 2020, all three rating agencies confirmed their assessment of LANXESS's creditworthiness. The rating agencies take a positive view of LANXESS's continuous transformation into a specialty chemicals company with a focus on stable businesses in medium-sized markets. The sale of the interest in the chemical park operator Currenta and the associated contribution to earnings of around €890 million served as confirmation of the rating agencies' assessment of LANXESS's improved financial profile. Standard & Poor's gives LANXESS a "BBB" rating with a stable outlook, Moody's a "Baa2" rating with a stable outlook, and Scope Ratings a "BBB+" rating likewise with a stable outlook.

Development of LANXESS Ratings and Rating Outlook Since 2016

	2016	2017	2018	2019	2020
Standard & Poor's	BBB–/negative Sep. 26, 2016	BBB–/stable Jul. 31, 2017	BBB/stable Oct. 16, 2018	BBB/stable Sep. 5, 2019	BBB/stable Jul. 29, 2020
Moody's Investors Service	Baa3/stable Sep. 26, 2016	Baa3/stable Oct. 20, 2017	Baa2/stable Aug. 23, 2018	Baa2/stable Aug. 26, 2019	Baa2/stable Aug. 31, 2020
Scope Ratings			BBB+/stable Aug. 15, 2018	BBB+/stable Jul. 23, 2019	BBB+/stable Mar. 12, 2020

Financing analysis

In fiscal year 2020, LANXESS retained a balanced financing structure and a solid liquidity position. The next bond will mature in October 2021. The existing debt issuance program allows the very flexible placement of bonds on the capital market. As of December 31, 2020, around €2.2 billion of the €5.0 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.

Other current financial liabilities increased from €66 million in the previous year to €566 million. The increase resulted primarily from the reclassification of the €500 million bond maturing in October 2021 from non-current to current liabilities.

On December 31, 2020, LANXESS had a small amount of financing items that were not reported in the statement of financial position in the form of short-term leases and leases of low-value assets.

The Group's total financial liabilities, net of accrued interest, decreased from €2,818 million in 2019 to €2,806 million as of December 31, 2020. Net financial liabilities – defined as total financial liabilities net of cash, cash equivalents, accrued interest and near-cash assets – amounted to €1,012 million at the end of the reporting year, down significantly from €2,522 million as of December 31, 2019. As of December 31, 2020, near-cash assets of €1,523 million were held, which were invested in shares of money market funds that can be sold at any time. No other short-term money market investments and securities were held. Net financial liabilities after deduction of short-term money market investments and securities likewise amounted to €1,012 million at the end of 2020, against €1,742 million in the previous year. Of the total financial liabilities, almost 100% bear a fixed interest rate over the term of the financing, which is unchanged from the previous year. Therefore, interest rate changes do not have a material effect considering the current financing structure. The proportion of loans and bonds denominated in euros averaged 100% in the reporting year, as in the previous year. The weighted average interest rate for our financial liabilities in euros of 2.0% at year-end 2020 was on a par with the previous year.

The following overview shows LANXESS's financing structure as of December 31, 2020, in detail, including its principal liquidity reserves.

The other loans relate mainly to a financial commitment to the "High-Tech Gründerfonds III." No refinancing risks existed at the time these financial statements were prepared.

Liquidity analysis

Around 60% of our cash and cash equivalents of €271 million are held in Group companies in countries with no restrictions on foreign exchange and capital transfers. The remaining approximately 40% are held in companies in regulated capital markets where cash transfers are restricted. In addition to cash and cash equivalents, LANXESS holds near-cash assets of €1,523 million, which are invested in shares of money market funds that can be sold at any time. There are also additional liquidity reserves in the form of undrawn credit lines.

Financing Structure

Instrument	Amount € million	Term	Interest rate %	Financial covenant
Eurobond 2016/2021 (€500 million)	499	October 2021	0.250	No
Eurobond 2012/2022 (€500 million)	499	November 2022	2.625	No
Eurobond 2018/2025 (€500 million)	495	May 2025	1.125	No
Eurobond 2016/2026 (€500 million)	495	October 2026	1.000	No
Hybrid bond 2016/2076 (€500 million)	490	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	3	n/a		No
Finance lease	126	n/a		No
Total financial liabilities	**2,806**			
Cash and cash equivalents	271	≤3 months		
Near-cash assets	1,523	≤3 months		
Total liquidity	**1,794**			
Net financial liabilities	**1,012**			

Thanks to our good liquidity position, our solvency was assured at all times in fiscal year 2020.

By far the most important of LANXESS's credit lines is the syndicated credit facility of €1 billion, which was signed in December 2019 and has an initial term until December 2024. The credit facility is tied to ESG ("environmental, social and governance") criteria. The interest rate terms depend in part on the successful reduction of Scope 1 greenhouse gas emissions and the increase in the proportion of women at the top three levels of management.

In March 2020, the credit facility was fully utilized for the first time in the company's history. The liquidity drawn was not necessary for operations, but merely served as a safety reserve in the first months of the coronavirus pandemic. The short-term loans were repaid in full by June 2020, and the credit facility has not been utilized again since. The credit facility is designed as an operating line of credit and to provide funds for capital investment and complies with the market requirements of the European syndicated loan market for investment-grade companies with a BBB rating. None of our major loan agreements contains a financial covenant. In total, we had undrawn credit facilities of €1.0 billion as of December 31, 2020.

The total of liquid assets and undrawn credit lines gives us available liquidity of around €2.8 billion.

MANAGEMENT'S SUMMARY OF BUSINESS DEVELOPMENT AND THE FISCAL YEAR

The coronavirus pandemic had a significant influence on the sales of the LANXESS Group, which amounted to €6,104 million in the reporting period, down 10.3% from the previous year's figure of €6,802 million. The sales development of the Advanced Intermediates, Specialty Additives and Engineering Materials segments was mainly influenced by weaker demand as a result of the coronavirus pandemic and a reduction of selling prices driven by raw material prices. In contrast, the new Consumer Protection segment posted higher sales. In addition, the Brazilian biocide manufacturer IPEL-Itibanyl Produtos Especiais Ltda., Jarinu, Brazil, acquired in February 2020 had a positive portfolio effect on sales of around €20 million. Shifts in exchange rates had a negative influence on sales development in all segments.

In an economic environment weakened by the coronavirus pandemic, EBITDA pre exceptionals decreased by €157 million from €1,019 million to €862 million in fiscal year 2020. While our Consumer Protection segment developed positively, the EBITDA pre exceptionals of our other three segments fell short of the previous year's level.

Due in particular to the proceeds from the sale of Currenta GmbH & Co. OHG, Leverkusen, Germany, to Macquarie Infrastructure and Real Assets (MIRA), net income and earnings per share significantly exceeded the previous year's figures in fiscal year 2020. Compared with the previous year, net income increased from €205 million to €885 million and earnings per share from €2.32 to €10.22. Net income from continuing operations amounted to €908 million after €240 million; earnings per share from discontinued operations increased from €2.72 to €10.49. We upheld our conservative accounting and financing policy in 2020 as well. In accordance with the consistency principle, we essentially applied the same measurement methods and exercised the same discretion as in the previous year. The equity ratio increased from 30.4% to 33.8%. Total assets increased from €8,695 million to €8,880 million.

Our statement of financial position shows that our liquidity position remains solid. As a result of investment in shares of money market funds that can be sold at any time, near-cash assets increased to €1,523 million. Additional substantial liquidity reserves in the form of undrawn credit lines are also available. Of the total financial liabilities, almost 100% bear a fixed interest rate over the term of the financing, which is unchanged from the previous year. Our financial liabilities are free of financial covenants.

Our net financial liabilities decreased after deduction of short-term money market investments and securities by €730 million to €1,012 million. The reduction in net financial liabilities resulted primarily from the purchase price payment received for the sale of the 40% interest in the chemical park operator Currenta. The total cash inflows resulting from this transaction of €890 million (before payment of the income tax owed by LANXESS) served as confirmation of the rating agencies' assessment of LANXESS's improved financial profile. In fiscal year 2020, Standard & Poor's, Moody's and Scope Ratings confirmed their assessments of our credit rating. Standard & Poor's gives LANXESS a "BBB" rating, Moody's a "Baa2" rating, and Scope Ratings a "BBB+" rating. All three rating agencies continue to assume a stable outlook.

In a fiscal year shaped by the coronavirus pandemic, we benefited from our balanced portfolio and see the earnings performance as positive and our economic situation as stable overall. We still believe we are on track to become a much more stable specialty chemicals company, with stronger cash flow and a more balanced and sustainable portfolio.

KEY BUSINESS DATA – MULTI-PERIOD OVERVIEW

Indicators

€ million	2016	2017	2018	2019	2020
Earnings performance					
Sales[1]	7,699	6,530	6,824	6,802	6,104
EBITDA pre exceptionals[1]	995	925	986	1,019	862
EBITDA margin pre exceptionals[1]	12.9%	14.2%	14.4%	15.0%	14.1%
EBITDA[1]	945	709	906	910	757
EBIT pre exceptionals[1]	514	558	581	557	396
EBIT[1]	464	299	491	407	253
EBIT margin[1]	6.0%	4.6%	7.2%	6.0%	4.1%
Net income	192	87	431	205	885
Weighted average number of shares outstanding	91,522,936	91,522,936	91,522,936	88,334,641	86,587,838
Earnings per share (€)	2.10	0.95	4.71	2.32	10.22
Financial position					
Cash flow from operating activities[1]	689	568	441	634	594
Depreciation and amortization/reversals of impairment charges[1]	481	410	415	503	504
Cash outflows for capital expenditures[1]	439	397	482	508	456
Net financial liabilities	2,394	2,252	1,923	2,522	1,012
Net financial liabilities after deduction of short-term money market investments and securities	269	2,252	1,381	1,742	1,012
Assets and liabilities					
Total assets	9,877	10,411[1]	8,687	8,695	8,880
Non-current assets	4,519	6,454[1]	4,786	5,065	4,823
Current assets	5,358	3,957	3,901	3,630	4,057
Net working capital	1,628	1,948	1,455	1,308	1,134
Equity (including non-controlling interests)	3,728	3,413	2,773	2,647	2,999
Provisions for pensions and other post-employment benefits	1,249	1,490	1,083	1,178	1,205
Indicators					
ROCE	6.9%	9.3%	11.4%[2]	10.0%[2]	7.5%[2]
Equity ratio	37.7%	32.8%	31.9%	30.4%	33.8%
Non-current asset ratio	45.8%	62.0%	55.1%	58.3%	54.3%
Asset coverage I	82.5%	52.9%	57.9%	52.3%	62.2%
Net working capital/sales	21.1%	20.2%	20.2%	19.2%	18.6%
Employees (as of December 31)	16,721	19,029	15,441	14,304	14,309

1) Figures from 2017 not including ARLANXEO and from 2018 not including the Leather business unit.
2) Capital employed from 2018 adjusted as of December 31 of each year. See "Profitability" for details.

EARNINGS, ASSET AND FINANCIAL POSITION OF LANXESS AG

LANXESS AG serves primarily as the management holding company for the LANXESS Group. The principal management functions for the entire Group are performed by the Board of Management. The Board of Management shapes Group strategy and manages resource allocation, infrastructure and organization. The Group management company is also responsible for financing and communication with LANXESS's key stakeholders. The economic performance of LANXESS AG depends principally on the operating business entities in the LANXESS Group and on the development of the chemical industry. The balance of income and losses from investments in affiliated companies resulting from profit or loss transfers and dividends from affiliated companies is of key importance for the future ability of LANXESS AG to pay a dividend. Therefore, especially the statements made in the "Opportunity and risk report" in this management report apply in principle to LANXESS AG as well.

The financial statements of LANXESS AG are prepared in accordance with the German Commercial Code (HGB) and the German Stock Corporation Act (AktG).

Sales and earnings of LANXESS AG

LANXESS AG Income Statement in Accordance with the German Commercial Code (HGB) – Abridged

€ million	2019	2020	Change %
Sales	**5**	**5**	**0.0**
Cost of sales	(5)	(5)	0.0
Gross profit	**0**	**0**	**–**
General administration expenses	(60)	(43)	28.3
Other operating income	1	11	> 100
Other operating expenses	0	(3)	–
Operating result	**(59)**	**(35)**	**40.7**
Income from investments in affiliated companies	752	90	(88.0)
Income from loans held as financial assets	9	8	(11.1)
Net interest expense	(63)	(7)	88.9
Write-downs on securities classified as current assets	0	(5)	–
Other financial income and expenses – net	(18)	(20)	(11.1)
Financial result	**680**	**66**	**(90.3)**
Income taxes	(158)	(98)	38.0
Income after income taxes	**463**	**(67)**	**< (100)**
Net income (loss)	**463**	**(67)**	**< (100)**
Carryforward to new account	48	197	> 100
Withdrawal from retained earnings	200	36	(82.0)
Allocation to other retained earnings	(232)	0	100.0
Expenses from the cancellation of shares	(200)	0	100.0
Offsetting against the difference from the acquisition of own shares	0	(36)	–
Income from the capital reduction	4	0	(100.0)
Allocation to capital reserves	(4)	0	100.0
Distributable profit	**279**	**130**	**(53.4)**

The earnings of LANXESS AG are largely determined by profit or loss transfers from LANXESS Deutschland GmbH, net interest and general administration expenses.

Sales at LANXESS AG stood at €5 million, which was on a par with the previous year. They related mainly to services provided to LANXESS Deutschland GmbH. A balanced result remained after deducting the cost of sales, which consisted mostly of personnel expenses and appropriate shares of the general administration expenses.

As a result of the coronavirus pandemic, general administration expenses decreased year-on-year by €17 million, or 28.3%, to €43 million. They principally comprised personnel and other business expenses not directly related to the services provided to Group companies. The operating result amounted to minus €35 million, €24 million above the previous year's figure.

The financial result, which comprises the balance of income and losses from investments in affiliated companies, the net interest position, income from loans included in financial non-current assets, write-downs on securities classified as current assets, and other financial income and expense, fell from €680 million to €66 million. The change resulted chiefly from a profit transfer from LANXESS Deutschland GmbH. In the previous year, this was primarily influenced by the disclosure of hidden reserves in connection with the sale of the interest in Currenta GmbH & Co. OHG in 2020. Income from investments in affiliated companies was also adversely affected by the weaker business performance due to the coronavirus pandemic in the reporting period. The financial result was positively influenced by the €56 million improvement in the net interest position to minus €7 million.

Income taxes resulted in expenses of €98 million. These were comprised of tax expenses of €117 million for the reporting period and tax income of €19 million for previous years. The net loss for fiscal year 2020 was €67 million after net income of €463 million in the previous year.

As of December 31, 2020, the company reported a distributable profit of €130 million taking into account the profit carryforward of €197 million. In the previous year, a distributable profit of €279 million was posted.

Asset and capital structure of LANXESS AG

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

	Dec. 31, 2019		Dec. 31, 2020		Change
	€ million	%	€ million	%	%
ASSETS					
Financial assets	997	15.1	997	15.6	0.0
Non-current assets	**997**	**15.1**	**997**	**15.6**	**0.0**
Receivables from affiliated companies	4,514	68.4	3,613	56.4	(20.0)
Other assets	558	8.5	105	1.6	(81.2)
Liquid assets and securities	500	7.6	1,666	26.0	> 100
Current assets	**5,572**	**84.5**	**5,384**	**84.0**	**(3.4)**
Prepaid expenses	**26**	**0.4**	**23**	**0.4**	**(11.5)**
Total assets	**6,595**	**100.0**	**6,404**	**100.0**	**(2.9)**
EQUITY AND LIABILITIES					
Equity	**2,195**	**33.3**	**2,009**	**31.4**	**(8.5)**
Provisions	**258**	**3.9**	**133**	**2.1**	**(48.4)**
Bonds	2,700	40.9	2,700	42.2	0.0
Liabilities to banks	25	0.4	25	0.4	0.0
Payables to affiliated companies	1,416	21.5	1,534	23.9	8.3
Other liabilities	1	0.0	3	0.0	> 100
Liabilities	**4,142**	**62.8**	**4,262**	**66.5**	**2.9**
Total equity and liabilities	**6,595**	**100.0**	**6,404**	**100.0**	**(2.9)**

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 €6,404 million as of December 31, 2020, which was €191 million, or 2.9%, below the prior-year figure. Non-current assets were unchanged at €997 million and primarily included the carrying amount of the investment in LANXESS Deutschland GmbH, which stands at €739 million, and loans to subsidiaries of €198 million. The share of non-current assets in total assets increased from 15.1% to 15.6%. Current assets decreased by €188 million, or 3.4%, to €5,384 million and accounted for 84.0% of total assets, compared with 84.5% in the previous year. Receivables from subsidiaries accounted for 56.4% of total assets and related principally to short-term loans, financial transactions and claims to profit or loss transfers. Other receivables largely consisted of tax claims and accounted for 1.6% of total assets compared with 8.5% in the previous year. The share of bank balances and securities in total assets increased from 7.6% to 26.0% as a result of investment in shares of money market funds that can be sold at any time. A part of this investment resulted from the financial resources received from the sale of the 40% interest in Currenta GmbH & Co. OHG, Leverkusen, Germany.

Equity decreased by €186 million to €2,009 million, largely due to the dividend payment for 2019 and the net loss of €67 million. In addition, the acquisition of own shares had a negative effect of €37 million. The equity ratio was 31.4%, after 33.3% at the end of 2019.

The provisions decreased by €125 million to €133 million and related in particular to commitments to employees, statutory and contractual obligations, and income taxes. Liabilities increased by €120 million to €4,262 million. This was mainly because of the year-on-year increase in payables to affiliated companies of €118 million to €1,534 million.

COMPENSATION REPORT

This compensation report complies with statutory requirements as well as the reporting principle of the German Corporate Governance Code in the version of December 16, 2019. In the interest of maintaining transparency, some elements of the superseded version of the GCGC of February 7, 2017, are applied to the report. The compensation report describes and explains in detail the compensation system for the Board of Management and Supervisory Board of LANXESS AG and the compensation of the individual members of the Board of Management and Supervisory Board. For LANXESS, transparent and understandable reporting on these topics is a key element of good corporate governance.

COMPENSATION OF THE BOARD OF MANAGEMENT

Fundamentals of the Board of Management compensation system

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. Such a review was last conducted in fiscal year 2019. In this review, the compensation of the Board of Management was compared with that of the companies listed in the MDAX and with that of selected chemical peer companies[1). These companies were selected by the Supervisory Board on the basis of their comparability with regard to business model, sales, market capitalization, total assets and headcount. 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 aim of the compensation system is to support successful and sustainable corporate governance. LANXESS's compensation structure is therefore designed to 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. Because one of these multi-year compensation components measures stock price development compared with an index, the management's objectives are aligned with the direct interests of the shareholders.

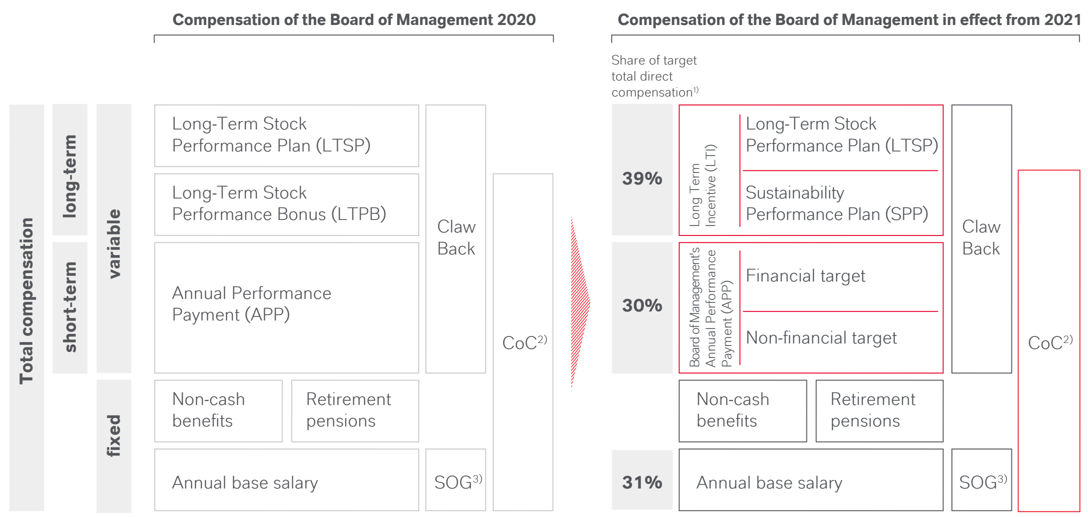
The compensation system that applied to the past fiscal year 2020 was approved by the Annual Stockholders' Meeting of LANXESS AG in 2010.

In fiscal year 2020, the Supervisory Board revised and updated the compensation system on the basis of the Second Shareholder Rights Directive Implementation Act (ARUG II) and the new version of the German Corporate Governance Code (GCGC) of December 16, 2019. This new compensation system has applied since January 1, 2021. The Board of Management and Supervisory Board will present it for the approval of the 2021 Annual Stockholders' Meeting in accordance with the requirements

1) The reference group comprised the following companies: AkzoNobel, Beiersdorf, Clariant, Covestro, Evonik, Henkel, K+S, Linde, Lonza, Merck, Royal DSM, Solvay, Symrise, Wacker Chemie.

of ARUG II (“say on pay”). The following chart provides an overview of the main changes to the compensation system:

Overview of Board of Management compensation



1) Without non-cash benefits and retirement pensions
2) Change of Control
3) Share Ownership Guideline

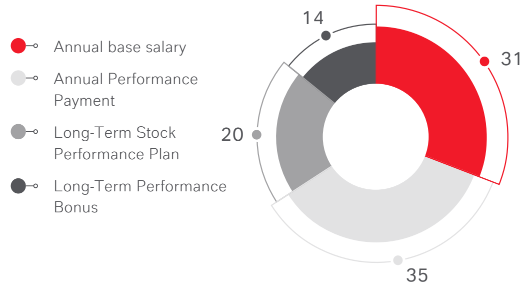
For details on the main changes of the new Board of Management compensation system with effect from 2021, see “Outlook to the compensation system in effect from 2021” at the end of this compensation report.

2020 compensation system

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 and thus reward the sustainable, value-oriented development of the company. 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 individual compensation system components break down as follows:

Compensation Mix for Members of the Board of Management
in %



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, in line with the above-mentioned reference group, and also takes responsibilities and personal performance into account. It is paid each month pro rata as salary. In the Supervisory Board’s regular review of the compensation of the Board of Management, the annual base salary of Dr. Fink and Mr. Pontzen was increased as of January 1, 2020.

Variable compensation

Annual Performance Payment (APP)

The annual performance-related component of variable compensation is the Annual Performance Payment. It is based on the predefined target for the LANXESS Group's EBITDA pre exceptionals and applies in identical form for Board of Management members and for most non-managerial and managerial staff around the world. In the case of 100% target attainment, the APP for fiscal year 2020 for the Chairman of the Board of Management 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; if target attainment falls short of a threshold value, no APP payment is made. For fiscal year 2020, the maximum APP payout percentage is 200%. The Supervisory Board reserves the right to reduce the APP in the event of serious occupational safety and/or environmental problems.

Due to the major challenges of the coronavirus pandemic and the associated uncertainties for the LANXESS Group, the members of the Board of Management voluntarily waived a portion of the APP payout percentage in fiscal year 2020, so this cannot exceed 50% for the Board of Management.

Long-Term Stock Performance Plan (LTSP)

The Long-Term Stock Performance Plan over several years is another element of variable compensation. This stock-based compensation component is based on the performance of LANXESS stock against the MSCI World Chemicals reference index, which was first used as a basis for the LTSP 2014–2017 established in 2014.

The LTSP 2018–2021, in place since 2018, is divided into four tranches, whereby performance is determined annually and the payout rate is calculated on the basis of the annual individual values and the rights are immediately converted into any payment at the end of the respective four-year term of the tranche. 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 if the average performance of the stock relative to the reference index is 115%. The payment can be canceled if the stock performance relative to the index is less than 100%, and must be canceled if it is less than 85%. The individual target income is the fixed annual base salary plus the APP on the basis of 100% target attainment.

The Share Ownership Guideline (SOG) in place since 2018 was adapted as of January 1, 2020, in order to guarantee a projectable investment in LANXESS AG shares. The Share Ownership Guideline defines only the size of the investment in LANXESS AG shares in terms of the proportion of the respective base salary. There is no longer a stipulation regarding the number of LANXESS AG shares to be acquired. Over a period of four years, the members of the Board of Management are obliged to verifiably make a defined investment in shares in LANXESS AG and hold the shares until the end of their service contract (SOG target). The acquisition and holding are reviewed annually. The SOG target, as is standard for German companies, 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. Regardless of this, there are still share ownership obligations from earlier LTSP programs. The condition for participation in LTSP 2014–2017 was a prior personal investment each year in LANXESS shares of 5% of the annual base salary. These shares have a lock-up period of four years (LTSP 2014–2017). The rights granted by the LTSP may be exercised at the end of the four-year vesting period. The exercise period is three years in general, but five years for the 2012 and 2013 tranches, which are the only outstanding tranches from earlier programs (LTSP 2010–2013).

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

For fiscal year 2020, the LTSP resulted in an expense of €534 thousand for Mr. Zachert (previous year: €2,143 thousand), expense of €119 thousand for Dr. Borkowsky (previous year: €57 thousand), expense of €62 thousand for Dr. Coßmann (previous year: €0 thousand), expense of €261 thousand for Dr. Fink (previous year: €644 thousand), expense of €221 thousand for Mr. Pontzen (previous year: €644 thousand) and an expense of €1,030 thousand for Dr. van Roessel in the previous year.

Long-Term Performance Bonus (LTPB)

The Long-Term Performance Bonus, which is the third variable component, is likewise aligned with long-term corporate performance. It rewards target attainment only after three consecutive 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 three 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%.

Total compensation

The following table shows the total compensation of the Board of Management for fiscal year 2020:

The aggregate compensation for the Board of Management was €8,840 thousand (previous year: €11,790 thousand), comprising €3,758 thousand (previous year: €3,618 thousand) in non-performance-related components, €2,881 thousand (previous year: €6,137 thousand) in performance-related components and €2,201 thousand (previous year: €2,035 thousand) in components with a long-term incentive effect. In fiscal year 2020, an EBITDA pre exceptionals of €862 million was achieved with a resulting payout percentage of 61%. Due to the uncertainties associated with the coronavirus pandemic for the LANXESS Group, the Board of Management voluntarily waived a portion of the APP, so the APP payout percentage for the Board of Management is only 50%. Target attainment would have been 100% for fiscal year 2020 if EBITDA pre exceptionals had been €975 million. In the context of the LTSP, a total of 2,201,000 rights were granted to the members of the Board of Management (previous year: 2,035,000). Regarding the fair value per right of the individual tranches on the reporting date, please see Note [15] to the consolidated financial statements.

Compensation of the Board of Management

		Fixed compensation		Variable compensation				Payments from LTSP rights	
€ thousand	Year	Annual base salary	Compensation in kind	Performance bonus[4]	LTPB (multi-year)	Payment for previous years	Total cash compensation	Fair values	**Total**
Matthias Zachert	**2020**	**1,350**	**81**	**844**	**371[2]**	**–**	**2,646**	**911**	**3,557**
	2019	1,313	79	1,553	1,132[1]	(15)[3]	4,062	810	4,872
Dr. Anno Borkowsky (since June 1, 2019)	**2020**	**500**	**51**	**250**	**137[2]**	**–**	**938**	**300**	**1,238**
	2019	292	29	268	121[1]	–	710	175	885
Dr. Stephanie Coßmann (since January 1 2020)	**2020**	**450**	**30**	**225**	**124[2]**	**–**	**829**	**270**	**1,099**
	2019	–	–	–	–	–	–	–	–
Dr. Hubert Fink	**2020**	**600**	**53**	**300**	**165[2]**	**–**	**1,118**	**360**	**1,478**
	2019	550	53	506	443[1]	(6)[3]	1,546	330	1,876
Michael Pontzen	**2020**	**600**	**43**	**300**	**165[2]**	**–**	**1,108**	**360**	**1,468**
	2019	550	50	506	443[1]	(6)[3]	1,543	330	1,873
Former Board member									
Dr. Rainier van Roessel (until December 31, 2019)	**2020**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2019	650	52	650	549[1]	(7)[3]	1,894	390	2,284
Total	**2020**	**3,500**	**258**	**1,919**	**962**	**–**	**6,639**	**2,201**	**8,840**
	2019	3,355	263	3,483	2,688	(34)	9,755	2,035	11,790

1) Payment in 2020, 2021 and 2022, respectively. 2) Payment in 2021, 2022 and 2023, respectively. 3) Payment in 2019. 4) Payment in 2020 and 2021, respectively.

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 contribution to be made by the company equal to 50% or 56.25% of the annual base salary. 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. The calculation of the personal contribution is based on the APP to be paid, but is limited to a maximum of 100% target attainment. The sum of the contributions is capped. 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:

Pension Claims

€ thousand	Year	IFRS Service costs	IFRS Present value of the obligations	HGB Net expense for pension entitlements	HGB Present value of the obligations
Matthias Zachert	**2020**	**1,020**	**9,400**	**1,203**	**7,410**
	2019	759	7,894	1,122	6,207
Dr. Anno Borkowsky	**2020**	**299**	**2,988**	**375**	**2,404**
	2019	56	2,548	2,029	2,029
Dr. Stephanie Coßmann (since January 1 2020)	**2020**	**70**	**1,281**	**861**	**861**
	2019	–	–	–	–
Dr. Hubert Fink	**2020**	**330**	**6,008**	**633**	**4,754**
	2019	308	5,229	815	4,121
Michael Pontzen	**2020**	**349**	**3,549**	**484**	**2,619**
	2019	318	2,898	367	2,135
No longer a serving Board member as of December 31, 2020					
Dr. Rainier van Roessel (until December 31, 2019)	**2020**	**–**	**–**	**–**	**–**
	2019	158	8,330	761	7,460
Total	**2020**	**2,068**	**23,226**	**3,556**	**18,048**
	2019	1,599	26,899	5,094	21,952

As of December 31, 2020, obligations to former members of the Board of Management totaled €39,520 thousand (previous year: €34,629 thousand) under IFRS accounting rules and €31,561 thousand (previous year: €27,904 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 €5,739 thousand (previous year: €7,070 thousand) were made to former members of the Board of Management in fiscal year 2020, of which €4,576 thousand (previous year: €6,459 thousand) related to capital payments.

Relative compensation in the case of 100% target attainment

In fiscal year 2020, the target total direct compensation of the Chairman of the Board of Management amounted to 58 times the average target total direct compensation of all employees in Germany (not including the Board of Management). The target total direct compensation of all Board of Management members amounted to 29 times the average target total direct compensation of all employees in Germany (not including the Board of Management). The target total direct compensation comprises the annual base salary and variable compensation components in the case of 100% target attainment, not including compensation in kind, non-cash benefits from additional company benefits and overtime compensation.

Other

Dr. Stephanie Coßmann began her work as a Board of Management member as of January 1, 2020. As is customary at LANXESS, she did not receive a signing bonus.

The Supervisory Board still 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.

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 2020.

Individual compensation

The following tables list the compensation, additional benefits and allocations (payments) for 2019 and 2020. 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

	Matthias Zachert Chairman of the Board of Management				Dr. Anno Borkowsky Member of the Board of Management Appointed June 1, 2019				Dr. Stephanie Coßmann Member of the Board of Management Appointed Jan. 1, 2020			
€ thousand	**Target value 2019**	**Target value 2020**	**2020 (min.)**	**2020 (max.)**	**Target value 2019**	**Target value 2020**	**2020 (min.)**	**2020 (max.)**	**Target value 2019**	**Target value 2020**	**2020 (min.)**	**2020 (max.)**
Annual base salary	1,313	1,350	1,350	1,350	292	500	500	500	–	450	450	450
Compensation in kind	79	81	81	81	29	51	51	51	–	30	30	30
Total	**1,392**	**1,431**	**1,431**	**1,431**	**321**	**551**	**551**	**551**	**–**	**480**	**480**	**480**
Annual Performance Payment (APP)	**1,688**	**1,688**	**0**	**3,375**	**292**	**500**	**0**	**1,000**	**–**	**450**	**0**	**900**
Multi-year variable compensation	**2,181**	**1,519**	**0**	**3,038**	**563**	**525**	**0**	**1,050**	**–**	**473**	**0**	**945**
LTPB (tranche 2017–2019)	97	–	–	–	44	–	–	–	–	–	–	–
LTPB (tranche 2018–2020)	666	–	–	–	119	–	–	–	–	–	–	–
LTPB (tranche 2019–2021)	608	–	–	–	225	–	–	–	–	–	–	–
LTPB (tranche 2020–2022)	–	608	0	1,215	–	225	0	450	–	203	0	405
LTSP 2018–2021 (tranche 2019)	810	–	–	–	175	–	–	–	–	–	–	–
LTSP 2019–2022 (tranche 2020)	–	911	0	1,823	–	300	0	600	–	270	0	540
Total	**5,261**	**4,638**	**1,431**	**7,844**	**1,176**	**1,576**	**551**	**2,601**	**–**	**1,403**	**480**	**2,325**
Service cost	759	1,020	1,020	1,020	56	299	299	299	–	70	70	70
Total compensation	**6,020**	**5,658**	**2,451**	**8,864**	**1,232**	**1,875**	**850**	**2,900**	**–**	**1,473**	**550**	**2,395**

Compensation Granted

€ thousand	Dr. Hubert Fink Member of the Board of Management Target value 2019	Target value 2020	2020 (min.)	2020 (max.)	Michael Pontzen Chief Financial Officer Target value 2019	Target value 2020	2020 (min.)	2020 (max.)	Dr. Rainier van Roessel Member of the Board of Management Resigned Dec. 31, 2019 Target value 2019	Target value 2020	2020 (min.)	2020 (max.)
Annual base salary	550	600	600	600	550	600	600	600	650	–	–	–
Compensation in kind	53	53	53	53	50	43	43	43	52	–	–	–
Total	**603**	**653**	**653**	**653**	**600**	**643**	**643**	**643**	**702**	**–**	**–**	**–**
Annual Performance Payment (APP)	**550**	**600**	**0**	**1,200**	**550**	**600**	**0**	**1,200**	**650**	**–**	**–**	**–**
Multi-year variable compensation	**849**	**676**	**24**	**1,329**	**849**	**676**	**24**	**1,329**	**711**	**–**	**–**	**–**
LTPB (tranche 2017–2019)	–	–	–	–	–	–	–	–	–	–	–	–
LTPB (tranche 2018–2020)	271	24	17	32	271	24	17	32	223	–	–	–
LTPB (tranche 2019–2021)	248	22	7	37	248	22	7	37	98	–	–	–
LTPB (tranche 2020–2022)	–	270	0	540	–	270	0	540	–	–	–	–
LTSP 2018–2021 (tranche 2019)	330	–	–	–	330	–	–	–	390	–	–	–
LTSP 2019–2022 (tranche 2020)	–	360	0	720	–	360	0	720	–	–	–	–
Total	**2,002**	**1,929**	**677**	**3,182**	**1,999**	**1,919**	**667**	**3,172**	**2,063**	**–**	**–**	**–**
Service cost	308	330	330	330	318	349	349	349	158	–	–	–
Total compensation	**2,310**	**2,259**	**1,007**	**3,512**	**2,317**	**2,268**	**1,016**	**3,521**	**2,221**	**–**	**–**	**–**

Allocations

€ thousand	Matthias Zachert Chairman of the Board of Management 2019	2020	Dr. Anno Borkowsky Member of the Board of Management Appointed June 1, 2019 2019	2020	Dr. Stephanie Coßmann Member of the Board of Management Appointed Jan. 1, 2020 2019	2020
Annual base salary	1,313	1,350	292	500	–	450
Compensation in kind	79	81	29	51	–	30
Total	**1,392**	**1,431**	**321**	**551**	**–**	**480**
Annual Performance Payment (APP)	**1,538**	**844**	**268**	**250**	**–**	**225**
Multi-year variable compensation	**2,470**	**2,070**	**40**	**86**	**–**	**41**
LTPB (tranche 2017–2018)	(3)	–	–	–	–	–
LTPB (tranche 2017–2019)	853	–	40	–	–	–
LTPB (tranche 2018–2020)	–	571	–	86	–	41
LTSP 2010–2013	–	–	–	–	–	–
LTSP 2014–2017	1,620[1]	1,499[2]	–	–	–	–
LTSP 2018–2021	–	–	–	–	–	–
Total	**5,400**	**4,345**	**629**	**887**	**–**	**746**
Service cost	759	1,020	56	299	–	70
Total compensation	**6,159**	**5,365**	**685**	**1,186**	**–**	**816**

1) Exercise of LTSP tranche 2015 2) Exercise of LTSP tranche 2016

Allocations

€ thousand	Dr. Hubert Fink Member of the Board of Management 2019	2020	Michael Pontzen Chief Financial Officer 2019	2020	Dr. Rainier van Roessel Member of the Board of Management Resigned Dec. 31, 2019 2019	2020
Annual base salary	550	600	550	600	650	–
Compensation in kind	53	53	50	43	52	–
Total	**603**	**653**	**600**	**643**	**702**	**–**
Annual Performance Payment (APP)	**500**	**300**	**500**	**300**	**643**	**–**
Multi-year variable compensation	**346**	**794**	**346**	**754**	**1,197**	**780**
LTPB (tranche 2017–2018)	(1)	–	(1)	–	(1)	–
LTPB (tranche 2017–2019)	347	–	347	–	418	–
LTPB (tranche 2018–2020)	–	254	–	254	–	–
LTSP 2010–2013	–	–	–	–	–	–
LTSP 2014–2017	–	540[2]	–	500[2]	780[1]	780[2]
LTSP 2018–2021	–	–	–	–	–	–
Total	**1,449**	**1,747**	**1,446**	**1,697**	**2,542**	**780**
Service cost	308	330	318	349	158	–
Total compensation	**1,757**	**2,077**	**1,764**	**2,046**	**2,700**	**780**

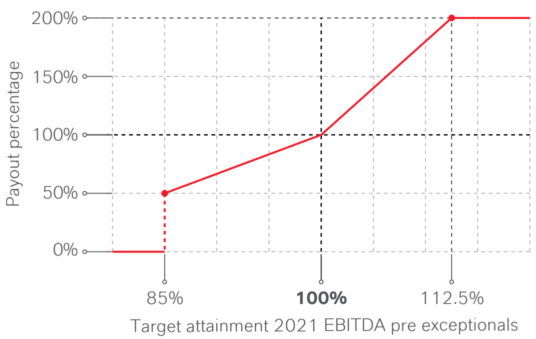
1) Exercise of LTSP tranche 2015 2) Exercise of LTSP tranche 2016

OUTLOOK TO THE COMPENSATION SYSTEM IN EFFECT FROM 2021

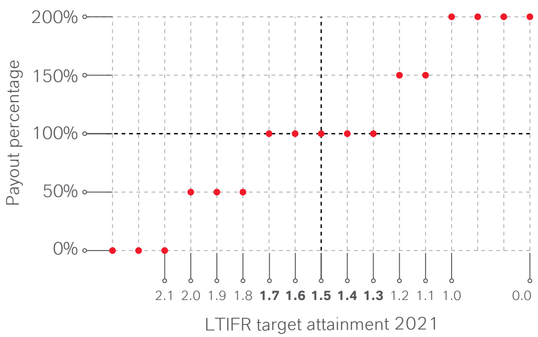
The Board of Management compensation system at LANXESS meets regulatory requirements, fulfills the demands of various stakeholders, is appropriate, and matches the market standard. Taking particular account of LANXESS's sustainable and strategic alignment, significant changes were implemented in the new compensation system adopted by the Supervisory Board in fiscal year 2020 and effective from 2021. In particular, both the short-term variable compensation (the Board of Management's APP) and the long-term variable compensation (Long-Term Incentive – LTI) will each be based on two measurable targets. In addition, the proportions of short- and long-term variable compensation will in the future be determined such that the long-term compensation components outweigh the short-term ones. Another change relates to payments in the event of a change of control (CoC). The new compensation system is explained in detail below.

- The Board of Management's APP now considers two instead of three measurable targets: a financial target constituting 80% of the individual APP and a non-financial target constituting 20% of the individual APP. In the case of 100% target attainment, the individual APP for ordinary Board of Management members is 100% and for the Chairman of the Board of Management 125% of the annual base salary. The financial target is currently the LANXESS Group's key controlling indicator, EBITDA pre exceptionals. The non-financial target is the lost time injury frequency rate (LTIFR: accidents per million hours worked) for accidents with days lost. This reflects the high importance of employee and site safety for LANXESS. The targets for the Board of Management's APP are defined annually by the Supervisory Board before the start of the fiscal year. The Supervisory Board resolved upon the following payment curves for fiscal year 2021, which also apply to the level below the Board of Management:

APP Payment Curve for the Financial Target



APP Payment Curve for the Non-financial Target



- 100% target attainment is achieved in the event of a certain EBITDA pre exceptionals defined by the Supervisory Board before the start of the fiscal year. The payment curve plots a straight line between this target and the upper or lower limit. Achievement of the financial target set by the Supervisory Board corresponds to a payout percentage of 100% for the financial target. If the LANXESS Group's EBITDA pre exceptionals is at least 12.5% higher than the financial target, the payout percentage equals the upper limit of 200% of the APP of the Board of Management for the financial target. If EBITDA pre exceptionals is more than 15% lower than the financial target, the payout percentage falls from 50% to 0%. This also applies to the variable short-term compensation of non-managerial and managerial staff. The steeper gradient of the payment curve if the 100% target is exceeded provides a special financial incentive to exceed the target, which is difficult to achieve as it is. The Board of Management's financial target is published after the end of the fiscal year.
- The payment curve for the LTIFR, which is reported to one decimal place, takes a tiered approach in order to maintain the existing positive incident reporting culture. An LTIFR of between 1.3 and 1.7 equates to 100% target attainment and results in a payout percentage of 100% for the non-financial target. If the LTIFR is 1.0 or lower, this equates to a payout percentage of 200% of the Board of Management's APP for the non-financial target. If the

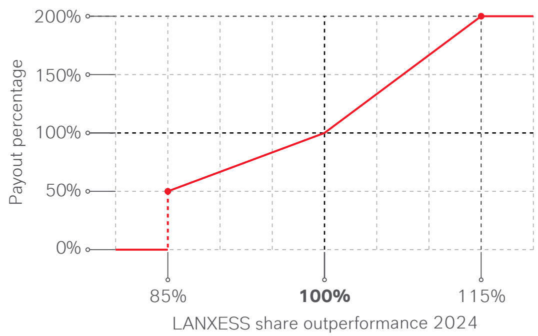
LTIFR is higher than 2.0, the payout percentage falls to 0%. The long-term goal is to avoid any accidents. Compared with other companies in the chemical industry and the past trend at LANXESS, the target set for 2021 is an ambitious one.

- In the future, the existing ad hoc discretionary bonus to recognize special achievements or to create an additional incentive can be granted only as part the Board of Management's APP and is capped at 20% of the annual base salary. This requires a transparent justification from the Supervisory Board. The maximum payout percentage for the Board of Management's APP (including discretionary bonus) is 200%.
- The Supervisory Board still reserves the right to reduce the APP in the event of serious occupational safety and/or environmental problems.
- In the future, the long-term variable compensation (Long-Term Incentive – LTI) will likewise comprise two measurable targets: a component based on share price performance in the form of the LTSP, which is unchanged and measures price performance relative to a reference index, and a sustainability component in the form of the Sustainability Performance Plan (SPP). The SPP considers the long-term development of sustainability targets. On the basis of LANXESS's published interim goal for 2025, the Supervisory Board adopted a CO_2e target for 2024, which is included in the SPP. In subsequent years, a different target criterion can be selected to reflect the company's current focus. In the long-term, the share price component will constitute 60% and the sustainability component 40% of the LTI. The assessment period is four years for each of the two components. The reference value for the LTI programs is the annual base salary.

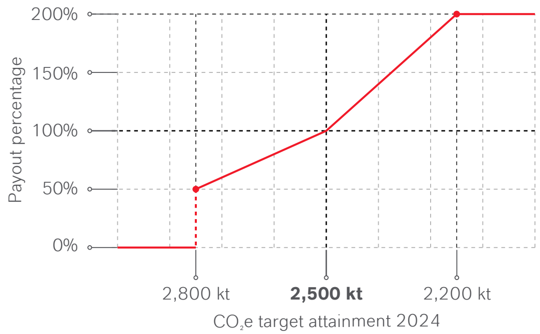
The assessment periods for the LTI are as follows:

- The LTSP payment curve is unchanged compared with previous years. The Supervisory Board resolved upon the payment curve for the SPP. The two payment curves are as follows:

LTI Payment Curve for the LTSP



LTI Payment Curve for the SPP



- Both payment curves plot a straight line between the target value and the upper or lower limit. Like in the APP, the steeper gradient of the payment curve if the 100% target is exceeded provides an additional financial incentive to exceed the target. On achievement of the minimum value, the payout percentage amounts to 50%. The maximum payout percentage is 200% for each target.
- Target values and payment curves for the short- and long-term variable compensation components are defined by the Supervisory Board before the start of the fiscal year. Subsequent adjustments are permitted only in the case of the CO_2 targets to take M&A transactions into account. The long-term variable compensation component LTPB is expiring and will end on December 31, 2023. It will be paid for the last time in fiscal year 2024.

- Payments in the event of a change of control are capped at two annual base salaries plus the Board of Management's APP and the LTPB/SPP at 100% target attainment, accounting pro rata for the remaining term at the date of contract termination.
- The compensation system still provides for a cap on the compensation of Board of Management members. This maximum compensation for fiscal year 2021, including compensation in kind and company pension plans, amounts to €21,087 thousand for the full Board of Management.
- For the reporting year, the target values and degree of target attainment for the indicators relevant to the bonus will subsequently be published in the compensation report.

COMPENSATION OF THE SUPERVISORY BOARD

The compensation of the Supervisory Board is governed by Section 12 of the company's articles of association. It was last adjusted by the 2020 Annual Stockholders' Meeting in order to appropriately account for the increased significance of the Nominations Committee and the associated time commitment.

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 other than the Nominations Committee receive one half of the fixed compensation amount in addition. Supervisory Board members who belong to the Nominations Committee receive one eighth 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. No additional compensation is granted for membership in the Committee to be formed pursuant to Section 27 Paragraph 3 of the German Codetermination Act or for chairing the Nominations Committee. 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. 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.

LANXESS AG's Annual Stockholders' Meeting on May 23, 2019, resolved to change the Supervisory Board compensation to fixed compensation only. The former long-term, sustainability-focused variable compensation component was rescinded, without the fixed compensation being increased at the same time. The assessment period for calculating the variable compensation provided for in the articles of association until the 2020 Annual Stockholders' Meeting ended at the end of the 2020 Annual Stockholders' Meeting. Payment of the variable compensation until the end of the assessment period depended on how LANXESS's stock performed relative to the Dow Jones STOXX 600 Chemicals℠ during a member's five-year term. The average price of LANXESS stock and the average level of the index during the 90 trading days prior to the Annual Stockholders' Meeting at which the Supervisory Board members were elected were 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 ended. The variable compensation was only payable if the stock had outperformed the benchmark index. No variable compensation was paid out in fiscal year 2020. The provision for the variable compensation component was reversed and was valued at €0 thousand (previous year: €1,670 thousand) as of December 31, 2020.

In May 2020, the Supervisory Board members serving at that time voluntarily waived 20% of their fixed compensation for fiscal year 2020 in response to the challenges of the coronavirus pandemic. The Supervisory Board members' waiver did not include the compensation for their committee work.

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 compen-sation LANXESS AG	Compen-sation as committee member LANXESS AG	Attendance allowance	Fixed compen-sation LANXESS Deutschland GmbH	Total
Dr. Matthias L. Wolfgruber, Chairman	**2020**	**192,000**	**–**	**21,000**	**5,000**	**218,000**
	2019	240,000	–	16,500	5,000	261,500
Ralf Sikorski, Vice Chairman	**2020**	**96,000**	**40,000**	**19,500**	**5,000**	**160,500**
	2019	120,000	40,000	10,500	5,000	175,500
Hans van Bylen (appointed August 27, 2020)	**2020**	**27,836**	**27,836**	**9,000**	**1,740**	**66,412**
	2019	–	–	–	–	–
Birgit Bierther (appointed January 25, 2019)	**2020**	**64,000**	**40,000**	**19,500**	**5,000**	**128,500**
	2019	74,740	32,438	16,500	4,671	128,349
Werner Czaplik	**2020**	**64,000**	**40,000**	**18,000**	**5,000**	**127,000**
	2019	80,000	40,000	15,000	5,000	140,000
Armando Dente (appointed August 27, 2020)	**2020**	**27,836**	**13,918**	**6,000**	**1,740**	**49,494**
	2019	–	–	–	–	–
Dr. Hans-Dieter Gerriets	**2020**	**64,000**	**40,000**	**18,000**	**5,000**	**127,000**
	2019	80,000	40,000	15,000	5,000	140,000
Dr. Heike Hanagarth	**2020**	**64,000**	**–**	**12,000**	**5,000**	**81,000**
	2019	80,000	–	9,000	5,000	94,000
Dr. Friedrich Janssen (resigned August 27, 2020)	**2020**	**42,082**	**78,904**	**16,500**	**3,288**	**140,774**
	2019	80,000	120,000	22,500	5,000	227,500
Pamela Knapp	**2020**	**64,000**	**53,918**	**18,000**	**5,000**	**140,918**
	2019	80,000	40,000	13,500	5,000	138,500
Thomas Meiers (resigned August 27, 2020)	**2020**	**42,082**	**26,301**	**12,000**	**3,288**	**83,671**
	2019	80,000	40,000	13,500	5,000	138,500
Lawrence A. Rosen	**2020**	**64,000**	**50,000**	**19,500**	**5,000**	**138,500**
	2019	80,000	40,000	15,000	5,000	140,000
Manuela Strauch	**2020**	**64,000**	**40,000**	**19,500**	**5,000**	**128,500**
	2019	80,000	40,000	16,500	5,000	141,500
Theo H. Walthie	**2020**	**64,000**	**50,000**	**21,000**	**5,000**	**140,000**
	2019	80,000	40,000	13,500	5,000	138,500
Total	**2020**	**939,836**	**500,877**	**229,500**	**60,056**	**1,730,269**
	2019	1,154,740	472,438	177,000	59,671	1,863,849

1) Figures exclude value-added tax.

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

Pursuant to Section 289a, Sentence 1, Nos. 1 to 9, and Section 315a, Sentence 1, Nos. 1 to 9, of the German Commercial Code, we hereby make the following declarations:

1. The capital stock of LANXESS AG amounted to €87,447,852 as of December 31, 2020, and is composed of 87,447,852 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 vesting 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 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 Annual 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 Annual 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

At the beginning of fiscal year 2020, neither the company nor dependent or majority-owned entities, or third parties acting for the account of the company or for the account of dependent or majority-owned entities, held shares in the company. On May 23, 2019, the Annual Stockholders' Meeting of LANXESS AG resolved to issue an authorization for the purchase and utilization of own shares. The authorization allows the Board of Management to acquire shares in the company representing up to 10% of the capital stock until May 22, 2024, 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.

The Board of Management of the company resolved on March 10, 2020, to exercise its stock repurchase authorization and, within 24 months, to buy own shares on the stock exchange at a total volume of up to €500 million (excluding incidental expenses), divided into two tranches of €250 million each, for the purpose of canceling them. The first tranche was to begin no earlier than March 12, 2020, and to be completed within 12 months at the latest. The repurchase began on March 12, 2020, and was suspended until further notice by way of a Board of Management resolution of April 6, 2020, in response to the coronavirus pandemic. From March 12, 2020, until the suspension on April 6, 2020, LANXESS AG had repurchased 1,101,549 shares, equating to 1.26% of LANXESS AG's outstanding capital stock. By that point, the total volume of the suspended buy-back amounts to €36,698,254.49, corresponding to an average price of €33.3151 per repurchased share. The Board of Management of LANXESS AG will assess the situation continuously and decide on a resumption of the stock repurchase program at the appropriate time. The repurchased shares were not canceled in fiscal year 2020, and thus the capital stock was not reduced. As of the end of fiscal year 2020, the company therefore held 1,101,549 own shares.

Conditional capital

The Annual Stockholders' Meeting of LANXESS AG on May 15, 2018, authorized the Board of Management until May 14, 2023, 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 €9,152,293 in the company's capital stock on the terms to be defined for these bonds. Pursuant to Section 4, Paragraph 5 of the articles of association, the capital stock of LANXESS AG is thus conditionally increased by up to €9,152,293 (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 warrant bonds and/or convertible bonds, profit-participation rights and/or income bonds (or a combination of these instruments) 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 14, 2023, on the basis of the authorization granted to the Board of Management by the Annual Stockholders' Meeting on May 15, 2018, 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. The Board of Management will consider other capital measures with stockholders' subscription rights disapplied in its decision to disapply stockholders' subscription rights when issuing convertible bonds and/or bonds with warrants, profit participation rights and/or income bonds (or combinations of these instruments). By way of self-commitment, the Board of Management undertakes to perform capital measures with stockholders' subscription rights disapplied up to a maximum total amount of 20% of the company's current capital stock. This restriction applies when issuing new shares utilizing authorized capital, utilizing own shares or issuing bonds with warrants or conversion rights/obligations on the basis of which shares must be issued, with stockholders' subscription rights disapplied in each case. The Board of Management will be bound by this declaration 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.

Authorized capital I and III

Pursuant to Section 4, Paragraph 3 of LANXESS AG's articles of association, the Annual Stockholders' Meeting on May 15, 2018, authorized the Board of Management until May 14, 2023, with the approval of the Supervisory Board, to increase the capital stock on one or more occasions by issuing new no-par bearer shares against cash or contributions in kind up to a total amount of €18,304,587 (Authorized Capital I). 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. .

Furthermore, pursuant to Section 4, Paragraph 4 of LANXESS AG's articles of association, the Annual Stockholders' Meeting on May 26, 2017, authorized the Board of Management until May 25, 2022, with the approval of the Supervisory Board, to increase the company's capital stock on one or more occasions by issuing new bearer shares against cash or contributions in kind up to a total amount of €9,152,293 (Authorized Capital III). Stockholders are generally entitled to subscription rights when

Authorized Capital is utilized. Pursuant to Section 4, Paragraph 4 of the articles of association and with the approval of the Supervisory Board, the Board of Management can exclude these subscription rights. It can exclude fractional amounts from the stockholders' subscription rights in the event of capital increases against cash contributions. Subscription rights can also be excluded in the event of capital increases against cash contributions if the issue price of the new bearer shares is not significantly lower than the stock market price at the time the issue price is definitively fixed and the issued shares in total do not exceed 10% of the company's capital stock. By way of self-commitment, the Board of Management undertakes to perform capital measures with stockholders' subscription rights disapplied up to a maximum total amount of 20% of the company's current capital stock. This restriction applies when issuing new shares utilizing authorized capital, utilizing own shares or issuing bonds with warrants or conversion rights/obligations on the basis of which shares must be issued, with stockholders' subscription rights disapplied in each case. The Board of Management will be bound by this declaration 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 III have not yet been utilized.

8. The service contracts between the company and the members of the Board of Management of LANXESS AG contain provisions regarding the potential departure of the members of the Board of Management in the context of a change of control. These are outlined in the compensation report in this combined management report. Such agreements, albeit with different terms, also exist between the company and members of the first level of upper management. In addition, the terms for placing bonds under the company's existing debt issuance program may contain a change-of-control clause which gives bondholders the right to redeem the bond should certain events occur that affect its rating. This applies to the €500 million Eurobond issued by LANXESS Finance B.V. in fiscal year 2012 and taken over by LANXESS AG in 2015. The terms for two private placements with a volume of €100 million each made by LANXESS Finance B.V. under the debt issuance program in fiscal year 2012 likewise contain corresponding change-of-control clauses. These placements have now also been taken over by LANXESS AG. Equally, the terms of the bonds with a volume of (i) €500 million (maturity 2021) and (ii) €500 million (maturity 2026) issued by LANXESS AG in fiscal year 2016 and the bonds with a volume of (iii) €500 million (maturity 2025) issued by LANXESS AG in fiscal year 2018 under the debt issuance program contain corresponding change-of-control clauses. The terms of the subordinated hybrid bond with a volume of €500 million also issued by LANXESS AG in fiscal year 2016 contain a change-of-control clause as well. According to these terms, in the event of a change of control and in connection with certain events that affect its rating, LANXESS AG must pay bondholders an increased rate of interest if the company does not make use of the right of termination that is similarly available. The company has entered into an agreement with a syndicate of banks concerning a credit facility with a current volume of €1,000 million. This agreement can be terminated without notice if another company or person takes control of more than 50% of LANXESS AG. Furthermore, according to agreements between the company and LANXESS Pension Trust e.V., the company is obligated to make considerable payments to LANXESS Pension Trust e.V. in the event of a change of control.

9. The service contracts between the company and the members of the Board of Management of LANXESS AG as well as between the company and members of the first and second levels of upper management of LANXESS AG contain compensation agreements applicable in the event of a change of control, as such change is more particularly described in the respective contracts.

REPORT PURSUANT TO SECTIONS 289F AND 315D OF THE GERMAN COMMERCIAL CODE (HGB)

The Board of Management and Supervisory Board have issued the corporate governance declaration pursuant to Section 289f and 315d of the German Commercial Code (HGB). This has been made available to the stockholders and can be found at www.lanxess.com in the Investor Relations section under Corporate Governance.

REPORT ON FUTURE PERSPECTIVES, RISKS AND OPPORTUNITIES

In the economic outlook below, we describe our expectations for economic development. Following the report on future perspectives, we discuss the opportunities and risks which may result in deviations from our predictions.

ECONOMIC OUTLOOK

Fiscal year 2020 was primarily characterized by the sharp economic decline at the start of the second quarter as a result of the global coronavirus pandemic. The picture was additionally darkened by further uncertainties as a result of trade wars, unrest in the Middle East and South America, Iran sanctions, and the trend for the formation of new, populist governments.

Particularly due to the vaccinations, starting at the end of 2020, as an effective means of containing the coronavirus pandemic and the outcome of the US election in November, we expect the world economy as a whole to recover and trade relations between the U.S., China and Europe to gradually return to normal in 2021. At the same time, we expect a slower recovery for the Americas. The consequences of the late Brexit deal will probably curb the economic upturn in Europe somewhat, while we believe the free trade agreement in the Asia-Pacific region (RCEP) will have a positive influence on economic growth in Asia. Overall, however, the economic recovery is not yet likely to fully compensate for the sharp economic decline in 2020.

After the sharp decline in 2020, we see a moderate recovery of 4.5% in the *world economy* in 2021, which is quite evenly spread over all regions, but has a slight focus in Asia-Pacific. We see China remaining among the main drivers here, particularly thanks to its leading role in the RCEP free trade agreement. For EMEA (including Germany), we expect economic growth of 3.5%.

We expect growth of 4.5% in the global *chemical industry*. For agrochemicals, which remained stable in 2020, growth of 2.5% is expected in 2021. We expect the global sales of the automotive industry, which plummeted by 11.0% in 2020, to increase by 10.5% this year. A 3.0% recovery is also expected for the construction industry in 2021.

Expected Growth in 2021

Change vs. prior year in real terms (%)[1]	Gross domestic product	Chemical production
Americas	4.0	3.0
EMEA (incl. Germany)	3.5	3.5
Asia-Pacific	5.5	5.5
World	**4.5**	**4.5**

1) Rounded to the nearest 0.5%.
Source: IHS Markit

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

Expected Evolution of Major User Industries in 2021

Change vs. prior year in real terms (%)[1]	Automotive	Agrochemicals	Construction
Americas	18.0	1.0	(1.0)
EMEA (incl. Germany)	11.0	2.5	2.5
Asia-Pacific	7.5	3.0	5.0
World	**10.5**	**2.5**	**3.0**

1) Rounded to the nearest 0.5%.
Source: IHS Markit

FUTURE PERSPECTIVES

Expected earnings position of the LANXESS Group

We expect the current business to improve significantly in 2021. Over the course of the year, we anticipate a recovery in numerous key customer industries, the intensity of which may vary depending on both the region and the respective decline in 2020. As the coronavirus pandemic is currently still ongoing, the development is highly uncertain. However, it has become apparent in the crisis that the strategic realignment has made LANXESS much more resilient, so we will also benefit from our more balanced portfolio in 2021.

The earnings forecast shown below relates to the forecast EBITDA pre exceptionals of the LANXESS Group.

For the Advanced Intermediates segment, we expect business performance in 2021 to be on a par with or slightly exceed the previous year's level. Overall, we expect a recovery of the broadly diversified end markets for chemical intermediates and a further stabilization of the inorganic pigments business thanks to growth in the construction industry.

Due to the business recovery and the new allocation of the antioxidants and process accelerators business, the development of our Specialty Additives segment is expected to significantly exceed the previous year's level in 2021. After the sharp decline in 2020, we also expect stronger demand from the automotive industry, particularly for the rubber-based additives business and the lubricants business. At the same time, we assume that demand from the oil and gas industry will pick up slightly.

For our Consumer Protection segment, we expect business performance to be slightly above the very strong previous year. We expect demand for our disinfectants to remain at a high level and capacity in the agrochemicals business to be well utilized in the forecast period. Plants for both disinfectants and water treatment are being utilized at almost full capacity, so the focus will initially be on adding new capacity before we can benefit from further volume growth.

For the Engineering Materials segment, we expect earnings to significantly exceed the previous year's low level in 2021. Demand from the automotive industry, which collapsed in the first half of 2020, is expected to improve substantially in 2021. It should also be taken into account that the earnings for 2020 were adversely affected by scheduled maintenance shutdown of several weeks and difficulties with the resumption of production at the High Performance Materials business unit's site in Antwerp, Belgium.

In the Reconciliation segment, we expect earnings to deteriorate slightly year-on-year. This is due to general inflation of the cost base and remnant costs following the sale of all operations of the Leather business unit. In addition, we anticipate recurring expenses after the temporary savings in 2020 in connection with the coronavirus pandemic. In contrast, we expect our hedging transactions to have a positive effect on earnings performance.

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

Against the background of the expected performance of our segments, we expect that EBITDA pre exceptionals for the full year 2021 will be significantly higher than in the previous year. EBITDA pre exceptionals amounted to €862 million in fiscal year 2020.

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 €2.8 billion in cash and undrawn credit lines as of the end of 2020, as described under "Financial position" in this management report, we have a very good liquidity and financing position, which ensures our corporate flexibility to implement LANXESS's 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. We plan total cash outflows for capital expenditures of around €450 million to €500 million in 2021. Up to the reporting date, orders totaling €157 million were issued for this purpose, which can be paid out of existing liquidity.

Financing measures

LANXESS is in a good position due to the long-term nature of its financing. A €500 million bond will mature in October of fiscal year 2021. Before the bond matures, we will look at the forecast financial and liquidity position and the capital market environment in order to decide whether to repay or refinance the bond. We have no other significant maturities of financial liabilities. We will continue our efforts aimed at securing long-term funding as part of a conservative financing policy.

Expected earnings position of LANXESS AG

In fiscal year 2021, we expect the annual financial statements of LANXESS AG to show a substantially improved net result against the previous year. The net result of the reporting period was significantly influenced by the effects of the coronavirus pandemic. Other than by the administration expenses the company incurs in performing its tasks as a management holding company, net income is essentially impacted by the financial result, especially the net interest position and the balance of income and losses from investments in affiliated companies. The balance of income and losses from investments in affiliated companies and the corresponding ability of LANXESS AG to pay a dividend will significantly depend 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 has been pursuing a consistent dividend policy for years. Our goal remains to increase the dividend each year or at least to keep it at a stable level. At the Annual Stockholders' Meeting on May 19, 2021, the Board of Management and Supervisory Board will propose a dividend of €1.00 per share for fiscal year 2020.

Summary of the Group's projected performance

We expect our business to improve significantly in the current year.

We will be continuing the strategic realignment of the Group in 2021 with the aim of achieving a more stable and less cyclical business profile. LANXESS will continue to work on optimizing its production platform and, as announced, pursue active portfolio management as well as projects geared toward organic growth.

Due to the geopolitical situation, however, we must continue to take uncertainties for global economic development into account. The further course of the coronavirus pandemic also continues to represent a large uncertainty factor for our business.

OPPORTUNITY AND RISK REPORT

Opportunity and risk management system

Our success is significantly dependent on identifying opportunities and risks in our business activities and actively managing them. The goal of the management system is to safeguard the company's existence for the long term and ensure its successful ongoing development by identifying opportunities and risks at an early stage and, depending on their nature, appropriately considering these in strategic and operational decisions. Opportunities and risks are understood as possible future developments or events that may result in either positive or negative deviations from forecasts or business objectives.

Our management system is based both on internal organizational workflows that are managed by way of control and monitoring mechanisms and on early warning systems that are used to closely observe changes in external conditions and systematically implement the appropriate measures. This approach applies equally to opportunities and risks.

Like all methods intended for dealing with business risk, this system does not offer absolute protection. However, it is intended to prevent business risks from having a material impact on the company with a sufficient degree of certainty.

Structural basis

The principles of our opportunity and risk management system are set forth in a Group directive. The management system, which uses the COSO model as the enterprise risk management framework, comprises many different elements that are incorporated into business processes via the company's organizational structure, workflows, planning, reporting, communication systems, as well as a set of detailed management policies and technical standards.

The system is based on an integration concept. In other words, the early identification of opportunities and risks is an integral part of the management system and not the object of a separate organizational structure. The management of opportunities and risks is therefore a primary duty of the heads of all business units, as well as of those people in Group companies who hold process and project responsibility. This is why our opportunity and risk management is based on clearly defined business processes, the precise assignment of responsibilities, and reporting systems that ensure the timely provision of the information required for decision-making for the Board of Management and subordinate management levels.

Roles of key organizational units

Our business units conduct their own operations, for which they have global profit responsibility. Group functions and service companies support the business units by providing financial, legal, technical and other centralized services. Complementing this global alignment of the business units and Group functions, the country organizations ensure the required proximity to markets and the necessary organizational infrastructure.

In line with this division of duties, we have assigned responsibility to risk owners for the following:

- Identification and assessment of opportunities and risks
- Implementation of control measures (measures taken to exploit or enhance opportunities and to avoid or minimize risks)
- Monitoring the development of opportunities and risks (e.g. on the basis of performance indicators and, perhaps also, early warning indicators)
- Communication of the key opportunities and risks to the management committees of the business units and Group functions.

The Corporate Risk Committee, commissioned by the Board of Management and headed by the Chief Financial Officer, is responsible for the structure and implementation of the Group-wide risk management process. It is made up of representatives of selected Group functions and analyzes the principal opportunities and risks and their development from the viewpoint of the entire company. It examines existing measures to counter risks, initiates additional measures as required and instigates further analyses of individual opportunities and risks if necessary.

The Corporate Controlling Group function coordinates the Group-wide risk management process for the Corporate Risk Committee and appoints a Group Risk Management Coordinator for this purpose. This coordinator is responsible for collecting and aggregating key opportunity and risk information across the Group. The short-, medium- and long-term opportunities and risks are identified twice a year in the context of the intra-year forecasting process and the budget and planning process.

The Corporate Development Group function helps with the analysis and evaluation of systematically important and strategic opportunities and risks.

The Corporate Risk Committee has subcommittees made up of representatives of the business units and Group functions that deal with specific risk areas in order to enable a fast and flexible response to changing situations and their impacts. Accordingly, for example, the Financial Risk Committee, headed by the Chief Finance Officer and made up of representatives of the Treasury & Investor Relations Group function, manages transactions centrally, particularly for the transfer of financial but also operating risk (hedging transactions or insurance).

The duty to report opportunities and risks to the Corporate Controlling Group function is based on the anticipated impact on Group net income or EBITDA pre exceptionals. All opportunities and risks must be reported if their anticipated impact is more than €1 million following the implementation of measures. In addition, those risks must be reported which have an anticipated impact that was reduced by more than €10 million through the implementation of measures. These minimum thresholds guarantee that the information gathered about opportunities and risks is comprehensive and that the collection of information is not just limited to material risks or risks that could jeopardize the future of the company as a going concern. Only then, the Corporate Controlling Group function centrally determines the top opportunities and risks.

There is also provision for immediate internal reporting on specific risk issues such as unexpected operational events with an impact of more than €5 million after the implementation of countermeasures.

The reported opportunities and risks are managed by means of risk management software and regularly analyzed for the Corporate Risk Committee, the Board of Management and the Supervisory Board. This ensures that when new opportunities and risks arise or when existing ones change substantially, the necessary information can be communicated promptly to the Board of Management and therefore also be specifically integrated into the general management of the company.

Opportunity and risk assessment

Opportunity and risk management is integrated into the planning and forecasting process and identifies opportunities and risks as potential deviations from planned or forecast EBITDA pre exceptionals or Group net income.

Depending on the type of opportunity or risk, different calculation methods are applied in their assessment. Distribution opportunities and risks are identified on the basis of sensitivities in planning parameters (exchange rates, raw material prices and energy prices). Changes in these variables may result in either positive or negative deviations from planned or forecast figures.

Event-based opportunities and risks (such as the failure of a supplier or the occurrence of an insured event) that would only impact earnings if they actually occurred are evaluated on the basis of the expected probability of their occurrence and effect on EBITDA pre exceptionals or Group net income.

Significance of the Group-wide planning process

Corporate planning is a core element of our opportunity and risk management. Events with a high probability of occurrence flow directly into the planning process. The processes for corporate planning and intra-year 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, regional Compliance Officers, and a network of local Compliance Officers in the countries in which we have subsidiaries. The objective of the CMS is to ensure the observance of our compliance principles. The Compliance function, which includes the global compliance organization, reports directly and regularly to the Board of Management.

(Group) Accounting aspects of the internal control and risk management system

The aspects of the internal control and risk management system relating to the (Group) accounting process include the principles, procedures and measures required to ensure the effectiveness, efficiency and propriety of the company’s accounting, and compliance with applicable legal regulations. To this end, clear organizational, control and monitoring structures have been established. The distinctive features of the chemical industry and the risk management tools we regularly use in this regard are taken into account. In addition to the (Group) accounting process in its narrower sense, this also includes the aforementioned structured budget and forecasting process, and extensive contract management. However, the effectiveness and reliability of the internal control and risk management system can be restricted by discretionary decisions, criminal acts, faulty controls or other circumstances. Thus, even if the system components used are applied Group-wide, the correct and timely recording of (Group) accounting issues cannot be guaranteed with full assurance.

The Accounting Group function, which reports to the Chief Financial Officer, is responsible for the (Group) accounting process and therefore for preparing the annual financial statements of LANXESS AG and the consolidated financial statements of the LANXESS Group. It is also responsible for ensuring the uniform preparation of the financial statements of the subsidiaries that are included in the consolidated financial statements. The Board of Management prepares the annual financial statements and the consolidated financial statements, which are then forwarded to the Supervisory Board's Audit Committee without delay. Upon recommendation by the Audit Committee, the annual financial statements and the consolidated financial statements are adopted and approved by the Supervisory Board at its financial statements meeting. The Supervisory Board, and especially its Audit Committee, deal with major questions relating to LANXESS's accounting, opportunity and risk management, the audit mandate and the areas of focus for the auditor's audit of the annual financial statements.

Quarterly statements are prepared for the first and third quarters. The condensed consolidated interim financial statements as of June 30 that are also prepared are reviewed, while the annual financial statements and the consolidated financial statements are subjected to a full audit by the auditor of the company's annual financial statements and consolidated financial statements.

Our accounting in compliance with the German Commercial Code is based on a structured process with appropriate organizational structures and workflows, including the related working instructions. In addition to the segregation of duties, the dual-control principle and continual plausibility testing serve as fundamental monitoring tools during the financial statement preparation process. On the IT side, the accounting process is supplemented by an integrated IT system that is based largely on off-the-shelf software and is protected by security measures against unauthorized access. The correctness of the automatically generated postings and the master data required for them is regularly reviewed. Manual postings are based on a systematic voucher system, documented to the necessary extent and verified downstream.

The foundation for uniform and IFRS-compliant consolidated financial reporting at LANXESS is the Group Financial Statements Guideline. This governs the way the provisions of the International Financial Reporting Standards (IFRS) applicable to the Group are applied by the subsidiaries as reporting entities. Moreover, the guideline also defines the chart of accounts that is binding throughout the Group. On the IT side, the guideline is supplemented by a uniform, Group-wide delivery and consolidation system that is based largely on off-the-shelf software and is protected by security measures against unauthorized access.

By controlling and monitoring LANXESS's (Group) accounting process, we ensure that generally accepted accounting practices in line with the applicable laws and standards are applied and guarantee reliable financial reporting. The (Group) accounting-related internal control system we use is based on generally accepted standards (COSO model). There were no material changes to this system during the reporting period. Corresponding standards also apply to the single-entity financial statements of the subsidiaries.

Preparation of the consolidated financial statements is based on a detailed process that includes specifying a financial statement calendar containing deadlines for the delivery of certain data. A further component is regular reviews of the correctness and completeness of the scope of consolidation. The principle of the segregation of duties as expressed in structured authorization and approval procedures and the dual-control principle as well as continual plausibility testing on data is applied end-to-end throughout the preparation and consolidation process.

For the consolidated financial statements, all subsidiaries subject to reporting requirements transmit their Group reporting data using the above-mentioned consolidation system. Validation rules integrated into the system ensure on delivery that the data reported by the subsidiaries are consistent. The accounting departments of the subsidiaries are responsible for ensuring the correctness of the reported data content, which is also tested by the Corporate Accounting Department within the Accounting Group function. To this end, the department evaluates standardized reports in which the companies explain material facts relevant to financial reporting. After the process-based controls have been applied, consolidation including currency translation is carried out in the same system, without additional interfaces, utilizing both automated and manual procedures. The correctness of the automated consolidation steps and of the master data necessary for this purpose is reviewed regularly. Consolidation information that must be entered manually is posted separately, documented to the extent required and verified downstream. This is supplemented by validation rules that are integrated into the system.

Regular coordination with other financial Group functions, particularly the Corporate Controlling, Global Business Services, Tax & Trade Compliance and Treasury & Investor Relations 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 systems. 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 eight groups below:

Categories
Procurement markets
Human resources
Production and technology
Safety and the environment
IT and security
Sales market
Finance
Legal and country-specific environment and compliance

Subsequent reporting in respect of the main ***categories*** is generally based on a planning horizon of one year.

Procurement markets

On the procurement side, the principal opportunities and risks lie in the high volatility of raw material and energy prices. An increase or decrease in the price of the materials we use directly results in higher or lower production costs. If prices decrease, write-downs may have to be recognized on inventories. In addition, changes in raw material prices result in higher or lower selling prices – either immediately or after a delay. We mitigate situations like this by following a sensible inventory and procurement policy. Most of the company's raw material and energy needs are met by long-term supply contracts and contracts containing price escalation clauses. On the selling side, equivalent agreements are in place. We also have the option of hedging this risk via derivatives transactions if liquid futures markets are available for hedging raw material and energy price risks. Further information can be found in the "Finance" section of this opportunity and risk report. Additionally, we are constantly looking for ways to use our resources more efficiently so that we can offset higher costs by raising productivity. Unfulfilled acceptance obligations may result in unscheduled costs due to fines. To guard against possible supply bottlenecks due to factors such as the ***failure of a supplier*** or of an upstream operation at a networked site, we pursue an appropriate inventory strategy and line up alternative sources of supply. Failures can be caused by factors such as inadequate maintenance or insolvencies at the supplier end. We endeavor to avoid supply bottlenecks or reliance on individual suppliers using strategies like multiple sourcing. If we were to be forced to utilize alternative sources of supply in the context of contingency plans, this could result in, for example, higher procurement prices or additional transportation costs.

Logistics, both of the goods and services that we purchase and of those that we provide or render, is subject to increasing complexity. We counter these challenges with the coordinated management of our supply processes and can thus minimize the risk of unplanned production downtime. Furthermore, the *quality* of the supplied raw materials constitutes a risk factor that may negatively affect the quality of our products. Detailed product specifications issued by us define the properties to be fulfilled by suppliers. They are checked via ongoing goods-in analyses.

Human resources

We see a significant opportunity in the LANXESS corporate culture, which is based on shared values. We actively cultivate this culture and are constantly refining it with a wide range of measures, such as the annual Performance Culture Day. We promote an appreciative, vibrant and open corporate culture, which is distinguished among other things by good leadership, prospects for personal development, flexible working, and clear values and principles. We are convinced that our measures to promote the corporate culture result in increased employee engagement, and thus stronger company performance, successful change, a strong employer brand and ultimately long-term corporate success.

We see another opportunity in the successful implementation of the HR transformation project launched in 2017. In the future, we will be able to provide more targeted support for our corporate strategy and respond to HR trends more quickly and effectively by realigning our global HR organization and launching state-of-the-art products and solutions in HR. Global, user-friendly systems and standardized, digitalized and transparent processes improve quality, service and customer orientation and ultimately increase our competitiveness.

Changes always entail the risk of demotivating employees and reducing their performance. This can be significant if employees do not feel sufficiently involved in decision-making processes or do not understand new processes and practices. Thanks to a targeted change management strategy, we counter this risk by communicating next steps and forthcoming measures as clearly and early as possible. This is supplemented by extensive training measures, such as in management or using new system solutions.

The risk of walkouts in connection with negotiations concerning future collective pay agreements or associated with restructuring measures cannot be ruled out. We also face increases in our *personnel expenses* because of future wage increases. Such an increase in the cost of human resources can be detrimental to earnings. We counter this risk by fostering open communication with our employees and their representatives in a culture of active labor relations. Particularly with regard to the challenges in the working world from globalization and increasing digitalization, we make continuous use of existing dialog platforms such as the European Forum, which brings together the works councils in Europe. We also actively seek dialog with the representatives of our employees, the trade unions and other interest groups in the other regions in which we operate, particularly concerning the acquisition and integration of companies. We use legally sound and proven employment contracts and ensure legally secure collective agreements. When making acquisitions, we give high priority to professional project management, which encompasses detailed communication with employees, fair consolidation processes and appropriate severance packages. In the event of potential legal action, the HR department monitors the situation very closely in coordination with the Legal and Communication departments to enable appropriate measures to be taken at an early stage. With the above measures relating to the corporate culture and attractive offers as an employer, we promote a respectful relationship between managers and (former) employees and thus try to avert the risk of walkouts or lawsuits.

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. To mitigate the risk of a manpower shortage on the one hand and a loss of knowledge on the other hand, we help our employees to find an improved work-life balance as well as offer attractive remuneration models, challenging tasks and international career opportunities. In addition, we deal with structured succession planning at annual HR development conferences. With our global, cross-divisional and cross-hierarchical talent programs, we retain particularly high-performing employees within our company and can identify suitable successors for key positions at an early stage.

We are increasingly seeing the risk of a shortage of skilled workers in various fields. We are countering this risk by strengthening our recruitment organization, standardizing sourcing processes and investing in an attractive employer brand. We position our company as an attractive employer and seek early contact with highly talented young people at many events and conferences around the world, and increasingly on social media. We cooperate closely with research institutes, universities, high schools and public institutions. We provide students in Germany, where we have the largest headcount, with both financial and expert support with the Germany scholarship. Our intern loyalty program also enables us to stay in close contact with interns who have done particularly excellent work. In addition, regular HR development conferences help us to hone in-house skills. In addition, we continue to invest in the next generation of employees, either with a considerable number of training opportunities in various areas in Germany or through internship programs or our corporate trainee program, which is well established in terms of fostering upcoming management talents.

In terms of demographic change and the associated aging of the population, along with a shortage of qualified specialist employees, there is also the risk of health-related absence, outdated knowledge or loss of knowledge, and declining attractiveness as an employer. In order to counter the challenges of demographic change in a structured way, we set up an extensive demographic program back in 2011. A whole host of initiatives have been initiated and implemented since the program was launched. In Germany, for example, around 110 demography positions (e.g. for chemical production technicians and engineers) have been created, additional training courses have been developed, workplace reintegration programs have been stepped up (reintegration after illness), workplace healthcare offerings have been expanded (for example, through the introduction of a digital health platform), and working has been made more flexible. Our strategic HR planning process also enables us to identify staff shortages at an early stage and instigate appropriate measures. In addition, we have been investing in our own apprenticeship and management trainee programs for years in order to cover our requirements for specialist staff chiefly from our own ranks in the future. In the context of knowledge management, we are also stepping up our efforts for successful knowledge transfer and to keep crucial know-how within the company.

We see an opportunity in our increasing engagement in the field of diversity & inclusion (D&I). We assume that this will have a positive influence both on our innovation and earnings potential and on our attractiveness as an employer. Numerous studies point to the positive effects of a diverse, inclusive corporate culture. We also see D&I as the key to an expanded talent pool. Investment in D&I therefore also enables us to counter the above risks.

We also see an opportunity in our “Xwork-Flexible Work” program. With this program, we promote flexible working and working-time models around the world in line with our operational requirements. We are continuously updating our existing offerings and communicating them locally in order to meet the operational and personal needs of employees in the respective countries. In the global implementation of the program, which launched in 2019 and also has a clear target, we see an opportunity for our attractiveness as an employer and thus for talent acquisition and retention and for the satisfaction and engagement of our employees.

Finally, we also see an opportunity in our current efforts with regard to knowledge transfer and knowledge management in production. In the reporting year, we worked hard to improve knowledge transfer at the production plants and to increase the digitalization of workflows. We aim to ensure that valuable know-how is retained within the company despite personnel changes driven by demographics. At the same time, we want to develop continuous digital knowledge management that offers a stable foundation for secure and profitable production in the long term.

Production and technology

A lack of plant availability due to disruptions can make it impossible for us to meet production targets and adequately service demand, resulting in a loss of marginal income. We use a comprehensive range of measures to counter this scenario. These include proactive facility maintenance, systematic training of our employees and regular audits to analyze weak points. Systematic safety appraisals and risk assessments also contribute to improving plant and process safety. Implementation and application of the various measures are subject to global compliance checks. We also counter the risk of production stoppages by manufacturing certain products at various sites worldwide.

Unlocking and exploiting operational opportunities is an important aspect of our entrepreneurial activities. We are committed to using existing products and new solutions to advance our growth and sustainably strengthen our position in global markets. *Investing* in new plants as well as expanding the capacities and increasing the productivity of existing ones are key elements in these efforts. The anticipated effects are taken into account in our planning or are reported as opportunities. In principle, we expect investments to yield benefits, but they are also coupled with risks. For example, the success of our investments in Asia depends on trade relations between the U.S. and China. 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. These targeted investments may also generate further operational opportunities because they enable us to unlock new potential and improve our positioning in key markets.

Safety and the environment

Although LANXESS applies high technical and safety standards to the construction, operation and maintenance of production facilities, *interruptions in operations* – including those due to external factors such as natural disasters or terrorism – cannot be ruled out entirely. These could lead to fires and 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. In addition, risk engineering professionals commissioned by the insurance companies perform regular inspections of our sites.

Our product portfolio includes substances that are classified as hazardous to health. To prevent possible *harm to health*, we systematically test the properties of our products and draw our customers' attention to the risks associated with their use in the context of our Responsible Care® activities. We also carry product liability insurance that is customary in our industry.

In line with our forward-looking approach, product monitoring enables us to identify and evaluate potential hazards associated with our product portfolio and initiate suitable measures if applicable.

Regulatory measures may lead to the tightening of safety, quality and environmental regulations and standards in different areas. These may result in higher costs, production bans and liability risks. Particularly noteworthy in this regard is compliance with 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 on the part of 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 (EEG) could result in higher costs and in part substantial disadvantages in international competition. These also include the retrospective review, initiated by the transmission system operator in connection with the EEG and continuing for over a year, of the generation capacity that LANXESS has used for many years to generate its own electricity in power plants at sites in the Lower Rhine region and in Duisburg. 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 150 years. This responsibility also extends to waste disposal facilities. The possibility cannot be ruled out that ground pollution occurred during these periods that has not been identified to date. We are committed to the Responsible Care® initiative and pursue active environmental management and proactive environmental protection management. This includes constant monitoring and testing of the soil, groundwater and air as well as of various emissions. We have set up sufficient provisions for necessary containment or remediation measures in areas with identified contamination. Additional information on our environmental provisions can be found in Note [15] "Other non-current and current provisions," to the consolidated financial statements.

In LANXESS risk management, pandemic risks are allocated to safety and environmental risks. Since the coronavirus pandemic started in 2020, pandemic risks have for the first time resulted in significant opportunities and risks for the company and are managed via the activation of appropriate contingency plans and countermeasures. The opportunities and risks due to coronavirus have a complex relationship with internal and external factors across international sites, raw material markets and end markets. They include health risks for our employees and service providers, the availability of human resources, government restrictions on the movement of people and business activities, effects on upstream and downstream value chains, effects on critical site services at our sites, and direct and indirect effects on end markets. The health of our employees and service providers and the safe operation of our plants remain the top priority under pandemic conditions. In close cooperation with the Board of Management, the crisis management is coordinated by a central crisis team and, together with the respective functional areas and country organizations, secured via continuous reassessment of the relevant pandemic situation, the potential scenarios for future development and the implementation of specific countermeasures. Countermeasures include, for example, mandatory rules of conduct for employees and service providers at LANXESS sites, preventive and emergency scenarios in the production shift systems, remote working, technical solutions and tools for the reduction of infection and quarantine risks, and close coordination with authorities, site service providers and other business-critical parties in the pandemic context.

IT and security

Our IT systems are part of the value chain and support our global business activities with standardized processes. We aim to provide efficient, stable and scalable IT services on the basis of standardized processes. We support this by developing a uniform, integrated system architecture and investing in the expansion and modernization of our 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 services resulting from outside attack (cyber risks). All these can cause serious business interruptions and reputational damage, which is why we invest in 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. To improve the security of the IT services, our security measures are subject to regular checks and evaluations. To support this, LANXESS has established a Chief Information Security Officer (CISO) function. The CISO's task is to protect our company's data and information in cooperation with IT. To this end, approaches are developed and implemented in order to upgrade the security of our IT services. To protect against cyber risks, LANXESS has also concluded a cyber insurance policy. We regularly train the users of our IT systems on IT risks, appropriate conduct and preventive measures. We conduct security campaigns to raise awareness of current issues surrounding IT security.

Sales market

Our company is inherently exposed to general ***economic developments*** and to political, geopolitical and pandemic-driven changes in the countries and regions in which we operate. We see the unchanged global tendency toward protectionist measures, which would also impact the chemical industry in particular, as a medium-term risk to growth and stability. The value chains in the chemical industry are highly interconnected and on a global scale. Increased protectionism would have a negative impact on growth. Regional differences in economic performance and the associated demand trends can affect the Group's pricing and sales potential in its various geographical markets, with corresponding positive or negative effects on its earnings. Our global presence, which we are continuing to expand in growth markets, enables us to participate in favorable regional developments and, at the same time, reduce our dependence on certain regions. This approach is discussed in further detail in the "Strategy" section of this management report.

The volatility and cyclicality that are typical of the global chemical and polymer markets and their dependence on developments in customer industries harbor uncertainties for our business. Additional and unplanned sales opportunities may arise through access to new markets or the acquisition of new ***customers***. For example, we expect our Engineering Materials segment to benefit from increasing demand for electric vehicles in the long term. In addition to being subject to these demand-side market influences, our earning power can be impacted by structural changes in markets, such as the exit of existing ***competitors*** or the entry of new ones and the availability of additional capacity, regional shifts, the migration of customers to countries with lower costs, and product substitution or market consolidation trends in some sectors. Specific examples of such developments remain the environment-driven consolidation of the Chinese chemical industry and the exodus of chemical production from China to Southeast Asia (e.g. Vietnam) as a result of the trade war with the U.S. We counter these trends by consistently managing costs, systematically monitoring the market and the competition, and continuously adjusting our product portfolio accordingly, sharpening its focus and aligning our offering with innovative customer segments, which will enable us to operate successfully in the long term.

Finance

Financial opportunities and risks are recorded and managed centrally. Chief among these are:

Financial Opportunities and Risks

Price changes	Liquidity and refinancing	Counter-party risks	Capital investments
Currencies	Availability of cash	Customers	Investments in pension assets
Interest rates	Access to multi- and bilateral capital markets	Banks	
Raw materials			
Energies			

At regular strategy meetings of the Financial Risk Committee chaired by the Chief Financial Officer, there are reports on the outcome of financial risk management, the current risk and further action. The aim of financial risk management is to identify and evaluate risks so that their impact can be controlled and, if necessary, limited.

Price changes

Currencies

Since the LANXESS Group undertakes transactions in various currencies, it is exposed to fluctuations in the relative value of these currencies. Associated risks are partly hedged insofar as they are cash-effective. Fixed exchange rates were used in our planning for fiscal year 2021. 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).

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. Such risks are always fully hedged. Likewise, currency risks arising from 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. We have already entered into hedging transactions for 2021 and 2022 to mitigate the effects of currency fluctuations.

Interest rates

Market interest rate movements can cause fluctuations in the fair value of a financial instrument. They affect both financial assets and financial liabilities.

Since the majority of financial liabilities were entered into at fixed interest rates, changes in interest rates in the coming years will have only a limited impact on the LANXESS Group.

In the context of long-term planning, LANXESS regularly decides on refinancing to cover the forecast liquidity requirement.

Raw materials/energy

In the course of its business operations, the LANXESS Group is exposed to changes in the market prices for energy and raw materials. As a rule, these changes are passed on to customers. Where certain market-price risks for energy and raw materials cannot be passed on to customers in their entirety, they may be hedged on a case-by-case basis by forward commodity contracts in order to reduce the volatility of cash flows. LANXESS had only a small number of forward commodity contracts as of the reporting date.

Liquidity and refinancing

We ensure our access to the capital markets and our solvency through a conservative financing policy and a target capital structure that is largely based on the ratio systems used by leading rating agencies. Our conservative financing policy takes into account the risk of a change to our rating and the associated effects on financial risk management, even though LANXESS has no direct influence on the assessments by independent rating agencies.

Our main liquidity reserve is a €1 billion syndicated credit facility, signed in December 2019, which remained undrawn on the reporting date. It has a term until December 2024 and two options for one-year extensions. The credit facility is tied to ESG ("environmental, social and governance") criteria. The interest rate terms depend in part on the successful reduction of Scope 1 greenhouse gas emissions and the increase in the proportion of women at the top three levels of management. In addition to credit facilities, the Group has short-term liquidity reserves of €271 million in the form of cash and cash equivalents. In addition to cash and cash equivalents, LANXESS holds near-cash assets of €1,523 million, which are invested in shares of money market funds that can be sold at any time. 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 Corporate Pension Committee, which is made up of the Chief Financial Officer, the Board of Management member responsible for human resources, and representatives from the Treasury & Investor Relations, Accounting and Human Resources Group functions.

Legal and country-specific environment and compliance
We actively pursue the strategic optimization of the enterprise. Our efforts include ongoing efficiency enhancement, optimization of opportunities and risks, strengthening of core businesses, active portfolio management and proactive participation in industry consolidation through partnerships, divestments and acquisitions. Further information can be found in the “Strategy” section of this management report.

The success of the decisions associated with these efforts is naturally subject to forecasting risk with respect to predicting future (market) developments and the feasibility of planned measures. For example, the entry into or exit from a business segment could be based on profitability or growth expectations that prove to be unrealistic over time. We mitigate this risk by carefully and systematically analyzing the information that is relevant to decision-making and regularly checking developments. During this process, the business units affected and the Board of Management receive support from departments with the requisite expertise and, if necessary, also from external consultants.

When information is gathered in the context of ***acquisitions***, it is possible that certain facts required to assess an acquisition candidate's future performance or to determine the purchase price are not available or are not correctly interpreted. We address this risk by conducting well-structured due diligence analyses and, where possible, by concluding appropriate residual risk-minimizing agreements with the sellers. Insufficient ***integration*** of acquired companies or businesses can result in the expected value added not being generated. For this reason, we have processes in place with which full integration of acquired businesses is assured. If assumptions concerning future developments – such as the realization of synergies – do not materialize, this might result in a write-down on assets. We monitor this risk by carrying out impairment testing at least once a year. The risk of the need to carry out impairment of assets is assigned to the finance group.

Companies in the LANXESS Group are subject to ***legal risks*** and are parties to various litigations. The outcome of individual proceedings cannot be predicted with assurance due to the uncertainties always associated with legal disputes. To the extent necessary in light of the known circumstances in each case, we have set up risk provisions for the event that the outcome of such proceedings is unfavorable to LANXESS. Taking into account existing provisions and insurance, as well as agreements reached with third parties in respect of liability risks arising from legal disputes, it is currently estimated that none of these proceedings will materially affect our planned EBITDA pre exceptionals.

As an approach to avoiding legal risks, LANXESS has established an extensive ***compliance*** management system (CMS) incorporating a range of preventive organizational measures. Among the material risks LANXESS has identified are those relating to antitrust legislation and plant safety/environmental protection. Within the framework of the CMS, these issues are assigned as specific responsibilities to different Group functions that have established relevant compliance programs. In connection with risks relating to antitrust legislation, for example, LANXESS has developed a program that combines classroom training and e-learning to ensure compliance with competition law. In this way, our employees and managers are schooled in the particular risks pertaining to their areas of business and made aware of their significance. This training is performed and documented at regular intervals. Our employees can also contact designated experts in the Legal & Compliance Group function if they have any specific questions. Further information can be found in the "Compliance as an integral component" section of this opportunity and risk report.

Any violations of foreign trade regulations may result in prohibitions and restrictions on LANXESS's export activities and the loss of its privileges with respect to 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.

After Great Britain's exit and shortly before the end of the transition period on December 31, 2020, the European Union and Great Britain agreed on a Brexit deal. This enables the regulation of large parts of the future cooperation.

Particularly noteworthy is the fact that a free trade agreement between the 27 EU member states and Great Britain was defined that allows duty-free goods movements without quantitative restrictions, provided they comply with the relevant rules of origin. The agreement reached reduces the previous risks for LANXESS on a lasting basis. Nevertheless, it must not be forgotten that the movement of goods between Great Britain and countries outside of the European Union, which were parties to free trade agreements with the European Union before Great Britain's departure, are now subject to taxation, as Great Britain has lost its right to participate in these free trade agreements as a result of Brexit.

The measures already taken steps with regard to the Regulation concerning the Registration, Evaluation, Authorization and Restriction of Chemicals (REACH) are proving to be correct and important for the future maintenance of our existing supply chains.

Thanks to our thorough preparation and the fact that only a small proportion of LANXESS's total sales are made in Great Britain, we are very confident that the effect of Great Britain's departure on our overall business performance will be barely noticeable.

Furthermore, we have investigated the impact of the ongoing ***trade conflict*** between China and the U.S. on LANXESS. The assessment found that only isolated products in our portfolio are affected, and that the flow of goods between China and the U.S. is only weak. For this reason, the direct consequences of the conflict are not expected to have a significantly negative impact on our operations.

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

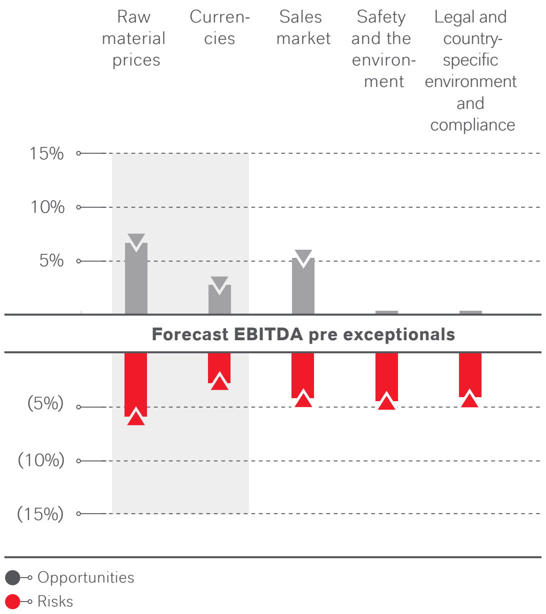
The opportunities and risks of future development that we identify are categorized and grouped, as described above. The significance of the opportunities and risks for the LANXESS Group lies in their potential impact on planned EBITDA pre exceptionals. Individual categories in which the opportunity or 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 raw material prices category and the sales market group were considered to be of medium to high significance. Based on the scenarios applied or the assumed probability of occurrence, this category and group could produce a positive or negative deviation of up to 7% from our projected EBITDA pre exceptionals, which is our key controlling parameter. The Advanced Intermediates segment is the main influence in each case.

Even though the currency category, the safety and environment group and the legal and country-specific environment and compliance group are of little importance to opportunity and risk reporting for 2021, possible positive and negative deviations from targets are also set out below for this category and these groups, which were significant in the past:

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.

Summary of overall opportunities and risks

A sharp decline in the world economy as a result of the coronavirus pandemic also left its mark on the markets of the chemical industry. The medium- and long-term consequences of the pandemic cannot currently be foreseen. The ongoing trade conflicts, protectionist developments in major economies and the global problems of our time – such as climate protection, scarcity of drinking water, and feeding a growing global population – also entail long-term risks and challenges. However, value-based, responsible and reliable action, combined with clear strategic guidelines, gives us the headroom we need to remain effective and competitive even in the evolving operating environment. In addition, this will allow us to leverage strategic and operational opportunities and to make maximum use of growth potential.

In recent years, we have made our portfolio much more balanced and resilient through both acquisitions in promising growth sectors and disposals of business units for which we no longer saw long-term development prospects at LANXESS. We will continue on this path in order to make LANXESS a more sustainable, profitable and growing specialty chemicals company. The now much more balanced structure of our customer markets has proven a stabilizing factor during the crisis. In fiscal year 2020, we continued to build on our position in the field of consumer protection products, especially in our business with biocidal active ingredients and formulations. This important strategic step strengthens our business with disinfectants and preservatives and is driving profitability and growth. We still have no substantial risk exposure thanks to our broadly diversified product and customer portfolios.

All planning is subject to a certain degree of forecasting risk, which could necessitate flexible adjustments to rapidly changing business conditions over the course of the year. This is particularly true in view of the fact that planning and forecasts in general are somewhat less reliable, for example due to the changes in our procurement and customer markets.

The economic ramifications of the coronavirus pandemic are an uncertainty factor.

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, we are confident of managing any 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, 2019	Dec. 31, 2020
ASSETS			
Intangible assets	(1)	1,765	1,647
Property, plant and equipment	(2)	2,724	2,674
Investments in other affiliated companies	(3)	1	2
Non-current derivative assets	(4)	1	4
Other non-current financial assets	(5)	29	41
Non-current income tax receivables	(6)	89	81
Deferred taxes	(29)	324	326
Other non-current assets	(7)	132	48
Non-current assets		**5,065**	**4,823**
Inventories	(8)	1,195	1,070
Trade receivables	(9)	769	745
Cash and cash equivalents		296	271
Near-cash assets	(10)	–	1,523
Current derivative assets	(4)	5	19
Other current financial assets	(5)	864	65
Current income tax receivables	(6)	110	101
Other current assets	(11)	186	145
Assets held for sale and discontinued operations	(12)	205	118
Current assets		**3,630**	**4,057**
Total assets		**8,695**	**8,880**

€ million	Note	Dec. 31, 2019	Dec. 31, 2020
EQUITY AND LIABILITIES			
Capital stock and capital reserves		1,317	1,317
Other reserves[1]		1,429	1,359
Net income		205	885
Other equity components		(282)	(560)
Equity attributable to non-controlling interests		(22)	(2)
Equity	(13)	**2,647**	**2,999**
Provisions for pensions and other post-employment benefits	(14)	1,178	1,205
Other non-current provisions	(15)	338	349
Non-current derivative liabilities	(4)	2	1
Other non-current financial liabilities	(16)	2,777	2,265
Non-current income tax liabilities	(17)	95	75
Other non-current liabilities	(18)	67	51
Deferred taxes	(29)	109	113
Non-current liabilities		**4,566**	**4,059**
Other current provisions	(15)	409	332
Trade payables	(19)	656	681
Current derivative liabilities	(4)	17	15
Other current financial liabilities	(16)	66	566
Current income tax liabilities	(17)	122	24
Other current liabilities	(18)	111	129
Liabilities directly related to assets held for sale and discontinued operations	(12)	101	75
Current liabilities		**1,482**	**1,822**
Total equity and liabilities		**8,695**	**8,880**

1) Also includes the reserve for own shares in the reporting period.

Income Statement
LANXESS Group

€ million	Note	2019	2020
Sales	(21)	**6,802**	**6,104**
Cost of sales	(22)	(5,043)	(4,548)
Gross profit		**1,759**	**1,556**
Selling expenses	(23)	(812)	(773)
Research and development expenses	(24)	(114)	(108)
General administration expenses	(25)	(274)	(267)
Other operating income	(26)	95	77
Other operating expenses	(27)	(247)	(232)
Operating result (EBIT)		**407**	**253**
Interest income		22	10
Interest expense		(76)	(66)
Other financial income and expense		(7)	877
Financial result	(28)	**(61)**	**821**
Income before income taxes		**346**	**1,074**
Income taxes	(29)	(105)	(165)
Income after income taxes from continuing operations		**241**	**909**
Income after income taxes from discontinued operations		**(50)**	**(7)**
Income after income taxes		**191**	**902**
of which attributable to non-controlling interests		(14)	17
of which attributable to LANXESS AG stockholders (net income)		205	885
Earnings per share (basic/diluted) (€)	(30)		
from continuing operations		2.72	10.49
from discontinued operations		(0.40)	(0.27)
from continuing and discontinued operations		**2.32**	**10.22**

Statement of Comprehensive Income
LANXESS Group

€ million	2019	2020
Income after income taxes	**191**	**902**
Items that will not be reclassified subsequently to profit or loss		
Remeasurements of the net defined benefit liability for post-employment benefit plans	(128)	(208)
Income taxes	14	54
	(114)	**(154)**
Items that may be reclassified subsequently to profit or loss if specific conditions are met		
Exchange differences on translation of operations outside the eurozone	70	(292)
Financial instruments fair value measurement	(1)	21
Financial instruments cost of hedging	11	(1)
Income taxes	(4)	(5)
	76	**(277)**
Other comprehensive income, net of income tax	**(38)**	**(431)**
Total comprehensive income	**153**	**471**
of which attributable to non-controlling interests	(15)	20
of which attributable to LANXESS AG stockholders	168	451
from continuing operations	204	449
from discontinued operations	(36)	2

Statement of Changes in Equity
LANXESS Group

€ million	Capital stock	Capital reserves	Other reserves	Net income (loss)	Other equity components			Equity attributable to LANXESS AG stockholders	Equity attributable to non-controlling interests	Equity
					Currency translation adjustment	Financial instruments				
						Fair value measurement	Cost of hedging			
Dec. 31, 2018	**91**	**1,226**	**1,391**	**431**	**(345)**	**(8)**	**(6)**	**2,780**	**(7)**	**2,773**
Allocations to retained earnings			431	(431)				0		0
Acquisition and withdrawal of own shares	(4)	4	(200)					(200)		(200)
Dividend payments			(79)					(79)	0	(79)
Total comprehensive income			(114)	205	71	(1)	7	168	(15)	153
Income after income taxes				*205*				*205*	*(14)*	*191*
Other comprehensive income, net of income tax			*(114)*		*71*	*(1)*	*7*	*(37)*	*(1)*	*(38)*
Remeasurements of the net defined benefit liability for post-employment benefit plans			*(128)*					*(128)*		*(128)*
Exchange differences on translation of operations outside the eurozone					*71*			*71*	*(1)*	*70*
Financial instruments						*(1)*	*11*	*10*		*10*
Income taxes on other comprehensive income			*14*			*0*	*(4)*	*10*		*10*
Dec. 31, 2019	**87**	**1,230**	**1,429**	**205**	**(274)**	**(9)**	**1**	**2,669**	**(22)**	**2,647**
Allocations to retained earnings			205	(205)				0		0
Acquisition of own shares			(37)					(37)		(37)
Dividend payments			(82)					(82)	0	(82)
Total comprehensive income			(154)	885	(295)	16	(1)	451	20	471
Income after income taxes				*885*				*885*	*17*	*902*
Other comprehensive income, net of income tax			*(154)*		*(295)*	*16*	*(1)*	*(434)*	*3*	*(431)*
Remeasurements of the net defined benefit liability for post-employment benefit plans			*(208)*					*(208)*		*(208)*
Exchange differences on translation of operations outside the eurozone					*(295)*			*(295)*	*3*	*(292)*
Financial instruments						*21*	*(1)*	*20*		*20*
Income taxes on other comprehensive income			*54*			*(5)*	*0*	*49*		*49*
Other changes			(2)			2		0		0
Dec. 31, 2020	**87**	**1,230**	**1,359**	**885**	**(569)**	**9**	**0**	**3,001**	**(2)**	**2,999**

Statement of Cash Flows
LANXESS Group

€ million	Note	2019	2020
Income before income taxes		**346**	**1,074**
Amortization, depreciation, write-downs and reversals of impairment charges of intangible assets, property, plant and equipment		503	504
Gains on disposals of intangible assets and property, plant and equipment		(1)	(1)
Financial losses (gains)		34	(840)
Income taxes paid		(193)	(215)
Changes in inventories		85	73
Changes in trade receivables		94	(8)
Changes in trade payables		(111)	41
Changes in other assets and liabilities		(123)	(34)
Net cash provided by operating activities – continuing operations	(38)	**634**	**594**
Net cash (used in) provided by operating activities – discontinued operations		**9**	**(9)**
Net cash provided by operating activities – total		**643**	**585**
Cash outflows for purchases of intangible assets and property, plant and equipment		(508)	(456)
Cash inflows from sales of intangible assets and property, plant and equipment		6	4
Cash outflows for financial and other assets held for investment purposes		(323)	(1,793)
Cash inflows from financial and other assets held for investment purposes		82	1,044
Cash outflows for the acquisition/sale of subsidiaries and other businesses, less acquired cash and cash equivalents		–	(25)
Cash inflows from the sale of subsidiaries and other businesses, less acquired cash and cash equivalents		20	821
Interest and dividends received		26	155
Cash outflows for external funding of pension obligations (CTAs)		–	(100)
Net cash used in investing activities – continuing operations	(38)	**(697)**	**(350)**
Net cash used in investing activities – discontinued operations		**(15)**	**(3)**
Net cash used in investing activities – total		**(712)**	**(353)**
Proceeds from borrowings		4	1,000
Repayments of borrowings		(90)	(1,048)
Interest paid and other financial disbursements		(66)	(79)
Dividend payments		(79)	(82)
Cash outflows for the acquisition of own shares		(200)	(37)
Net cash used in financing activities – continuing operations	(38)	**(431)**	**(246)**
Net cash used in financing activities – discontinued operations		**(2)**	**(1)**
Net cash used in financing activities – total		**(433)**	**(247)**
Change in cash and cash equivalents – continuing operations		**(494)**	**(2)**
Change in cash and cash equivalents – discontinued operations		**(8)**	**(13)**
Change in cash and cash equivalents – total		**(502)**	**(15)**
Cash and cash equivalents as of January 1		797	296
Exchange differences and other changes in cash and cash equivalents – total		1	(10)
Cash and cash equivalents as of December 31	(38)	**296**	**271**
of which continuing operations		296	271
of which discontinued operations		0	0

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/Main, have issued unqualified auditor's reports, are published electronically in the German Federal Gazette (Bundesanzeiger).

The consolidated financial statements of the LANXESS Group for fiscal year 2020 were prepared by the Board of Management of LANXESS AG and authorized for submission to the Supervisory Board on February 23, 2021. 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 euro (€). Amounts are stated in millions of euro (€ 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 the 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 and explained separately 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, 2020, were prepared in accordance with the International Financial Reporting Standards (IFRS) as endorsed by the European Union (E.U.) and the corresponding interpretations, together with the additional requirements of Section 315e, Paragraph 1, of the German Commercial Code (HGB).

The mandatory first-time application of the following financial reporting standards in fiscal year 2020 currently has no impact, or no material impact, on the LANXESS Group:

Standard	
Conceptual Framework	Amendment to References to the Conceptual Framework in IFRS Standards
IAS 1/ IAS 8	Amendment to IAS 1 and IAS 8 – Definition of Material
IFRS 9/ IAS 39/ IFRS 7	Amendments to IFRS 9, IAS 39, IFRS 7 – Interest Rate Benchmark Reform
IFRS 3	Amendments to IFRS 3 – Definition of a Business

FINANCIAL REPORTING STANDARDS ISSUED BUT NOT YET MANDATORY

In fiscal year 2020, the International Accounting Standards Board (IASB) issued financial reporting standards 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.

The following financial reporting standards currently have no impact, or no material impact, on the LANXESS Group:

Standard		Date of publication	Mandatory for LANXESS as of fiscal year	Endorsed by the E.U.
IFRS 17	Insurance Contracts	May 18, 2017	2023	No
IAS 1	Amendments to IAS 1 – Classification of Liabilities as Current or Non-Current	Jan. 23, 2020	2023	No
IFRS 3	Amendments to IFRS 3 – Reference to the Conceptual Framework	May 14, 2020	2022	No
IAS 16	Amendments to IAS 16 – Proceeds before Intended Use	May 14, 2020	2022	No
IAS 37	Amendments to IAS 37 – Onerous Contracts — Cost of Fulfilling a Contract	May 14, 2020	2022	No
Various IAS and IFRS	Annual Improvements to International Financial Reporting Standards (2018–2020 Cycle)	May 14, 2020	2022	No
IFRS 16	Amendments to IFRS 16 – Covid-19-Related Rent Concessions	May 28, 2020	2021	Yes
IFRS 4	Insurance Contracts – Extension of the Temporary Exemption from Applying IFRS 9	June 25, 2020	2021	Yes
IFRS 9/IAS 39/ IFRS 7/IFRS 4/ IFRS 16	Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Interest Rate Benchmark Reform – Phase 2	Aug. 27, 2020	2021	Yes
IAS 1	Amendments to IAS 1 – Disclosure of Accounting Policies	Feb. 12, 2021	2023	No
IAS 8	Amendments to IAS 8 – Definition of Accounting Estimates	Feb. 12, 2021	2023	No

CONSOLIDATION

The financial statements of the consolidated companies were prepared using uniform accounting policies and valuation principles.

If the reporting year of a consolidated company does not end on December 31, interim financial statements are prepared for the purpose of consolidation.

Intra-Group profits or losses, sales, income and expenses as well as receivables and payables between consolidated companies are eliminated.

Scope of consolidation

The consolidated financial statements of the LANXESS Group include LANXESS AG and all subsidiaries under the control of LANXESS AG. Control exists if LANXESS AG is exposed to variable returns from the relationship with a company and has power over the company. Power means that LANXESS AG has existing rights that give it the current ability to direct the relevant activities of the company and thus exert a significant influence over the variable returns. The ability to control another company generally derives from direct or indirect ownership of a majority of the voting rights. In the case of structured entities, control normally derives from contractual agreements. A company is consolidated as of the date from which LANXESS AG is able to exercise control and deconsolidated when this is no longer the case.

Interests in associates in which the LANXESS Group exerts a significant influence, generally through an ownership interest between 20% and 50%, and interests in joint ventures are accounted for using the equity method. In the current fiscal year as in the previous year, no associates or joint ventures are accounted for using the equity method.

In the case of jointly controlled entities, the LANXESS Group usually holds 50% of the shares and exercises joint control. These are recognized in the consolidated financial statements as joint operations.

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 fair value.

Changes in the scope of consolidation are stated in under "Companies Consolidated," which also contains a list of companies.

Fully consolidated companies

Business combinations are accounted for using the acquisition method. The cost of a business combination is stated as the aggregate of the fair values, at the date of acquisition, of the assets transferred, liabilities incurred or assumed, and any equity instruments issued in exchange for control of the acquiree. It also contains the fair value of assets and liabilities resulting from contingent consideration contracts.

For the first-time consolidation, the assets, liabilities and contingent liabilities identified in the course of the acquisition are measured at fair value as of the acquisition date.

For each business combination, there is an option to include any shares not acquired either at their fair value or at the pro rata share of the fair value of the acquiree's net assets. They are reported in the statement of financial position as equity attributable to non-controlling interests.

Acquisition-related costs – except those incurred to issue debt or equity securities – are recognized in profit or loss.

Goodwill is measured as of the acquisition date as the excess of the consideration transferred, the amount of any non-controlling interests and the fair value of any previously held equity interest over the fair value of the net assets acquired. Negative goodwill is recognized in the income statement.

Investments accounted for using the equity method

The cost of acquisition of an entity accounted for using the equity method is adjusted annually by the percentage of any change in its equity corresponding to LANXESS's percentage interest in the entity. If any decline in value exceeds the carrying amount of the entity, write-downs are recognized on the associated non-current assets. If the carrying amount of the entity and the associated assets are reduced to zero, liabilities would be recognized if the owner has entered into a legal or substantive obligation, e.g. to offset pro rata losses, or has made payments for the entity.

Differences arising from the first-time accounting for investments using the equity method are determined according to the same principles as for consolidated subsidiaries. Any goodwill is included in the carrying amount of the entity.

Joint operations

Joint operations are arrangements in which the parties that exercise joint control have rights to the assets and obligations for the liabilities relating to the arrangement. LANXESS accounts for its share of the joint assets and joint liabilities of such joint operations and its share of the revenues and expenses, including its share of jointly incurred expenses.

Transactions with owners

Transactions with non-controlling interests, which do not result in a loss of control, are treated as transactions between shareholders of the LANXESS Group. Changes in ownership interests are accounted for by adjusting the carrying amounts of the controlling and non-controlling interests. Differences between the adjustment to the carrying amount of the non-controlling interests and the fair value of the consideration paid or received are recognized immediately in other reserves and thus assigned to the equity attributable to the stockholders of LANXESS AG.

CURRENCY TRANSLATION

In the financial statements of the individual consolidated companies that form the basis for the consolidated financial statements of the LANXESS Group, all foreign-currency assets and liabilities are translated at closing rates, irrespective of whether they are hedged. Forward contracts serving as economic hedges against fluctuations in exchange rates are carried at fair value. Exchange differences resulting from currency translation are reported 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 recognized 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 material, foreign currency transactions for which advance consideration has been paid or received are translated at the exchange rate of the advance consideration paid or received up to the amount of the advance consideration paid or received.

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

IAS 29 has been applicable to the subsidiary LANXESS S.A., Buenos Aires, Argentina, since fiscal year 2018. Non-monetary items in the statement of financial position, components of equity and items of the statement of comprehensive income are adjusted to the actual price level using the price index proposed by the Government Board of the Argentine Federation of Professional Councils of Economic Sciences (FACPCE) at the end of each reporting period, and subsequently translated at the closing rate at the end of the reporting period. The wholesale consumer price index (Indec IPIM) was used for inflation for fiscal years before December 31, 2016 and the retail consumer price index (IPC Nacional INDEC) was used from January 1, 2017. The price index was at 284.96 points at the start of the fiscal year and 385.88 points at the end of the fiscal year.

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

Exchange Rates

		Closing rate		Average rate	
1 euro		Dec. 31, 2019	Dec. 31, 2020	2019	2020
Argentina	ARS	67.26	103.26	53.95	80.95
Brazil	BRL	4.53	6.38	4.41	5.89
China	CNY	7.82	8.02	7.73	7.87
Great Britain	GBP	0.85	0.90	0.88	0.89
India	INR	80.19	89.66	78.83	84.62
Japan	JPY	121.94	126.49	122.05	121.81
Canada	CAD	1.46	1.56	1.49	1.53
Singapore	SGD	1.51	1.62	1.53	1.57
South Africa	ZAR	15.78	18.02	16.17	18.76
U.S.	USD	1.12	1.23	1.12	1.14

ACCOUNTING POLICIES AND VALUATION PRINCIPLES

The accounting policies and valuation principles are the same as those used in the previous fiscal year and have been consistently applied. However, certain changes have resulted from the mandatory first-time application in fiscal year 2020 of new or amended financial reporting standards and interpretations. These changes are explained under "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. Amortization of intangible assets other than goodwill is recognized on a straight-line basis over three to 20 years. Amortization in the reporting year is allocated to the respective functional areas. Any further decline in value is recognized by means of a write-down. Write-downs are reversed accordingly if the reasons no longer exist, provided that this does not cause the carrying amount of the assets to exceed either the amortized cost at which they would have been carried if they had not been written down or their current recoverable amount. The lower of these two amounts is recognized. Goodwill and intangible assets with indefinite useful lives are not amortized, but subject to an impairment test performed annually or more often if events or a change in circumstances indicate a possible impairment. Any impairment charges are recognized in other operating expenses. Impairment charges on goodwill are not reversed.

The costs incurred for in-house software development at the application development stage are capitalized. For development costs to be capitalized, it must be sufficiently certain that the development activity will generate future economic benefits which will also cover the associated development costs. These costs are amortized over the expected useful life of the software from the date it is completed.

Emissions rights are recognized at cost. Rights allocated free of charge by the German Emissions Trading Authority (DEHSt) or comparable authorities in other European countries are capitalized at a value of zero.

Property, plant and equipment

Property, plant and equipment is carried at the cost of acquisition or construction less usage-based depreciation. Write-downs are recognized for any reduction in value that goes beyond ordinary depreciation. In compliance with IAS 36, impairment charges are measured by comparing the carrying amount with the discounted cash flows expected to be generated by the assets in the future. Where it is not possible to allocate future cash flows to specific assets, the impairment charge is assessed on the basis of the discounted cash flows for the cash-generating unit to which the asset belongs. Write-downs are reversed accordingly if the reasons no longer apply, provided that this does not cause the carrying amount of the assets to exceed either the amortized cost at which they would have been recognized if they had not been written down or their current recoverable amount.

The cost of self-constructed property, plant and equipment comprise the direct costs, as well as an appropriate share of the necessary material and manufacturing overheads. It also includes the shares of depreciation as well as of expenses for company pension plans and discretionary employee benefits that are attributable to production.

Where an obligation exists to shut down or dismantle assets at the end of their useful life or to restore a site to its original condition, the present value of the obligation is capitalized along with the cost of acquisition or construction and a provision in the same amount is recognized.

If the construction phase of property, plant or equipment extends over a long period, the directly attributable borrowing costs incurred up to the date of completion are capitalized as part of the cost of acquisition or construction.

Expenses for current maintenance and repairs are in general recognized directly in profit or loss. Subsequent acquisition or construction costs are capitalized if they will result in future economic benefits and can be reliably determined.

Expenses for general overhauls of major large-scale plants are recognized separately at the cost of the overhaul as part of the related assets and depreciated over the period between one general overhaul and the next using the straight-line method.

Where assets comprise material components with different purposes, different properties or different useful lives, the components are capitalized individually and depreciated over their useful lives.

When property, plant or equipment is sold, the difference between the net proceeds and the carrying amount is recognized as a gain or loss in other operating income or expenses.

Assets are depreciated using the straight-line method based in general on the following useful lives:

Useful Lives

Buildings	20 to 50 years
Outdoor infrastructure	10 to 20 years
Plant installations	3 to 25 years
Machinery and equipment	8 to 15 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
Fittings and equipment	5 to 10 years

Leases

Lessees 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.

Lease liabilities are recognized as financial liabilities and include in general the fixed lease payments. Variable payments that depend on an index or a rate and expected residual value payments or residual value guarantees are also included. If the exercise of a purchase option or the exercise of an extension option is reasonably certain, the exercise price or the corresponding lease payments are included in the calculation of the lease liabilities. Penalties for the termination of the lease are included if their utilization is reasonably certain. The present value is generally calculated at the interest rate implicit in the lease. If there is no such interest rate, discounting is performed at the incremental borrowing rate. The incremental borrowing rate is calculated by using yields with matching maturities on government bonds for the respective country in question in the respective currency and adding credit risk premiums. Interest on the lease liability is recognized in the interest expense of the financial result. Lease liabilities are remeasured when specified events occur (e.g. change in the term of the lease or change in future lease payments resulting from a change in an index). In general, remeasurements of lease liabilities result in an adjustment of the carrying amount of the right-of-use asset.

Right-of-use assets are measured at cost and reported in property, plant and equipment. Cost includes the present value of the aforementioned lease liabilities, advance lease payments made, initial direct costs and asset retirement obligations. Right-of-use assets are depreciated on a straight-line basis over the shorter of the asset's useful life and the term of the lease and fall within the scope of IAS 36, Impairment of Assets. They are subsequently measured at amortized cost.

Costs of short-term leases and leases for low-value assets are recognized as current expenses. The option to apply the financial reporting standards for leases to leases for intangible assets has not been exercised. Lease and non-lease components are generally separated provided they are clearly identifiable and distinct.

Lease assets for which the lessee does not have substantially all the risks and rewards (operating leases) are reported at amortized cost under property, plant and equipment. The lease payments received in the period are recognized in sales. If substantially all the risks and rewards are transferred to the lessee (finance leases), the asset concerned is derecognized and a lease receivable is recognized at an amount equal to the net investment in the lease.

Leasing arrangements may be embedded in other contracts. Where IFRS stipulates separation of the embedded leasing arrangement, the components of the contract are recognized and measured separately.

Financial instruments

Financial instruments are contracts that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Firstly, these include primary financial instruments such as trade receivables and payables or financial receivables and liabilities. Secondly, they also include derivative financial instruments used to hedge the risks of changes in exchange rates, raw material prices and interest rates.

Financial instruments are recognized as soon as the LANXESS Group becomes the contracting party to them. Financial assets are derecognized when the contractual rights to receive payments expire or the financial assets are transferred together with all significant risks and rewards. Financial liabilities are derecognized when the contractual obligations are met or canceled, or when they expire.

In the case of regular-way purchases and sales, the settlement date is the relevant date for first-time recognition or derecognition of financial assets in the financial statements.

Financial assets are initially recognized at fair value. For subsequent measurement, depending on their classification, they are recognized at amortized cost using the effective interest method or at fair value in other comprehensive income or in profit or loss. Classification is determined by the business model and the characteristics of the cash flows. The possible classifications are as follows:

Under the “hold to collect” business model, financial instruments are held until maturity. They are measured at amortized cost if the cash flows are solely for payments of principal and interest, or otherwise at fair value through profit or loss. The Group does not use the option for measurement at fair value through profit and loss. Financial instruments not recognized at fair value through profit or loss are reduced by expected credit losses. Both historical loss experience and future expected losses are used to calculate expected credit losses. A three-stage assessment is generally applied to the expected credit loss: In the first stage, the expected credit loss over the next twelve months is assessed and the expected loss is recognized. If the credit risk increases over the term of the financial instrument, the potential credit loss over the entire term of the financial instrument is assessed and the expected loss is increased on the basis of this measurement (second stage). In the event of a default, the expected default amount is recognized (third stage) and an expected loss is also taken into account for any residual amount of the financial instrument. The effective interest method is then only applied to the residual amount. For trade receivables and contract assets, the simplified model for the entire term is used to calculate the expected risk of default, and the expected loss over the entire term of the financial instrument is measured and recognized. Expected losses on trade receivables and contract assets are recognized in other operating expenses, taking into account reversals from prior periods. For all other financial instruments not recognized at fair value through profit or loss, the expected loss is recognized under “Other financial result.”

Under the “hold to collect and sell” business model, an entity intends to resell the financial instrument during its term after a certain holding period. Such financial instruments are measured at fair value. Gains or losses on subsequent measurement are recognized in other comprehensive income if the cash flows are solely for payments of principal and interest, or otherwise at fair value through profit or loss. In the event of impairment charges, the corresponding effects are reclassified from other comprehensive income to profit or loss.

Financial instruments that are not measured at amortized cost or at fair value in other comprehensive income are recognized at fair value in profit or loss. Gains and losses from subsequent measurement are recognized in profit or loss.

Trade receivables and other financial receivables are initially recognized at fair value under the “hold to collect” business model and subsequently accounted for at amortized cost using the effective interest method. The expected loss is calculated using the simplified model for the entire term on the basis of a past due matrix and taking into account historical loss experience and future expected losses. Both expected and incurred losses are recognized in profit or loss through separate allowance accounts.

Other current and non-current financial receivables that are accounted for under the “hold to collect” business model are initially recognized at fair value and subsequently accounted for at amortized cost using the effective interest method. These include financial assets whose cash flows are solely for payments of principal and interest, contract assets and other financial receivables. The expected loss is calculated according to the counterparty’s future expected loss. Other current and non-current financial receivables that are accounted for under the “hold to collect” business model are measured at fair value. Depending on whether they can be assigned to the “hold to collect and sell” business model, the gains or losses on subsequent measurement are recognized through other comprehensive income, or otherwise through profit or loss.

Equity instruments are recognized at fair value. For subsequent measurement, it is determined irrevocably at the level of the individual equity instrument whether gains or losses and the gains on disposal are recognized through other comprehensive income or through profit or loss.

This does not include equity investments, which are accounted for using the equity method, or entities in which LANXESS holds a majority of the shares, and which are not fully consolidated for lack of materiality. 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. Equity investments in which LANXESS holds a majority of the shares, and which are not fully consolidated for lack of materiality, are recognized at amortized cost. Where objective evidence exists that such assets may be impaired, an impairment loss is recognized on the basis of an impairment test.

Primary financial liabilities are initially recognized at fair value less any transaction costs. They are subsequently measured at amortized cost using the effective interest method. LANXESS does not utilize the option of designating financial instruments as at fair value on initial recognition and recognizing changes in their value in profit or loss.

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 or market value are generally 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, the changes in value or hedging costs of such instruments are recognized separately in other comprehensive income until the underlying transactions are realized. The amounts recognized here for currency derivatives are subsequently reclassified to other operating income or cost of sales, as appropriate, when the hedged transaction is recognized in profit or loss. For forward commodity contracts, the carrying amount of the hedged products on acquisition is adjusted by the amounts recognized in other comprehensive income and recognized in the cost of sales on processing of the same. Any portion of the change in fair or market 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 or market value and hedging costs 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 key 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.

Loan receivables with options of conversion into equity instruments are reported at the higher of the value of the loan receivable and the value of the equity instrument conversion options. The fair value of the conversion options is calculated on the basis of an option pricing model without taking transaction costs into account.

Contract assets are carried at nominal amount. If contract assets contain significant financing components, they are discounted using current interest rates. The fair values accordingly correspond to the carrying amounts.

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

The fair value of loans and liabilities to banks is calculated on the basis of discounted future payments of principal and interest.

The bonds are generally traded on 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 generally equal to their carrying amount. The fair value of other liabilities is determined by discounting to present value where feasible.

The fair values of receivables and liabilities relating to leases are the present values of the net lease payments calculated using the market rate for comparable lease agreements.

The derivative financial instruments used by LANXESS are generally traded on an active, liquid market. The fair values as of the end of the reporting period predominantly relate to forward exchange contracts and, to a small extent, to forward commodity contracts. If information on hedging costs is available, the fair values are derived from their trading or listed prices using the forward-to-forward method. If information on hedging costs is not available on a market, the fair values are calculated using the spot-to-spot method, and hedging costs, including the forward component, are separated. 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.

Cash and cash equivalents

Cash and cash equivalents represent financial instruments that are allocated to the "hold to collect" business model and recognized at amortized cost. The risk of default relating to cash and cash equivalents is calculated taking into account the counterparty's future expected loss applying the three-stage model and recognized under "Other financial result." Cash and cash equivalents comprise checks, cash and balances with banks. Securities with maturities of up to three months from the date of acquisition are recognized in cash and cash equivalents due to their high liquidity.

Near-cash assets

Near-cash assets are assigned to the “hold to collect and sell” business model. They essentially consist of investments in money market funds whose cash flows are not solely payments of principal and interest. They are measured at fair value based on market prices at the end of the reporting period. Transaction costs are not taken into account in their measurement. Changes in fair value are recognized in the financial result.

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 progress) and assets used in the production process (raw materials and supplies). They are valued by the weighted-average method and recognized at the lower of cost and their respective net realizable value, which is the estimated selling price in the ordinary course of business less the estimated remaining production costs and selling expenses.

The cost of production comprises the direct cost of materials, direct manufacturing expenses and appropriate allocations of fixed and variable material and manufacturing overheads at normal capacity utilization, when attributable to production. It also includes expenses for company pension plans, social services and voluntary social benefits that can be allocated to production. Administrative costs are included where they are attributable to production.

Borrowing costs incurred in the course of production are not included in the acquisition or production cost of inventories as the products are not manufactured within long-term production processes.

Given the production and distribution circumstances of the LANXESS Group, work in process and finished goods are grouped together.

Provisions

Provisions are recognized and measured in accordance with IAS 37 and, where appropriate, IAS 19 and IFRS 2, using the best estimates of the amounts of the obligations. Non-current portions of material provisions due in more than one year are discounted to present value if the extent and timing of the obligation can be assessed with reasonable certainty. The change in the provision resulting from approaching the due date (interest effect) is expensed in the other financial result.

If the projected obligation declines as a result of a change in the estimate, the provision is reversed by the corresponding amount and the effect is recognized in the functions in which the provision was originally recognized.

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 recognized 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 price developments are simulated and the expected payment is calculated from the value of the rights based on a two-dimensional standard distribution of price developments. The fair value of the rights is recognized in a pro rata provision during the vesting period.

The stock-based compensation program for the Supervisory Board stipulated variable cash settlement, provided that LANXESS stock outperformed a defined index during the term of office. Provisions were recognized for the expected obligations in previous years. The stock-based compensation program ended at the Annual Stockholders' Meeting in fiscal year 2020.

Restructuring provisions are recognized if there is a legal or constructive obligation on the basis of a detailed restructuring plan adopted by authorized management, and the employees affected or their representatives have been informed. Such provisions contain the expenses that are directly attributable to the restructuring and that are necessary to implement these measures and do not relate to the future operating business. If provisions for restructuring later become liabilities or provisions for pensions and other post-employment benefits, they are reclassified to the corresponding items of the statement of financial position.

The LANXESS Group also recognizes 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 on information and cost estimates provided by LANXESS's legal advisers. LANXESS regularly reviews and adjusts such provisions.

Contingent liabilities

Contingent liabilities are potential obligations to third parties or existing commitments, the extent of which cannot be reasonably estimated or which are unlikely to lead to an outflow of resources. They are not recognized in the statement of financial position unless they have been entered into in connection with a business combination.

Liabilities

Other current liabilities are recognized at repayment or settlement amounts. Other non-current liabilities are recognized at amortized cost.

Grants received from third parties for the acquisition or construction of property, plant and equipment are reported in other liabilities and released to the respective functional area of profit or loss over the underlying period or expected useful life of the assets to which they relate.

Contract liabilities are also reported in other liabilities and represent advance consideration paid by the customer for outstanding performance obligations.

Financial reporting in hyperinflationary economies

A country must be classified as a hyperinflationary economy if, in addition to other criteria, the cumulative inflation rate over the past three years approaches or exceeds 100%. On classification as a hyperinflationary economy, in that country non-monetary items in the statement of financial position, components of equity and items in the statement of comprehensive income are restated to the current price level using a suitable price index. Restatements to the current price level that are attributable to prior reporting periods lead to a difference between the prior-year equity and the opening balance of equity of the reporting period. These equity differences are shown in other comprehensive income in the currency translation adjustments from the translation of operations outside the eurozone. The changes are recognized in the reporting period of the first assessment of the country as a hyperinflationary economy. Changes relating to the current reporting period are recognized as monetary gains or losses under "Other financial result."

In the statement of financial position, this applies in particular to non-monetary assets and liabilities that are recognized at amortized cost and therefore not at the current price level. These are essentially intangible assets, property, plant and equipment, inventories and advance consideration paid and received. The restatement of prices is calculated from the date of the asset's historical acquisition or production to the end of the reporting period. Equity components, except retained earnings, are restated to the current price level from the date of contribution. Statement of comprehensive income items are restated from the dates when the items of income and expenses were initially recorded in the financial statements.

Non-current assets and liabilities held for sale and discontinued operations

Material assets are reported 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.

The assets and liabilities in question are each reported in a separate line item in the statement of financial position. Intangible assets and property, plant and equipment held for sale are not subject to any further amortization or depreciation, and are recognized at the lower of carrying amount at the time of classification as held for sale and fair value less costs to sell. Intra-Group receivables and liabilities are eliminated in full. The previous year's figures are not restated.

Presentation in the income statement focuses on the profit or loss from continuing operations and also includes the profit or loss from assets and liabilities held for sale. By contrast, earnings from discontinued operations are shown under "Income after income taxes from discontinued operations." Intra-Group transactions that continue with the discontinued operation after its deconsolidation or with third parties are recognized under continuing operations. The elimination entries as part of the consolidation of expense and income are assigned fully to discontinued operations. The prior-year period in the income statement is restated when a discontinued operation is reported for the first time. The gain or loss on deconsolidation is recognized under discontinued operations.

The notes to items of the statement of financial position provide details of the reconciliation from values at the start of the year to values at the end of the year. The presentation of the reconciliations focuses on continuing operations. Non-current assets and liabilities held for sale and discontinued operations are reported under "Adjustments in accordance with IFRS 5." They include the reclassification of the carrying amounts for discontinued operations at the start of the fiscal year and the reclassification of the carrying amounts of the non-current assets and liabilities held for sale as of the reclassification date in accordance with IFRS 5.

Sales and other revenues

Sales in the course of ordinary activities are recognized in revenue. These are essentially sales of internally generated chemical products or from tolling agreements for such products. In addition, research and development work, sales- and product-related services and other long-term services are also recognized in revenue. Services that do not relate to ordinary activities and that are temporary are reported in other operating income.

Revenue is recognized depending on the transfer of control over products or services to the customer. Control can be transferred either at a point in time or over time. Control has been transferred when the customer has obtained the ability to direct the use of, and obtain the remaining benefits from, the asset. There are typically no rights of return.

Depending on the terms and conditions of delivery, revenue from the sale of chemical products is typically recognized when the customer or a third party commissioned by the customer receives the products. At this time, the risks and rewards have been transferred to the customer, the customer has physically received the goods and, normally, there are no longer any outstanding performance obligations preventing the customer's acceptance of the product. The time at which the right to receive payment and the time when legal title passes are governed by individual regulations and are referenced in determining the timing of revenue. Revenue is measured at the invoice amount after deducting transfer taxes and sales deductions.

Under the business model of manufacturing products on the basis of long-term sales contracts with contractually defined minimum purchase requirements, revenue is recognized when the customer receives the goods. Revenue is measured by estimating the total revenue expected in the future from the sale of minimum amounts over the full term of the contract and allocated to the individual deliveries. Rebates and material rights to procure expected additional purchase quantities are taken into account in the total revenue from the sale. Differences from the invoice price arising as a result of average pricing are recognized as contract assets or liabilities that are reversed over the term of the contract.

Under the business model of manufacturing customer-specific products on the basis of long-term supply agreements with a contractually defined minimum purchase requirement, within the meaning of the rules of IFRS 15, the LANXESS Group has no alternative use for the products manufactured under these contracts. Moreover, it has a contractually enforceable right to payment for the minimum amount under the purchase requirement. Revenue for finished goods and work in progress, and for advance consideration paid by the customer, is recognized over the manufacturing period. Revenue for finished goods is measured based on the volumes produced for the fiscal year. For finished products, the total revenue expected in the future from the sale of minimum amounts over the full term of the contract is estimated and allocated to the individual production units. Rebates and material rights to procure expected additional purchase quantities are taken into account in the total revenue from the sale. Revenue for work in progress is measured based on the production costs incurred, which are calculated using the input method taking into account a pro rata margin for the end product (see "Inventories" in this section for notes on the calculation of production costs). Contract assets are recognized for the corresponding receivables until the products are delivered. The relevant inventories are derecognized when revenue is recognized. When the products are delivered, the contract assets are reversed and trade receivables are recognized.

Under the business model sale of products including organizing freight services, control transfers to the customer on the basis of the agreed terms and conditions of delivery, essentially at the end of the freight service. Thus, revenue is measured and recognized at the invoice amount after deducting transfer taxes and sales deductions. The freight service is not treated as a separate performance obligation.

Tolling agreements for chemical products, research and development work, sales and product-related services and other long-term services are recognized in revenue over the performance period and at the invoice amount after deducting transfer taxes and sales deductions.

Customer rebates that are not attributable to the business models of manufacturing products or customer-specific products on the basis of long-term sales contracts with contractually defined minimum purchase requirements are recognized in the period in which the revenue is recognized.

Research and development expenses

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 reporting 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 provided that payment or reimbursement is considered probable. They are measured individually at the most probable amount or the expected value, depending on which measurement provides the best estimate of the uncertain tax item in question.

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.

Deferred tax assets are reviewed at each closing date and only the amount likely to be realizable due to future taxable income is recognized. Deferred tax assets from loss carryforwards are recognized if it is probable that the carryforwards can be utilized.

Deferred tax assets and liabilities are netted if they relate to income taxes levied by the same tax authorities.

Business acquisitions and divestments

Business acquisitions are accounted for using the acquisition method. At the time of initial control, the acquired assets and liabilities are measured at fair value. The incidental acquisition costs associated with the business acquisition are recognized as an expense in the period in which they are incurred.

Divestments of shares in subsidiaries resulting in the loss of control are generally recognized in profit or loss. In the case of successive share disposals without loss of control, the decline in the majority share is recognized through other comprehensive income and results in an increase in non-controlling interests in equity. If significant influence continues to be exerted after loss of control, an interest in an associate or an investment accounted for using the equity method is recognized. As soon as there is no longer a significant influence on financial and business policy, the remaining interest is classified as a financial asset and changes in its value are recognized at fair value in other comprehensive income or in profit or loss.

Statement of cash flows

The statement of cash flows shows how cash inflows and outflows during the reporting 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 of continuing operations are reported separately from the cash flows of discontinued operations. The cash flows of discontinued operations are shown combined in one line per area. When a discontinued operation is recognized for the first time, the previous year's figures are restated accordingly.

The cash flows from operating activities are calculated using the indirect method. This involves eliminating the translation effects, the effects of the initial application of financial reporting standards and the effects of changes in the consolidated group from the changes recognized in the items in 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 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.

Lessees 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. Disbursements made under 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. Payments for short-term leases and leases for low-value assets are included in cash flows from operating activities. Cash inflows from operating leases where LANXESS is the lessee are also attributed to operating 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 (contractual trust arrangement – CTA) are allocated to cash flows for investing activities.

Cash inflows from or outflows for financial assets or other assets held for investment purposes are shown under 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 of continuing operations after deducting cash and cash equivalents acquired or divested. They also include purchase price payments for discontinued operations.

Interest and dividends received are also included in investing cash flows, while interest and dividends paid are reported in financing cash flows.

Global impairment testing procedure and impact

In the LANXESS Group, the impairment testing of non-current assets starts with an analysis to determine whether impairment charges need to be recognized or previously recognized impairment charges reversed. If there are indications that this is the case, the carrying amount of each cash-generating unit is compared with its recoverable amount. In the LANXESS Group these analyses are performed at least once a year.

For the impairment testing of assets, the LANXESS Group generally defines its business units as cash-generating units.

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

Cash-generating units to which goodwill is allocated are tested annually for impairment – or more frequently if events or changes in circumstances indicate a possible impairment. The carrying amount of each cash-generating unit, including the goodwill allocated to it, is compared against its recoverable amount.

Cash-generating units that have acquired goodwill in the reporting year are also tested for impairment at the end of the reporting period.

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 [37]).

Determination of the recoverable amount based on the fair value less costs of disposal generally relies on a forecast of future net cash flows. This is based on the planning approved by the management of LANXESS AG, which contains estimates of expected market conditions and other factors such as future raw material prices, energy costs, functional costs, exchange rates and capital expenditures. The interactions between these factors are reflected in the expected net cash flows. The estimates are based on management's past experience, taking account of internal and external economic and industry-specific sources of information. Capacity expansions, reorganization projects and the resulting synergies, provided these can also be used by a third party, are reflected in future net cash flows through estimates. Determination of the value in use is based on a corresponding forecast of future net cash flows. However, cash inflows and outflows relating to expansion projects that have not yet commenced, restructuring that is planned but has not yet been approved, and the associated synergies are not taken into account. Group functional area costs are included if a potential acquirer would have to bear them. The forecasts used to calculate the fair value less costs of disposal and to determine the value in use cover a five-year period. The perpetual annuity calculation is generally based on the last year in the planning period and does not reflect growth rates. Where necessary, adjustments are made to reflect the so-called steady state of the perpetual annuity. Future net cash flows are discounted using the weighted average cost of capital, which is derived according to IAS 36 from capital market models, taking into account the capital structure and business risks specific to the chemical industry, and is extrapolated from external market information.

The residual carrying amounts of the respective cash-generating unit include the right-of-use assets from leases as part of property, plant and equipment. Lease liabilities as financial liabilities are not included. When deriving the net cash flows, cash flows are increased by depreciation of right-of-use assets and decreased by replacement investments in right-of-use assets and lease payments for short-term leases and leases of low-value assets.

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 reported in the expenses of the respective segments in segment reporting.

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 years 2019 and 2020 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 made in the consolidated financial statements are based on management's expectations and take into account the information and knowledge available as of the time of preparing the consolidated financial statements. Information that could alter these estimates is reviewed continually and may result in adjustments to the carrying amounts of the respective assets and liabilities. This is especially true in the context of the ongoing development of the coronavirus pandemic, which had a negative impact on the global economic environment and the business performance in the past reporting year. Depending on the customer sector and region, lockdowns, border closures and production shutdowns caused demand to decline and a reduction in sales prices due to changes in commodity prices. This was mitigated by the balanced product portfolio and the measures taken by LANXESS to manage the coronavirus pandemic. However, the coronavirus pandemic is still a source of uncertainty for business performance, and therefore it cannot be ruled out that the assumptions and estimates made in conjunction with these consolidated financial statements adjustments will have to be amended in the future, and that these amendments might affect the financial position or results of operations. However, management assumes that the assumptions and estimates made appropriately reflect the situation as of the time of preparing the consolidated financial statements.

The areas in which assumptions and estimates are significant are outlined below:

At least once a year, the LANXESS Group conducts impairment tests on its individual cash-generating units or groups of cash-generating units to which goodwill has been allocated. Impairment tests are also conducted if there is an indication of a possible impairment (for further information see "Global impairment testing procedure and impact"). To determine fair value less costs of disposal, the impairment tests of assets and goodwill were based on net present value methods, which are allocated to Level 3 of the fair value hierarchy.

Management's assumptions and estimates used for the ***impairment test conducted on assets*** in fiscal year 2020 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 five-year plan assumes a recovery from the negative influence of the coronavirus pandemic over the course of the planning period. The annual impairment tests are based on a discount rate after taxes of 6.0% (previous year: 6.1%), while the impairment tests as of the end of the reporting period are based on a discount rate after taxes of 6.0%.

The impairment tests of the cash-generating units showed no need for the recognition of impairment charges in fiscal years 2019 and 2020.

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

Material goodwill of €191 million (previous year: €209 million) relates to the Lubricant Additives business unit and €298 million (previous year: €325 million) to the Polymer Additives business unit. These two business units were created in the previous year by the split of the Additives business unit and are allocated to the Specialty Additives segment. The Urethane Systems business unit also accounts for other material goodwill of €139 million (previous year: €151 million). The changes compared to the previous year are due to currency effects.

The goodwill of €14 million acquired in the reporting year by way of the purchase of all shares in the biocide manufacturer IPEL-Itibanyl Produtos Especiais Ltda., Jarinu, Brazil, was assigned to the Material Protection

Products business unit in the Consumer Protection segment and tested for impairment as of the end of the reporting period. A discount rate after taxes of 6.0% was used for impairment testing. The goodwill amounted to €10 million as of the end of the reporting period. The Material Protection Products business unit accounts for total goodwill of €142 million (previous year: €140 million). The change compared to the previous year is due to the addition of the recently acquired goodwill and offsetting exchange rate effects.

Other business units account for goodwill of €38 million (previous year: €40 million), which is not described for reasons of materiality.

Information on calculating the net cash flows can be found in this section and the previous section. The Lubricant Additives Business and Polymer Additives business units essentially manufacture additives for the construction, electrical, primary metal and food-processing industries. Urethane Systems produces elastomers on a urethane basis, which are used in the automotive, electrical/electronics, construction and various other industries. The Material Protection Products business unit manufactures material protection products, active ingredients and biocidal formulations for the wood, beverage bottling, paint and varnish, and various other industries. The estimates of future market developments on which detailed planning is based are dependent on the respective customer industries and draw on management's past experience, taking account of internal and external economic and industry-specific sources of information.

Average annual sales growth of 7% (previous year: 3%) was assumed for the Lubricant Additives business unit and 4% (previous year: 4%) for the Polymer Additives business unit.

The Urethane Systems business unit planned average annual sales growth of 6% (previous year: 4%), and the Material Protection Products business unit planned 4% (previous year: 5%).

For the impairment tests of material goodwill, higher EBITDA values than in the last planning period were assumed for the steady state in the current reporting year and the previous year for the Lubricant Additives Business and Polymer Additives business units in the perpetual annuity calculation. In the previous year, a lower EBITDA value than in the previous planning period was used for perpetual annuity in the Material Protection Products business unit.

The impairment test performed on goodwill in fiscal years 2019 and 2020 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.

A Brexit agreement was completed between Great Britain and the European Union in the period between Great Britain leaving the European Union on January 31, 2020 and the end of the transition phase as of December 31, 2020. This allows the regulation of far-reaching aspects of future cooperation and, in particular, relates to the customs-free movement of goods without quotas, provided that the goods satisfy the corresponding rules of origin. The agreement lastingly reduces LANXESS's risks. By leaving the European Union, Great Britain has also left the free trade agreements with third countries outside the European Union. Goods flows between Great Britain and these third countries will therefore be subject to taxation in future.

Furthermore, the impact of the ongoing trade conflict between the China and the U.S. was also investigated. The assessment found that only isolated products in the LANXESS portfolio are affected, and that there is only a low level of goods flows between China and the U.S. A significant and negative impact on the business activities of LANXESS is thus not expected as a direct consequence of the conflict.

In conjunction with accounting for leases, estimates are made in particular to determine the term of leases. The information available as of the end of the reporting period concerning the economic incentives of exercising or not exercising renewal or extension options is taken into account. If implicit discount rates cannot be identified in the underlying lease, estimates are also made in order to determine appropriate incremental borrowing rates. The latter are derived using yields with matching maturities on government bonds for the country in question in the respective currency and adding credit risk premiums, and derived on a straight-line basis with regard to maturity ranges.

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 provisions for the 2020 consolidated financial statements, as required by 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.

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. This section also contains sensitivity analyses relating to provisions for pensions and other post-employment benefits (see Note [14]).

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 on this can be found under "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. When assessing uncertain tax positions, it is assumed that the tax authorities have full knowledge of all related information when making their examinations. In the event of unfavorable developments, LANXESS could be faced with additional charges in the low-to mid-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. This could result in deviations from the current estimates in the future.

Furthermore, generally accepted measurement methodologies are used to calculate the fair values of financial instruments (see Note [37]) within Level 2 and Level 3 of the fair value hierarchy. The generally accepted measurement methodologies are essentially option pricing models to measure loans with the option of conversion into equity instruments. The results of such measurement models are dependent on the basic parameters applicable at the end of the reporting period, such as interest rate, volatility, unit price, term and exchange rate. The basic parameters will change during the term of the loan until the options are exercised, thereby causing future changes in fair value.

In the context of business acquisitions, the application of the acquisition method requires certain estimates and assessments as of the acquisition date. This relates in particular to the determination of the fair value, the estimation of useful lives of acquired intangible assets and property, plant and equipment, and the determination of the fair values of assumed liabilities. The measurement is essentially based on future cash inflows and outflows. Deviations between the actual cash inflows and outflows and those assumed at the acquisition date can significantly influence future net income. Purchase price allocation is generally performed in consultation with external experts. For lower-value acquisitions, the purchase price allocation is essentially based on the Group's own estimates and measurements. The estimates and measurements are based on knowledge available on and immediately after the acquisition date. They can be adjusted within one year of the date of acquisition to reflect new information and findings.

In some cases, estimates were made to calculate the values recognized for discontinued operations. These estimates are based on the information available at the closing date, so changes may arise as a result of new information or final sale agreements.

When measuring revenue under the business model of long-term sales contracts with a contractually defined minimum purchase requirement, the total revenue expected in the future from sale of the minimum amount is estimated for the full term of the contract and allocated to the individual deliveries, or in the case of the production of customer-specific products to the individual production units. Estimates are based on the current planning for forecast future sales prices and quantities. In particular, sales prices can change over the term of a contract as a result of mechanisms for adjusting prices (formula prices for production factors, bulk prices, rebate agreements), hence deviations from current estimates may arise in the future.

Government aid programs have been launched around the world to stabilize the economy in the coronavirus pandemic. These are essentially tax measures such as cutting tax rates, postponing due dates or deferring tax payments, increasing tax exemptions or changing options for loss carryforwards or carrybacks. Moreover, some countries have granted compensation for short-time work and exemption from or deferral of social security contributions. Overall, the government aid programs have no material influence on the consolidated financial statements as of December 31, 2020. Depending on the future development or conclusion of legislative processes in the individual countries, changes could arise in the future regarding the entitlement to and use of government aid programs.

Other significant estimates and discretion are used to assess the useful lives of intangible assets and property, plant and equipment, the capitalization of development costs, the probability of collecting receivables and other assets, the valuation of inventories and the ability to realize tax claims and deferred tax assets recognized for temporary differences and tax loss carryforwards.

COMPANIES CONSOLIDATED

The consolidated financial statements of the LANXESS Group include the parent company LANXESS AG and all domestic and foreign affiliates.

	EMEA (excl. Germany)	Germany	North America	Latin America	Asia-Pacific	**Total**
Fully consolidated companies (incl. parent company)						
Jan. 1, 2020	30	11	7	6	25	79
Additions	–	1	–	1	1	3
Retirements	(1)	(1)	(1)	–	(3)	(6)
Mergers	(1)	–	(2)	–	–	(3)
Dec. 31, 2020	**28**	**11**	**4**	**7**	**23**	**73**
Associates and joint operations						
Jan. 1, 2020	–	2	1	–	–	3
Retirements	–	(1)	–	–	–	(1)
Dec. 31, 2020	**0**	**1**	**1**	**0**	**0**	**2**
Non-consolidated companies						
Jan. 1, 2020	2	3	0	3	2	10
Additions	–	1	–	–	1	2
Retirements	–	(1)	–	–	–	(1)
Mergers	–	–	–	(1)	–	(1)
Dec. 31, 2020	**2**	**3**	**0**	**2**	**3**	**10**
Total						
Jan. 1, 2020	32	16	8	9	27	92
Additions	–	2	–	1	2	5
Retirements	(1)	(3)	(1)	–	(3)	(8)
Mergers	(1)	–	(2)	(1)	–	(4)
Dec. 31, 2020	**30**	**15**	**5**	**9**	**26**	**85**

LANXESS Trademark GmbH & Co. KG, Leverkusen, Germany, and SR (Changzhou) Specialty Materials Co., Ltd., Changzhou, China, were founded in fiscal year 2020. Also, IPEL-Itibanyl Produtos Especiais Ltda., Jarinu, Brazil, was acquired.

LANXESS Beteiligungsgesellschaft mbH & Co. OHG, Leverkusen, Germany, LANXESS CISA (Pty) Ltd., Newcastle, South Africa, and LANXESS Electronic Materials L.L.C., Pyeongtaek, Republic of Korea, were sold in fiscal year 2020. Furthermore, Assured Insurance Company, Montpelier, U.S., LANXESS Additives Hong Kong Ltd., Hong Kong, Hong Kong, and LANXESS Shanghai Pigments Co., Ltd., Shanghai, China, were liquidated.

LANXESS Holding Switzerland AG, Frauenfeld, Switzerland, was merged with LANXESS Switzerland GmbH, Frauenfeld, Switzerland. Also, LANXESS Solutions US Inc., Wilmington, U.S., and Great Lakes Chemical Corporation, Wilmington, U.S., were merged with LANXESS Corporation, Wilmington, U.S.

The associated company Currenta GmbH & Co. OHG, Leverkusen, Germany, was sold in fiscal year 2020 (see "Divestments"). LANXESS's share in its capital was 40%. Given its ability to contribute to material aspects of financial and business policy decisions, LANXESS was able to exert a significant influence. Transactions with this company until the time of its disposal are outlined in Note [34]. The shares were classified as held for sale and disclosed accordingly in the statement of financial position as of December 31, 2019.

In terms of non-consolidated companies, Siebte LXS GmbH, Leverkusen, Germany, was sold and LANXESS Trademark Management GmbH, Leverkusen, Germany, and LANXESS Vietnam Co., Ltd., Ho Chi Minh City, Vietnam, were founded. Crompton Servicios, S.A. de C.V., Mexico City, Mexico, was merged with Chemtura Corporation Mexico, S. de R.L. de C.V., Mexico City, Mexico.

Europigments, S.L., Barcelona, Spain, LANXESS Chrome Mining (Pty) Ltd., Modderfontein, South Africa, and Rhein Chemie (Qingdao) Co., Ltd., Qingdao, China, are production companies in which LANXESS has a stake of 52%, 74% 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.

DuBay Polymer GmbH, Hamm, Germany, is included in the consolidated financial statements as a joint operation in accordance with IFRS 11 on a pro rata basis because the partners exercise joint control and purchase most of its output together. LANXESS's share in its capital is 50%. The purpose of the company is to produce polybutylene terephthalate base resins and blends for the joint owners and their affiliated companies. This business relationship does not involve any material risks for LANXESS.

Rubicon LLC, Salt Lake City, U.S., is included in the consolidated financial statements as a joint operation in accordance with IFRS 11 on a pro rata basis because the partners exercise joint control and purchase all of its output. LANXESS's share in its capital is 50%. The purpose of the company is essentially to produce aniline, diphenylamines, methylene diphenyl isocyanates and polyols for the joint owners and their affiliated companies. This business relationship does not involve any material risks for LANXESS.

Cash transfers from companies in Argentina, Brazil, China, India, Republic of Korea, Russia, South Africa, Taiwan and Vietnam are subject to restrictions as a result of regulated capital markets. These affect approximately 44% (previous year: 38%) of the LANXESS Group's cash and cash equivalents.

Non-consolidated 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 Group equity.

Addition from acquisition

On February 3, 2020, LANXESS acquired all shares in the biocide manufacturer IPEL-Itibanyl Produtos Especiais Ltda., Jarinu, Brazil. Biocides and specialty chemicals for the paint and varnish industry are manufactured at the site. The product portfolio also includes preservatives and fungicides for process control in water treatment as well as active ingredients for disinfection and cleaning agents. This acquisition enhances LANXESS's position as one of the world's leading manufacturers of biocidal active ingredients and formulations. The business with around 100 employees, production plants and laboratory facilities was integrated into the Material Protection Products business unit of the new Consumer Protection segment. The purchase price of €26 million was paid out of existing liquidity.

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 intangible assets identified as part of the purchase price allocation are mainly the brand and customer relationships.

The acquired business has contributed €19 million to sales since the acquisition date and did not have any material effect on the earnings of the LANXESS Group. If the business had been already acquired as of January 1, 2020, the contribution to LANXESS Group sales and to net income would have changed only slightly.

In connection with this acquisition, transaction costs totaling less than €1 million were recognized in other operating expenses.

The goodwill of €14 million resulting from the acquisition essentially reflects additional sales opportunities arising with new customers mainly on the South American market, and the advantages of the local production location. The acquisition expands LANXESS's global production capacities and enables South American customers to be served from local facilities. The goodwill is tax-deductible.

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

€ million	Fair values at first-time consolidation
Intangible assets	7
Property, plant and equipment	3
Other assets	8
Total assets	**18**
Other non-current liabilities	2
Other current liabilities	4
Total liabilities (excl. equity)	**6**
Net acquired assets (excl. goodwill)	**12**
Cost of acquisition	**26**
Goodwill	**14**

Divestments

Sale of the 40% interest in the chemical park operator Currenta

By way of agreement dated August 6, 2019, it was resolved to sell the 40% interest in the chemical park operator Currenta GmbH & Co. OHG, Leverkusen, Germany, to Macquarie Infrastructure and Real Assets (MIRA). A carrying amount of €0 million was recognized as held for sale as of December 31, 2019. The sale of the interest was completed on April 30, 2020. The final purchase price was €787 million. After deduction of the trade tax paid by Currenta, the proceeds from the sale amounted to €740 million. Furthermore, LANXESS received a profit participation of €150 million for fiscal year 2019. The income generated was recognized in the financial result. The chemical park business was allocated to the reconciliation segment.

Sale of the business with gallium-based organometallics

By way of agreement dated November 28, 2019, LANXESS agreed to sell its business with gallium-based organometallics in the Advanced Intermediates segment to First Rare Materials Co. Ltd., Heyun Town, China, a subsidiary of Vital Materials, China. The object of the transaction was the sale of all shares in the subsidiary LANXESS Electronic Materials L.L.C., Pyeongtaek, Republic of Korea. The net asset value of minus €1 million was recognized as held for sale as of December 31, 2019.

In the transaction completed on January 31, 2020, the acquirer was paid €1 million for assuming the negative net assets. Including the net assets sold and the currency translation adjustment, there was a loss of €1 million, which is recognized in other operating expenses as an exceptional item.

Divestment in the previous year

Sale of the business with tin-based organometallics

By way of agreement dated November 8, 2019, business with tin-based organometallics in the Advanced Intermediates segment was sold to PMC Vlissingen, B.V., Netherlands, a subsidiary of PMC Group, U.S. The primary objects of the sale were intangible assets and inventories of LANXESS Organometallics GmbH, Bergkamen, Germany. The contract parties also concluded a tolling agreement as part of the sale. The transaction was completed as of December 30, 2019.

The total consideration received for the sale of the business was €20 million. In return, assets of €13 million were transferred. In addition, the remaining property, plant and equipment were written down by €15 million, and a provision for anticipated losses of €4 million was recognized as a result of the tolling agreement. The income and expenses were recognized as an exceptional item in other operating income.

Assets and liabilities held for sale

By way of agreement dated July 15, 2020, LANXESS agreed to sell its reverse osmosis membranes business from the Liquid Purification Technologies business unit in the Consumer Protection segment to SUEZ WTS Germany GmbH, Düsseldorf, Germany, a subsidiary of the French group SUEZ S.A., Paris, France. The object of the transaction is the sale of the membrane production facility and the research facilities at the Bitterfeld site. The transaction was completed on January 1, 2021.

The assets and liabilities to be disposed of were recognized as held for sale for the first time in the statement of financial position as of June 30, 2020. Before reclassification, write-downs of €17 million were recognized on intangible assets and property, plant and equipment. They were recognized as exceptional items in other operating expenses. The expected selling price was considered to be the fair value.

The assets and liabilities held for sale comprise impaired intangible assets and property, plant and equipment of €0 million, inventories of €6 million and provisions and other liabilities of €6 million.

Discontinued operations

In the context of further realignment, LANXESS initiated the sale of the Leather business unit in the Consumer Protection (formerly: Performance Chemicals) segment in fiscal year 2019. The individual chrome chemicals, chrome ore and organic leather chemicals businesses were integrated in this business unit. As no market participants or potential buyers have integrated their businesses in the same way, projects were actively initiated to sell the businesses separately. They were reported as discontinued operations for the first time in December 2019. Individual assets and liabilities remain in the LANXESS Group and are recognized in continuing operations.

The sale of the ***chrome chemicals*** business to the company K2019342391 (South Africa) Proprietary Limited, South Africa, a subsidiary of Brother Enterprises, China, was completed on January 10, 2020. The transaction comprised the shares in the subsidiary LANXESS CISA (Pty) Ltd., Newcastle, South Africa. The proceeds from the transaction amounted to €83 million. In total, net assets of €61 million were sold. These comprise intangible assets and property, plant and equipment of €47 million, inventories, trade receivables and other assets of €24 million and cash of €5 million. The liabilities disposed of comprise provisions and trade payables of €11 million and deferred taxes of €4 million. Currency translation differences relating to the net assets were also disposed in the amount of €16 million. A total profit of €6 million was generated, which was recognized in income from discontinued operations.

On November 15, 2019, a contract for the sale of the ***chrome ore*** unit was concluded with the company Chrome Production Holdings Proprietary Limited, Johannesburg, South Africa, a subsidiary of Clover Alloys, South Africa. The contract covers the sale of the 74% interest in the subsidiary LANXESS Chrome Mining (Pty) Ltd., Modderfontein, South Africa. The business is accounted for as a discontinued operation and reported accordingly from December 31, 2019. The transaction is still subject to the approval of the responsible authorities. The transaction is expected to be completed during fiscal year 2021.

On August 12, 2020, an agreement was entered into with TFL Ledertechnik GmbH, Rheinfelden, Germany, a portfolio company of the US investment company Black Diamond Capital, L.L.C., for the sale of the ***organic leather chemicals*** business unit. Because of the global coronavirus pandemic in fiscal year 2020, the offer and sale process for the ***organic leather chemicals*** business was delayed. Moreover, the transaction is still subject to the approval of the responsible Chinese authorities. The transaction is expected to be completed by the middle of fiscal year 2021.

With the exception of the special provisions of IFRS 5, discontinued operations are recognized and measured according to the same financial reporting standards and interpretations as continuing operations.

The carrying amounts of the assets and liabilities relating to discontinued operations are shown in the following table:

Carrying Amounts of Reclassified Assets and Liabilities (Leather Business Unit)

€ million	Dec. 31, 2019	Dec. 31, 2020
Property, plant and equipment and intangible assets	88	44
Inventories and trade receivables	111	65
Other assets	4	3
Total assets	**203**	**112**
Provisions	47	36
Trade payables	36	23
Other liabilities	15	10
Total liabilities	**98**	**69**

The intangible assets and property, plant and equipment of the chrome chemicals business were not subject to any further amortization or depreciation from December 1, 2019. For the chrome ore and organic leather chemicals businesses, amortization and depreciation were recognized until December 31, 2019.

In detail, earnings from discontinued operations are as follows:

Income Statement from Discontinued Operations (Leather Business Unit)

€ million	2019	2020
Sales	**329**	**202**
Cost of sales	(260)	(151)
Gross profit	**69**	**51**
Other functional costs	(112)	(56)
Operating result (EBIT)	**(43)**	**(5)**
Financial result	**(3)**	**(1)**
Income before income taxes	**(46)**	**(6)**
Income taxes	(4)	(1)
Income after income taxes	**(50)**	**(7)**

“Other functional costs” included write-downs for the planned sale of the chrome ore unit of €19 million in the previous year. Measurement was at fair value less costs to sell. The currently expected selling price was taken as fair value.

The cash flows of continuing operations are shown separately from the cash flows of discontinued operations in the cash flow statement. The cash flows of discontinued operations are shown combined in one line per area.

The currency translation differences allocable to discontinued operations recognized in other equity components as of December 31, 2020, amounts to €16 million (previous year: minus €15 million), and the amounts recognized cumulatively in other reserves for the remeasurement of the net defined benefit liability include losses of €14 million (previous year: €11 million).

The discontinued operations of the Leather business unit generated EBITDA pre exceptionals of €9 million (previous year: €0 million). This includes exceptional items within EBITDA of €4 million (previous year: minus €6 million). Capital expenditures amounted to €4 million (previous year: €18 million). No depreciation or amortization was recognized (previous year: €18 million). The number of employees allocable to discontinued operations was 447 as of December 31, 2020 (previous year: 1,175), and the annual average was 708 (previous year: 1,176). Personnel expenses attributable to employees amounted to €43 million (previous year: €68 million).

Other information on companies consolidated

The following table lists the affiliated companies in accordance with Section 313, Paragraph 2 of the German Commercial Code:

Company Name and Domicile

	Interest held in %
Fully consolidated companies	
Germany	
LANXESS AG, Cologne	–
Bond-Laminates GmbH, Brilon	100
CheMondis GmbH, Cologne	100
IAB Ionenaustauscher GmbH Bitterfeld, Greppin	100
IMD Natural Solutions GmbH, Dortmund	100
LANXESS Deutschland GmbH, Cologne	100
LANXESS Distribution GmbH, Leverkusen	100
LANXESS Global Business Services GmbH, Cologne	100
LANXESS Organometallics GmbH, Bergkamen	100
LANXESS Trademark GmbH & Co. KG, Leverkusen	100
Saltigo GmbH, Leverkusen	100
EMEA (excluding Germany)	
Anderol B.V., Venlo, Netherlands	100
Antec International Ltd., Sudbury, Suffolk, Great Britain	100
Chemtura France S.A.S., Fitz-James, France	100
Europigments, S.L., Barcelona, Spain	52
Great Lakes Chemical, Netherlands, B.V., Venlo, Netherlands	100
Great Lakes Holding S.A.S., Fitz-James, France	100
LANXESS (Pty) Ltd., Modderfontein, South Africa	100
LANXESS Central Eastern Europe s.r.o., Bratislava, Slovakia	100
LANXESS Chemicals S.L., Barcelona, Spain	100

Company Name and Domicile

	Interest held in %
LANXESS Chrome Mining (Pty) Ltd., Modderfontein, South Africa	74
LANXESS Epierre SAS, Epierre, France	100
LANXESS Holding UK Unlimited, Manchester, Great Britain	100
LANXESS Investments Netherlands B.V., Venlo, Netherlands	100
LANXESS Kimya Ticaret Limited Şirketi, Istanbul, Turkey	100
LANXESS Limited, Manchester, Great Britain	100
LANXESS Manufacturing Netherlands B.V., Venlo, Netherlands	100
LANXESS N.V., Antwerp, Belgium	100
LANXESS S.A.S., Courbevoie, France	100
LANXESS S.r.l., Milan, Italy	100
LANXESS Sales Netherlands B.V., Venlo, Netherlands	100
LANXESS Solutions Italy S.r.L., Latina, Italy	100
LANXESS Solutions UK Ltd., Manchester, Great Britain	100
LANXESS Switzerland GmbH, Frauenfeld, Switzerland	100
LANXESS Urethanes UK Ltd., Baxenden NR Accrington, Great Britain	100
OOO LANXESS, Moscow, Russia	100
OOO LANXESS Lipetsk, Lipetsk, Russia	100
Sybron Chemical Industries Nederland B.V., Ede, Netherlands	100
Sybron Chemicals International Holdings Ltd., Manchester, Great Britain	100
North America	
LANXESS Canada Co./Cie, Halifax, Canada	100
LANXESS Corporation, Wilmington, U.S.	100
LANXESS Services US LLC, Wilmington, U.S.	100
Sybron Chemical Holdings Inc., Wilmington, U.S.	100

Company Name and Domicile

	Interest held in %
Latin America	
Chemtura Corporation Mexico, S. de R.L. de C.V., Mexico City, Mexico	100
IPEL-Itibanyl Produtos Especiais Ltda., Jarinu, Brazil	100
LANXESS Indústria de Poliuretanos e Lubrificantes Ltda., Rio Claro, Brazil	100
LANXESS Indústria de Produtos Quimicos e Plásticos Ltda., São Paulo, Brazil	100
LANXESS S.A. de C.V., Mexico City, Mexico	100
LANXESS S.A., Buenos Aires, Argentina	100
Rhein Chemie Uruguay S.A., Colonia, Uruguay	100
Asia-Pacific	
Chemtura Chemicals Nanjing Co. Ltd., Nanjing, China	100
Chemtura China Holding Co. Ltd., Shanghai, China	100
LANXESS (Changzhou) Co., Ltd., Changzhou, China	100
LANXESS (Liyang) Polyols Co., Ltd., Liyang, China	100
LANXESS (Ningbo) Pigments Co., Ltd., Ningbo City, China	100
LANXESS (Wuxi) High Performance Composite Materials Company Limited, Wuxi, China	100
LANXESS Additives Taiwan Ltd., Kaohsiung, Taiwan	100
LANXESS Advanced Materials (Nantong) Co. Ltd., Nantong, China	100
LANXESS Chemical (China) Co., Ltd., Shanghai, China	100
LANXESS Hong Kong Limited, Hong Kong, Hong Kong	100
LANXESS India Private Ltd., Thane, India	100
LANXESS K.K., Tokyo, Japan	100
LANXESS Korea Limited, Seoul, Republic of Korea	100

Company Name and Domicile

	Interest held in %
LANXESS Pte. Ltd., Singapore, Singapore	100
LANXESS Pty Ltd., Granville, Australia	100
LANXESS Solutions Australia Pty. Ltd., West Gosford, Australia	100
LANXESS Solutions India Private Ltd., Thane, India	100
LANXESS Solutions Japan Ltd., Tokyo, Japan	100
LANXESS Solutions Korea Inc., Seoul, Republic of Korea	100
LANXESS Specialty Chemicals Co., Ltd., Shanghai, China	100
LANXESS Taiwan Ltd., Kaohsiung, Taiwan	100
Rhein Chemie (Qingdao) Co., Ltd., Qingdao, China	90
SR (Changzhou) Specialty Materials Co., Ltd., Changzhou, China	100
Joint operations	
Germany	
DuBay Polymer GmbH, Hamm	50
North America	
Rubicon LLC, Salt Lake City, U.S.	50
Non-consolidated immaterial subsidiaries	
Germany	
Achte LXS GmbH, Cologne	100
LANXESS Middle East GmbH, Cologne	100
LANXESS Trademark Management GmbH, Leverkusen	100
EMEA (excluding Germany)	
Gulf Stabilizers Industries Sales FZCO, Dubai, UAE	52
W. Hawley & Son Ltd., Manchester, Great Britain	100

Company Name and Domicile

	Interest held in %
Latin America	
Comercial Andinas Ltda., Santiago de Chile, Chile	100
Asia-Pacific	
LANXESS Thai Co., Ltd., Bangkok, Thailand	100
LANXESS Vietnam Co., Ltd., Ho Chi Minh City, Vietnam	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 2019

€ million	Acquired goodwill	Other intangible assets	Advance payments	**Total**
Cost of acquisition or generation, Dec. 31, 2018	857	1,149	74	2,080
Adjustments in accordance with IFRS 5	–	(15)	(4)	(19)
Capital expenditures	–	16	50	66
Disposals	–	(11)	3	(8)
Reclassifications	–	32	(32)	0
Adjustments in accordance with IAS 29	–	0	–	0
Exchange differences	16	19	0	35
Cost of acquisition or generation, Dec. 31, 2019	**873**	**1,190**	**91**	**2,154**
Accumulated amortization and write-downs, Dec. 31, 2018	(7)	(309)	0	(316)
Adjustments in accordance with IFRS 5	–	10	0	10
Amortization in 2019	–	(87)	0	(87)
of which write-downs	–	0	0	0
Reversals of impairment charges	–	0	–	0
Disposals	–	7	0	7
Reclassifications	–	0	0	0
Adjustments in accordance with IAS 29	–	0	–	0
Exchange differences	(1)	(2)	–	(3)
Accumulated amortization and write-downs, Dec. 31, 2019	**(8)**	**(381)**	**0**	**(389)**
Carrying amounts, Dec. 31, 2019	**865**	**809**	**91**	**1,765**

Changes in Intangible Assets in 2020

€ million	Acquired goodwill	Other intangible assets	Advance payments	Total
Cost of acquisition or generation, Dec. 31, 2019	873	1,190	91	2,154
Adjustments in accordance with IFRS 5	–	(1)	–	(1)
Acquisitions	14	7	–	21
Capital expenditures	–	15	59	74
Disposals	–	(8)	0	(8)
Reclassifications	–	18	(18)	0
Adjustments in accordance with IAS 29	–	0	–	0
Exchange differences	(72)	(70)	(4)	(146)
Cost of acquisition or generation, Dec. 31, 2020	**815**	**1,151**	**128**	**2,094**
Accumulated amortization and write-downs, Dec. 31, 2019	(8)	(381)	0	(389)
Adjustments in accordance with IFRS 5	–	1	–	1
Amortization in 2020	–	(89)	0	(89)
of which write-downs	–	0	–	0
Disposals	–	7	–	7
Reclassifications	–	0	0	0
Adjustments in accordance with IAS 29	–	0	–	0
Exchange differences	1	22	–	23
Accumulated amortization and write-downs, Dec. 31, 2020	**(7)**	**(440)**	**0**	**(447)**
Carrying amounts, Dec. 31, 2020	**808**	**711**	**128**	**1,647**

The adjustments in accordance with IFRS 5 result from the reporting of the Liquid Purification Technologies business unit's reverse osmosis membranes business under assets held for sale. In the previous year, the adjustments in accordance with IFRS 5 related to the reporting of the Leather business unit as a discontinued operation.

Other intangible assets include customer lists, trademark rights, software and other rights.

2 | Property, Plant and Equipment

Changes in property, plant and equipment were as follows:

Changes in Property, Plant and Equipment in 2019

€ 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, 2018	1,298	5,520	301	450	7,569
Adjustments in accordance with IFRS 16	108	10	17	0	135
Adjustments in accordance with IFRS 5	(79)	(163)	(12)	(12)	(266)
Capital expenditures	27	126	28	331	512
Disposals	(6)	(105)	(16)	(6)	(133)
Reclassifications	37	224	17	(278)	0
Adjustments in accordance with IAS 29	2	2	0	1	5
Exchange differences	5	15	1	2	23
Cost of acquisition or construction, Dec. 31, 2019	**1,392**	**5,629**	**336**	**488**	**7,845**
Accumulated depreciation and write-downs, Dec. 31, 2018	(766)	(3,997)	(226)	(3)	(4,992)
Adjustments in accordance with IFRS 5	35	124	10	0	169
Depreciation in 2019	(65)	(312)	(39)	(1)	(417)
of which write-downs	(5)	(37)	(1)	(1)	(44)
Reversals of impairment charges	1	0	0	–	1
Disposals	5	105	15	0	125
Reclassifications	0	0	0	0	0
Adjustments in accordance with IAS 29	(1)	(1)	0	–	(2)
Exchange differences	(1)	(5)	0	1	(5)
Accumulated depreciation and write-downs, Dec. 31, 2019	**(792)**	**(4,086)**	**(240)**	**(3)**	**(5,121)**
Carrying amounts, Dec. 31, 2019	**600**	**1.543**	**96**	**485**	**2.724**

Changes in Property, Plant and Equipment in 2020

€ 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, 2019	1,392	5,629	336	488	7,845
Adjustments in accordance with IFRS 5	(10)	(27)	(1)	(1)	(39)
Acquisitions	1	2	0	0	3
Capital expenditures	30	116	18	299	463
Disposals	(11)	(72)	(16)	0	(99)
Reclassifications	22	225	12	(259)	0
Adjustments in accordance with IAS 29	8	3	3	0	14
Exchange differences	(43)	(110)	(10)	(12)	(175)
Cost of acquisition or construction, Dec. 31, 2020	**1,389**	**5,766**	**342**	**515**	**8,012**
Accumulated depreciation and write-downs, Dec. 31, 2019	(792)	(4,086)	(240)	(3)	(5,121)
Adjustments in accordance with IFRS 5	10	27	1	1	39
Depreciation in 2020	(71)	(305)	(38)	(1)	(415)
of which write-downs	(12)	(26)	(1)	(1)	(40)
Reversals of impairment charges	–	0	0	–	0
Disposals	8	71	15	–	94
Reclassifications	0	(1)	0	1	0
Adjustments in accordance with IAS 29	(7)	(2)	(3)	–	(12)
Exchange differences	14	56	8	(1)	77
Accumulated depreciation and write-downs, Dec. 31, 2020	**(838)**	**(4,240)**	**(257)**	**(3)**	**(5,338)**
Carrying amounts, Dec. 31, 2020	**551**	**1,526**	**85**	**512**	**2,674**

The adjustments in accordance with IFRS 5 result from the reporting of the Liquid Purification Technologies business unit's reverse osmosis membranes business under assets held for sale. In the previous year, the adjustments in accordance with IFRS 5 related to the reporting of the Leather business unit as a discontinued operation.

The write-downs on land and buildings, technical equipment and machinery, and on other fixtures, fittings and equipment essentially relate to write-downs of €17 million in connection with the sale of the Liquid Purification Technologies business unit's reverse osmosis membranes business. In addition, write-downs were recognized due to other value-decreasing events.

Directly attributable borrowing costs of €3 million (previous year: €3 million) were capitalized. An annual average cost of debt for the LANXESS Group of 2.0% (previous year: 2.0%) was used for capitalization.

3 | Investments in Other Affiliated Companies

This item contains interests in other affiliated companies totaling €2 million (previous year: €1 million).

4 | Derivative Financial Instruments

The derivative financial instruments held by the LANXESS Group comprise forward exchange, forward commodity and forward interest rate contracts as well as embedded derivatives separated from contracts not designated as hedging instruments. At LANXESS, derivative financial instruments are used to hedge items of the statement of financial position and to hedge future sales and raw material purchases. As of the closing date, derivative assets are capitalized in the consolidated financial statements for fiscal year 2020 at a total fair value of €23 million (previous year: €6 million). Instruments with a negative fair value totaling €16 million (previous year: €19 million) are recognized as derivative liabilities.

Derivative Financial Instruments

€ million	Dec. 31, 2019 Nominal amount	Dec. 31, 2019 Positive fair values	Dec. 31, 2019 Negative fair values
Current forward exchange contracts	1,431	5	(17)
Current forward commodity contracts	3	0	0
Non-current forward exchange contracts	118	1	(2)
	1,552	**6**	**(19)**

Derivative Financial Instruments

€ million	Dec. 31, 2020 Nominal amount	Dec. 31, 2020 Positive fair values	Dec. 31, 2020 Negative fair values
Current forward exchange contracts	1,191	19	(15)
Current forward commodity contracts	5	0	0
Non-current forward exchange contracts	78	4	(1)
	1,274	**23**	**(16)**

The remarks below relate exclusively to transactions that qualify for hedge accounting and are recognized accordingly:

Forward exchange hedges

Currency hedges are used for the future revenue of companies of the LANXESS Group when the currency in which the planned revenue is denominated differs from the company's functional currency and significant foreign currency positions are expected. Set hedging ratios have been defined for subsequent years. The hedges are due to mature in the respective planning months. The hedges could become ineffective as a result of revenue possibly deferred to other periods. There are currently no cases of changes in the timing of revenue in excess of the hedged volume.

Forward commodity contracts

Hedges on the prices of raw materials can be used for future purchases of raw materials by the companies of the LANXESS Group where procurement volumes are planned on the basis of existing procurement agreements. The hedges are forward commodity contracts and based on a monthly planned procurement volume. Unscheduled production facility shutdowns could reduce procurement volumes and cause the hedges to become ineffective.

Forward interest rate contracts

Interest rate risks for future refinancing of the LANXESS Group can be hedged with interest rate swaps. For this purpose, the hedging instruments are concluded with matching maturities on the basis of a planned refinancing requirement. The hedges can generally become ineffective if the refinancing date is moved. The forward interest rate contracts were in place in fiscal year 2017 and were recognized in other comprehensive income on the issue of a new bond in May 2018. The amounts recognized in other comprehensive income will be reversed to profit or loss until May 2024.

Forward Exchange and Forward Commodity Hedges 2019

€ million	Nominal amount	Carrying amount		Line item in statement of financial position	Change in value of hedged item[1]	Change in value of hedging instrument[1]
		Positive fair values	Negative fair values			
Forward exchange contracts						
EUR/JPY	38	0	(1)	Current and non-current derivative assets/liabilities	0	0
EUR/USD	307	1	(8)	Current and non-current derivative assets/liabilities	(5)	5
USD/BRL	77	1	(2)	Current and non-current derivative assets/liabilities	(5)	5
Forward commodity contracts	3	0	0	Current and non-current derivative assets/liabilities	0	0
	425	**2**	**(11)**		**(10)**	**10**

1) The changes in value are changes in the hedged component in the period.

Forward Exchange and Forward Commodity Hedges 2020

€ million	Nominal amount	Carrying amount		Line item in statement of financial position	Change in value of hedged item[1]	Change in value of hedging instrument[1]
		Positive fair values	Negative fair values			
Forward exchange contracts						
EUR/JPY	16	0	0	Current and non-current derivative assets/liabilities	(1)	1
EUR/USD	280	17	–	Current and non-current derivative assets	(24)	24
USD/BRL	54	1	(6)	Current and non-current derivative assets/liabilities	6	(6)
Forward commodity contracts	5	0	0	Current and non-current derivative assets/liabilities	0	0
	355	**18**	**(6)**		**(19)**	**19**

1) The changes in value are changes in the hedged component in the period.

Maturities and Average Prices 2019

	2020		>2020	
	Nominal amount in € million	Average rate[1] in €	Nominal amount in € million	Average rate[1] in €
Forward exchange contracts				
EUR/JPY	22	125	16	124
EUR/USD	233	1.16	74	1.18
USD/BRL	49	3.98	28	4.29
Forward commodity contracts	3	567.74	–	–
	307		**118**	

1) The average hedging rate corresponds to the fixed side of the contract for forward commodity contracts.

Maturities and Average Prices 2020

	2021		>2021	
	Nominal amount in € million	Average rate[1] in €	Nominal amount in € million	Average rate[1] in €
Forward exchange contracts				
EUR/JPY	14	124	2	120
EUR/USD	219	1.16	61	1.16
USD/BRL	39	4.63	15	4.29
Forward commodity contracts	5	371.88	–	–
	277		**78**	

1) The average hedging rate corresponds to the fixed side of the contract for forward commodity contracts.

The hedged cash flows for the forward exchange hedges will be realized within the next two years (previous year: within the next three years). The hedged cash flows of the forward commodity contracts relate to the raw material n-paraffin and, as in the previous year, will be realized within the next year.

Hedge Accounting Reconciliation Other Comprehensive Income 2019

€ million	Cash flow hedges: Currency hedging contracts	Cash flow hedges: Forward commodity contracts	Cash flow hedges: Forward interest rate contracts	Cash flow hedges: Total	Cost of hedging: Forward-to-Forward	Cost of hedging: Spot-to-Spot	Cost of hedging: Total	Sum other comprehensive income
January 1	(6)	0	0	(6)	(1)	(5)	(6)	(12)
Changes other comprehensive income	18	0	0	18	0	7	7	**25**
Reclassification in profit or loss due to recognition of underlying transaction	(19)	–	0	(19)	–	–	–	**(19)**
December 31	**(7)**	**0**	**0**	**(7)**	**(1)**	**2**	**1**	**(6)**

Hedge Accounting Reconciliation Other Comprehensive Income 2020

€ million	Cash flow hedges: Currency hedging contracts	Cash flow hedges: Forward commodity contracts	Cash flow hedges: Forward interest rate contracts	Cash flow hedges: Total	Cost of hedging: Forward-to-Forward	Cost of hedging: Spot-to-Spot	Cost of hedging: Total	Sum other comprehensive income
January 1	(7)	0	0	(7)	(1)	2	1	(6)
Changes other comprehensive income	33	0	0	33	0	(1)	(1)	**32**
Reclassification in profit or loss due to recognition of underlying transaction	(17)	–	0	(17)	–	–	–	**(17)**
December 31	**9**	**0**	**0**	**9**	**(1)**	**1**	**0**	**9**

The LANXESS Group expects that, of the unrealized gains on currency hedges recognized in other comprehensive income as of the reporting date, €6 million will be reclassified from equity to profit or loss in fiscal year 2021 and €2 million in fiscal year 2022 (previous year: unrealized losses of €5 million in fiscal year 2020 and €1 million in fiscal year 2021).

Information on the maturity structure of derivative assets and liabilities is given in Note [37].

5 | Other Non-Current and Current Financial Assets

Other Financial Assets

€ million	Dec. 31, 2019: Non-current	Dec. 31, 2019: Current	Dec. 31, 2019: Total
Financial assets	–	780	780
Contract assets	18	76	94
Other financial receivables	11	8	19
	29	**864**	**893**

Other Financial Assets

€ million	Dec. 31, 2020: Non-current	Dec. 31, 2020: Current	Dec. 31, 2020: Total
Contract assets	21	59	80
Other financial receivables	20	6	26
	41	**65**	**106**

In the previous year, financial assets essentially comprised invested cash funds and securities that can be sold at any time. No financial assets are held as of the end of the current reporting year. This change is predominantly due to the investment in shares of money market funds that can be sold at any time, which are disclosed separately in the statement of financial position as “Near-cash assets.”

The non-current contract assets relate to revenue measured at the average contract price for the manufacture of products with contractually defined minimum purchase requirements. Differences between average pricing and the invoice prices are shown as contract assets and reversed over the remaining term of the contract. Current contract assets essentially relate to revenue recognized at the average contract price for the manufacture of customer-specific products with contractually defined minimum purchase requirements as of the production date that are not expected to be delivered to the customer until the next reporting year. The decline as against the previous year is essentially due to the reduction of inventories of intermediates.

Miscellaneous other financial receivables essentially include investments in High-Tech Gründerfonds, loan receivables and other financial receivables. Other current and non-current financial assets are reduced by expected credit losses in the amount of €0 million (previous year: €1 million).

Change in Contract Assets

€ million	2019	2020
January 1	61	94
Cumulative catch-up adjustments to revenues of the reporting period	2	(9)
Cumulative catch-up adjustments to revenues of previous reporting periods	3	(11)
Contract changes	–	1
Additions	74	82
(Reversals of) impairment losses	0	0
Reclassifications to trade receivables	(46)	(79)
Exchange differences	0	2
December 31	**94**	**80**

The additions and reclassifications to trade receivables essentially relate to the business model of manufacturing customer-specific products on the basis of long-term supply agreements with contractually defined minimum purchase requirements. The additions comprise revenue already recognized in the reporting year as of the production date. When the customer-specific products manufactured in the previous year are delivered, the contract assets are reclassified as trade receivables. In addition, the reclassifications to trade receivables include the recognition of the values for the quantities delivered in the reporting year from the business model of manufacturing products on the basis of long-term supply agreements with a contractually defined minimum purchase requirement, which are included in the opening balance.

6 | Non-Current and Current Income Tax Receivables

The non-current income tax receivables of €81 million (previous year: €89 million) essentially comprise uncertain tax positions.

The current income tax receivables of €101 million (previous year: €110 million) essentially include tax prepayments and receivables relating to disputed tax issues where reimbursement is considered probable.

7 | Other Non-Current Assets

Other non-current assets of €48 million (previous year: €132 million) essentially include receivables in connection with pension obligations, periodic accruals and other reimbursement claims. The decline is due in particular to the lower level of receivables in connection with pension obligations.

Other non-current assets are generally carried at amortized cost less any write-downs. No write-downs were made in fiscal years 2019 or 2020.

8 | Inventories

The inventories of the LANXESS Group comprise:

Inventories

€ million	Dec. 31, 2019	Dec. 31, 2020
Raw materials and supplies	264	255
Work in progress, finished goods and merchandise	931	815
	1,195	**1,070**

Inventories of €87 million (previous year: €107 million) are recognized at net realizable value. The decline in inventories compared to the previous year is essentially due to lower raw material prices, active inventory management and negative exchange rate effects.

Due to inflation adjustments in accordance with IAS 29, inventories increased by less than €1 million.

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

Write-Downs of Inventories

€ million	2019	2020
January 1	(93)	(90)
Adjustments in accordance with IFRS 5	6	0
Additions charged as expenses	(29)	(10)
Reversals/utilization	26	17
Exchange differences	0	3
December 31	**(90)**	**(80)**

The adjustments in accordance with IFRS 5 result from the reporting of the Liquid Purification Technologies business unit's reverse osmosis membranes business under assets held for sale. In the previous year, the adjustments in accordance with IFRS 5 related to the reporting of the Leather business unit as a discontinued operation.

9 | Trade Receivables

All trade receivables – totaling €745 million (previous year: €769 million) – are due within one year and relate almost exclusively to third parties. As of the end of the previous year, this included receivables of €4 million from the former equity investment Currenta GmbH & Co. OHG, Leverkusen, Germany.

Loss allowances of €10 million were recognized as of the end of the reporting period (previous year: €12 million). The underlying gross receivables amount to €10 million (previous year: €12 million). The loss allowance for trade receivables and the maturity structure classes for the loss allowance in fiscal years 2019 and 2020 are shown under "Credit risk management" in Note [37].

10 | Near-Cash Assets

Near-cash assets include shares of money market funds that can be sold at any time in the amount of €1,523 million (previous year: €0 million).

11 | Other Current Assets

Other current assets totaling €145 million (previous year: €186 million) are generally stated at amortized cost less any write-downs. They essentially comprise miscellaneous claims for tax refunds, mainly for VAT, of €101 million (previous year: €129 million). €96 million of this amount is expected to be refunded within one year and €5 million at a later date. Furthermore, there are other reimbursement claims from goods and service transactions of €31 million (previous year: €36 million). This item included write-downs of €4 million (previous year: €3 million) as of December 31, 2020.

12 | Assets and Liabilities Held for Sale and Discontinued Operations

In the current reporting year, there are assets and liabilities held for sale from the sale of the Liquid Purification Technologies business unit's reverse osmosis membranes business. In addition, the Leather business unit continues to be recognized as a discontinued operation. In the previous year, assets and liabilities held for sale resulting from the planned disposal of the 40% interest in Currenta GmbH & Co. OHG, Leverkusen, Germany, and the planned disposal of the 100% interest in the subsidiary LANXESS Electronic Materials L.L.C., Pyeongtaek, Republic of Korea, were reported. Detailed information on this can be found under "Companies consolidated."

13 | Equity

Capital stock

The capital stock of LANXESS AG amounts to €87,447,852 as of December 31, 2020 and is composed of 87,447,852 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

Authorized capital was composed as follows as of December 31, 2020:

Pursuant to Section 4, Paragraph 3 of LANXESS AG's articles of association, the Annual Stockholders' Meeting on May 15, 2018, authorized the Board of Management until May 14, 2023, with the approval of the Supervisory Board, to increase the capital stock on one or more occasions by issuing new no-par bearer shares against cash or contributions in kind up to a total amount of €18,304,587 (Authorized Capital I). Furthermore, pursuant to Section 4, Paragraph 4 of LANXESS AG's articles of association, the Annual Stockholders' Meeting on May 26, 2017, authorized the Board of Management until May 25, 2022, with the approval of the Supervisory Board, to increase the company's capital stock on one or more occasions by issuing new bearer shares against cash or contributions in kind up to a total amount of €9,152,293 (Authorized Capital III). Stockholders are generally entitled to subscription rights when Authorized Capital I and III are utilized. However, these rights can be excluded in certain cases which are defined in Section 4, Paragraphs 3 and 4 of the articles of association of LANXESS AG. By way of self-commitment, the Board of Management undertakes to perform capital measures with stockholders' subscription rights disapplied up to a maximum total amount of 20% of the company's current capital stock. This restriction applies when issuing new shares utilizing authorized capital, utilizing treasury shares or issuing bonds with warrants or conversion rights/obligations on the basis of which shares must be issued, with stockholders' subscription rights disapplied in each case. The Board of Management will be bound by this declaration 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 III have not yet been utilized.

Conditional capital

Conditional capital was composed as follows as of December 31, 2020:

The Annual Stockholders' Meeting of LANXESS AG on May 15, 2018, authorized the Board of Management until May 14, 2023, 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 €9,152,293 in the company's capital stock on the terms to be defined for these bonds. Pursuant to Section 4, Paragraph 5 of the articles of association, the capital stock of LANXESS AG is thus conditionally increased by up to €9,152,293 (Conditional Capital). 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. The Board of Management will consider other capital measures with stockholders' subscription rights disapplied in its decision to disapply stockholders' subscription rights when issuing convertible bonds or bonds with warrants, profit participation rights or income bonds (or combinations of these instruments). By way of self-commitment, the Board of Management undertakes to perform capital measures with stockholders' subscription rights disapplied up to a maximum total amount of 20% of the company's current capital stock. This restriction applies when issuing new shares utilizing authorized capital, utilizing treasury shares or issuing bonds with warrants or conversion rights/obligations on the basis of which shares must be issued, with stockholders' subscription rights disapplied in each case. The Board of Management will be bound by this declaration 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 withdrawal

On May 23, 2019, the Annual Stockholders' Meeting of LANXESS AG resolved to issue an authorization for the purchase and utilization of own shares. The authorization allows the Board of Management to acquire shares in the company representing up to 10% of the capital stock until May 22, 2024, 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.

The Board of Management of the company resolved on March 10, 2020, to exercise its stock repurchase authorization and, within 24 months, to buy own shares on the stock exchange at a total volume of up to €500 million (excluding incidental expenses), divided into two tranches of €250 million each, for the purpose of withdrawing them. The first tranche was to begin no earlier than March 12, 2020, and to be completed within twelve months at the latest. The repurchase began on March 12, 2020, and was suspended until further notice by way of a Board of Management resolution of April 6, 2020, in response to the coronavirus pandemic. From March 12, 2020, until the suspension on April 6, 2020, LANXESS AG had repurchased 1,101,549 shares, equating to 1.26% of LANXESS AG's outstanding capital stock. Up to that time, the total volume of the suspended repurchase amounted to €36,698,254.49, equating to an average price of €33.3151 per repurchased share. The Board of Management of LANXESS AG will assess the situation continuously and decide on a resumption of the stock repurchase program at the appropriate time. The repurchased shares were not withdrawn in fiscal year 2020, and thus the capital stock was not reduced. As of the end of fiscal year 2020, the company therefore held 1,101,549 own shares.

In the previous year, on the basis of the resolution of the Annual Stockholders' Meeting of LANXESS AG of May 20, 2016, the Board of Management was authorized in accordance with Section 71, Paragraph 1, No. 8 of the German Stock Corporation Act to acquire shares in the company representing up to 10% of the capital stock until May 19, 2021, and to utilize them for any purpose permitted by law. Subsidiaries of the company or third parties acting for the account of the company or its subsidiaries were also permitted to utilize this authorization. At the discretion of the Board of Management, such shares were able to be acquired either on the market or via a public tender offer. The Board of Management was authorized to use them for any purpose permitted by law, especially the purposes specifically listed in the authorization. The Board of Management of the company resolved on January 10, 2019, to exercise its stock repurchase authorization and to buy treasury shares at a purchase price of up to €200 million (not including incidental expenses) on the stock exchange. In the period from January 14, 2019, to June 12, 2019, the company then purchased a total of 4,075,084 no-par bearer shares of the company with a pro rata amount of €1.00 per share. The amount of capital stock attributable to these shares was €4,075,084. This equated to 4.453% of the company's capital stock of €91,522,936 at that time. The purchases were made exclusively via the stock market by a bank commissioned by the company. They were carried out in electronic trading on the Frankfurt Stock Exchange on 94 Xetra trading days. The weighted average price amounted to €49.0787 per repurchased share. The total price for the repurchased shares, not including incidental expenses, amounted to €199,999,958.47. The treasury shares were acquired for the purpose of withdrawing them and reducing the company's capital stock. On July 9, 2019, the Board of Management resolved to withdraw all repurchased shares in line with the stock repurchase authorization in accordance with Section 71, Paragraph 1, No. 8, Sentence 6 of the German Stock Corporation Act. The shares were withdrawn on July 12, 2019, without a further resolution by the Annual Stockholders' Meeting. The company's capital stock was accordingly reduced to €87,447,852.

Capital reserves

The capital reserves of LANXESS AG amounted to €1,229,727,364 as of December 31, 2020 (previous year: €1,229,727,364). An amount of €4,075,084, equal to the reduction of the capital stock in connection with the stock repurchase, was added to the capital reserves in accordance with Section 237, Paragraph 5 of the German Stock Corporation Act in the previous year.

Other reserves

The €70 million decrease in other reserves to €1,359 million is due to the decline in retained earnings from €1,270 million to €1,200 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. In addition, retained earnings are reduced by the stock repurchase price and the costs of the stock repurchase in the current reporting year. In the previous year, in conjunction with the withdrawal of repurchased shares, retained earnings were reduced by the amount of the share repurchase price in excess of the nominal amount and the costs of the repurchase. In addition, the earnings remaining in other equity components from equity instruments measured through other comprehensive income are transferred to retained earnings on their disposal/liquidation.

Other equity components

The other equity components mainly comprise exchange differences from the translation of operations outside the eurozone, remeasurements of derivatives for purposes of cash flow hedge accounting and the corresponding hedging costs.

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. These are essentially calculated from the statement of financial position, the income statement or the statement of cash flows. Details can be found under "Value management and control system" in the combined management report for fiscal year 2020. 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

Under defined contribution plans, the company pays contributions into separate pension funds. These contributions are included in the functional cost items as expenses for the respective year, and thus in the operating result. Once the contributions have been paid, the company has no further payment obligations. Payments to defined contribution plans in fiscal year 2020 totaled €41 million (previous year: €43 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 €23 million (previous year: €23 million) to Bayer-Pensionskasse. Contributions of about the same amount are expected for fiscal year 2021.

Bayer-Pensionskasse is a legally independent private insurance company and is therefore subject to the German Insurance Supervision Act. As 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 is 15% (previous year: 15%). 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 by an independent actuary using the projected unit credit method. A period of three years is not exceeded. Comprehensive actuarial valuations are generally undertaken annually for all major post-employment benefit plans.

Contractually based defined benefit pension plans exist primarily in Germany, the U.S. and Great Britain.

The defined benefit pension obligations in Germany mainly relate to lifelong benefits payable in the event of death or disability or when the employee reaches retirement age. Benefits are determined on the basis of the total annual pension increments earned during the period of employment and vary according to employees' individual salaries. Additional pension entitlements exist that are related to salary components set aside by employees and are payable when they reach retirement age. Alongside direct commitments, the pension adjustment obligation assumed by Bayer-Pensionskasse is accounted for in a separate defined benefit plan in accordance with Section 16 of the German Occupational Pensions Improvement Act (BetrAVG). A new pension plan was agreed for employees joining from fiscal year 2017 in the form of a congruently defined benefit scheme which is funded on the basis of life insurance policies. The employer's obligation is fulfilled by the payment of the contribution to the covering life insurance policies. The covering life insurance policies are carried as plan assets via a CTA.

In the U.S. and Great Britain, the defined benefit obligations comprise, in particular, lifelong pension benefits, which are payable in the event of disability or death or when the employee reaches retirement age. The level of these benefits is determined from the total annual pension increments earned during the period of employment, depending on the employee's individual salary and the actual date of retirement. The existing defined benefit pension plans are closed to new members. In some of the closed pension plans, no new pension entitlements are accrued and the employees are transferred to a defined contribution plan.

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 the U.S. and Great Britain, it is mandatory to primarily finance pension obligations through pension funds. Allocations to pension funds in the U.S. and Great Britain are determined by the regulatory environments and the need to comply with funding regulations. Contributions are paid mainly by the employer. The investment strategy is determined principally by the LANXESS Corporate Pension Committee and is designed to protect the capital, optimally manage risks, take into account changes in pension obligations and ensure the timely availability of pension assets. At the regional level, the strategy is generally directly coordinated and monitored by representatives of LANXESS via the relevant committees of the pension funds or of LANXESS Pension Trust e.V., taking regulatory requirements into account. On the basis of local regulations, the pension assets in Great Britain are managed by external trustees in close coordination with LANXESS.

Funding surpluses from defined benefit plans are recognized as receivables relating to pension obligations to the extent that they can be used to reduce future contributions, taking into account the asset ceiling. Defined benefit pension plans with ***asset ceilings*** essentially exist in the U.S. and Great Britain. The respective calculations are based on actuarial valuations. ***Minimum funding requirements*** for defined benefit plans may exist in Great Britain and other countries. These depend on the local regulatory framework and are recognized as additional pension provisions.

In fiscal year 2020, total expenses of €68 million (previous year: €62 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	**2019**	**2020**	**2019**	**2020**
Operating result				
Current service cost	38	44	3	2
Past service cost	0	1	–	–
Gains from settlements	(3)	–	0	–
Administration expenses/taxes	1	3	0	0
Actuarial gains and losses	–	–	1	2
Financial result				
Net interest	18	12	4	4
Amounts recognized in profit or loss	**54**	**60**	**8**	**8**

The gains from settlements in the previous year resulted from settlement payments in the U.S. of €13 million for vested entitlements of €16 million. The difference of €3 million was recognized as a gain from settlements.

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 reported under other post-employment benefits on account of their nature as retirement benefits.

The net interest is the balance of the interest expense from compounding the defined benefit obligation, the interest expense from changes in the effects of the asset ceiling, and interest income from plan assets.

The table shows the amounts recognized in other comprehensive income rather than profit or loss in the reporting year:

Amounts Recognized in Other Comprehensive Income

	Pension plans		Other post-employment benefit plans	
€ million	**2019**	**2020**	**2019**	**2020**
Return on plan assets excluding amounts included in interest	156	46	4	3
Actuarial gains/losses from changes in demographic assumptions	9	(4)	4	3
Actuarial gains/losses from changes in financial assumptions	(265)	(239)	(11)	(7)
Actuarial gains/losses from experience adjustments	(6)	(1)	0	(2)
Changes in effects of the asset ceiling	(11)	(2)	(6)	(2)
Amounts recognized in other comprehensive income	**(117)**	**(200)**	**(9)**	**(5)**

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	**2019**	**2020**	**2019**	**2020**
Net defined benefit liability, January 1	890	979	118	121
Adjustments in accordance with IFRS 5	(18)	0	–	0
Amounts recognized in profit or loss	54	60	8	8
Amounts recognized in other comprehensive income	117	200	9	5
Employer contributions	(18)	(118)	(1)	(1)
Benefits paid	(43)	(43)	(15)	(12)
Acquisitions	–	–	–	1
Other addition	1	1	–	6
Exchange differences	(4)	(2)	2	(13)
Net defined benefit liability, December 31	**979**	**1,077**	**121**	**115**
Amounts recognized in the statement of financial position				
Receivables from pension obligations	(78)	(13)	–	–
Provisions for pensions and other post-employment benefits	1,057	1,090	121	115
Net defined benefit liability, December 31	**979**	**1,077**	**121**	**115**

The adjustments in accordance with IFRS 5 in fiscal year 2020 result from the reporting of the Liquid Purification Technologies business unit's reverse osmosis membranes business under assets and liabilities held for sale. In the previous year, the adjustments in accordance with IFRS 5 resulted from the reporting of the Leather business unit as a discontinued operation and the reporting of gallium-based organometallics business under assets and liabilities held for sale.

The acquisitions in other post-employment benefits in fiscal year 2020 include additions of €1 million due to the purchase of all shares in the biocide manufacturer IPEL-Itibanyl Produtos Especiais Ltda., Jarinu, Brazil.

The decline in receivables in connection with pension obligations relates to the change in investment strategy from corporate bonds to insurance contracts for plan assets in Great Britain.

The expected cash outflows for employer contributions and benefit payments in fiscal year 2021 are €19 million and €56 million, respectively, based on year-end 2020 exchange rates. In the previous year, the expected cash outflows for employer contributions and benefit payments in fiscal year 2020 were €19 million and €58 million, respectively, based on exchange rates at year end 2019.

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 explain the major changes.

The defined benefit obligation developed as follows:

Changes in Defined Benefit Obligation

	Pension plans		Other post-employment benefit plans	
€ million	**2019**	**2020**	**2019**	**2020**
Defined benefit obligation				
Defined benefit obligation, January 1	2,162	2,422	135	135
Adjustments in accordance with IFRS 5	(18)	0	0	0
Current service cost	38	44	3	2
Interest expense	52	38	4	4
Actuarial gains/losses from changes in demographic assumptions	(9)	4	(4)	(3)
Actuarial gains/losses from changes in financial assumptions	265	239	12	7
Actuarial gains/losses from experience adjustments	6	1	0	4
Past service cost	0	1	–	–
Settlements	(16)	–	0	–
Employee contributions	1	1	0	0
Benefits paid	(79)	(82)	(17)	(13)
Acquisitions	–	–	–	1
Other additions	1	1	–	6
Administration expenses/taxes	(1)	(1)	0	0
Exchange differences	20	(46)	2	(14)
Defined benefit obligation, December 31	**2,422**	**2,622**	**135**	**129**

The adjustments in accordance with IFRS 5 in fiscal year 2020 result from the reporting of the Liquid Purification Technologies business unit's reverse osmosis membranes business under assets and liabilities held for sale. In the previous year, the adjustments in accordance with IFRS 5 resulted from the reporting of the Leather business unit as a discontinued operation and the reporting of gallium-based organometallics business under assets and liabilities held for sale.

Of the defined benefit obligation for pensions, Germany accounts for 74% (previous year: 72%), Great Britain for 12% (previous year: 12%) and the U.S. for 9% (previous year: 11%).

The other post-employment benefit obligations comprise €93 million (previous year: €103 million) for the reimbursement of health care costs and €36 million (previous year: €32 million) for miscellaneous other benefit commitments.

Actuarial gains and losses from changes in demographic assumptions result from the updated demographic assumptions in the U.S., Great Britain and Brazil. In the U.S., actuarial gains resulted from the application of the newly published and adopted MP2020 (previous year: MP2019) mortality improvement tables, which assume lower future mortality improvement than in the previous year. In Great Britain, actuarial losses (previous year: gains) arose from the application of the recently published and approved CMI 2019 (previous year: CMI 2018) mortality improvement tables and from updating the capitalization factors between annuity and single payments.

Remeasurements of the defined benefit liability due to changes in actuarial gains and losses resulting from changes in financial assumptions are mainly attributable to changes in the discount rates for defined benefit obligations in the main countries of relevance for LANXESS.

In the reporting year, the past service cost for pension obligations results from improvements to existing benefit entitlements for employees taking early retirement and effects arising from case law on minimum pension benefits guaranteed by law in Great Britain.

The settlements for pension obligations in the previous year related to the disposal of vested entitlements in the U.S. of €16 million in return for settlement payments of €13 million. The difference of €3 million was recognized as a gain from settlements.

The acquisitions in other post-employment benefits in fiscal year 2020 include additions of €1 million due to the purchase of all shares in the biocide manufacturer IPEL-Itibanyl Produtos Especiais Ltda., Jarinu, Brazil.

The other additions under other post-employment benefits in fiscal year 2020 result from a reclassification of €6 million from restructuring provisions.

The exchange differences pertaining to defined benefit obligations mainly resulted from changes in the exchange rates for the U.S. dollar and the British pound.

The change in external plan assets is shown in the following table:

Changes in External Plan Assets

	Pension plans		Other post-employment benefit plans	
€ million	**2019**	**2020**	**2019**	**2020**
Plan assets at fair value				
Plan assets, January 1	1,278	1,460	30	34
Adjustments in accordance with IFRS 5	0	–	0	–
Interest income	34	26	1	1
Return on plan assets excluding amounts included in interest	156	46	4	3
Losses from settlements	(13)	–	–	–
Employer contributions	18	118	1	1
Employee contributions	1	1	0	0
Benefits paid	(36)	(39)	(2)	(1)
Administration expenses/taxes	(2)	(4)	0	0
Exchange differences	24	(45)	0	(3)
Plan assets, December 31	**1,460**	**1,563**	**34**	**35**

In the previous year, the adjustments in accordance with IFRS 5 resulted from the reporting of the Leather business unit as a discontinued operation and the reporting of gallium-based organometallics business under assets and liabilities held for sale.

Of the plan assets, Germany accounts for 60% (previous year: 52%), Great Britain for 22% (previous year: 27%) and the U.S. for 13% (previous year: 14%).

In the previous year, the settlements for pension obligations related to the disposal of vested entitlements in the U.S. of €16 million in return for settlement payments of €13 million. The difference of €3 million was recognized as a gain from settlements.

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.

External funding where subsequent pension payments are made directly out of external plan assets totaled €18 million (previous year: €18 million). External funding where LANXESS can assert reimbursement claims mainly pertains to LANXESS Pension Trust e.V. Additional funding of €100 million was provided to LANXESS Pension Trust e.V. in fiscal year 2020. No payments were made in the previous year.

The exchange differences pertaining to plan assets mainly resulted from changes in the exchange rates for the U.S. dollar and the British pound.

Changes in the effects of the asset ceiling are shown in the following table:

Changes in Effects of the Asset Ceiling

	Pension plans		Other post-employment benefit plans	
€ million	**2019**	**2020**	**2019**	**2020**
January 1	**6**	**17**	**13**	**20**
Interest expense	0	0	1	1
Additions (+)/ reversals (–)	11	2	6	2
Exchange differences	0	(1)	0	(2)
December 31	**17**	**18**	**20**	**21**

Changes in the effects of the asset ceiling essentially relate to the British defined benefit pension plans and the North American defined benefit obligations for other post-employment benefits.

Change in effects of minimum funding requirements

There were no minimum funding requirements for defined benefit plans in fiscal year 2020, as in the previous year, and there were no effects from minimum funding requirements.

The fair value of plan assets comprises:

Breakdown of Plan Assets as of December 31

€ million	**2019**	**2020**
Cash and cash equivalents	67	37
of which quoted in an active market	67	37
Equity instruments	395	477
of which quoted in an active market	395	477
Government bonds	234	205
of which quoted in an active market	234	205
Corporate bonds	567	487
of which quoted in an active market	567	487
Investment funds	30	51
of which quoted in an active market	14	25
Real estate	17	16
of which quoted in an active market	17	16
Insurance contracts	67	314
of which quoted in an active market	–	233
Other	117	11
of which quoted in an active market	117	8
	1,494	**1,598**

The plan assets do not include any real estate used by the company. Financial instruments owned by the company account for approximately 3% (previous year: 3%) of the plan assets. Index products could conceivably include LANXESS securities.

The following weighted discount rates were used to calculate the defined benefit obligation and determine the pension expense:

Discount Rates as of December 31

	Pension plans		Other post-employment benefit plans	
in %	**2019**	**2020**	**2019**	**2020**
Discount rate	1.64	1.05	3.33	2.50
Germany	1.30	0.80	0.39	0.11
U.S.	3.20	2.50	3.20	2.32
Great Britain	1.90	1.30	–	–

The following weighted measurement assumptions were used for the other parameters:

Valuation Assumptions as of December 31

	Pension plans		Other post-employment benefit plans	
in %	**2019**	**2020**	**2019**	**2020**
Expected salary increases	2.6	2.6	3.7	3.6
Expected benefit increases	1.7	1.7	–	–
Expected increases in medical costs	–	–	7.0	6.5
Expected long-term increases in medical costs	–	–	5.2	5.0

Prior-year figures restated

The assumptions are weighted on the basis of the defined benefit obligation at year end. The discount rates used for Germany, the U.S. and Great Britain are derived from high-quality fixed-interest corporate bonds with the same maturities. To align the methodical approach used in the LANXESS Group, the derivation of the maturity-matched discount rate for defined benefit plans in Germany was switched from a replacement rate method to the derivation method of a leading company in the field of actuarial services. Both methods are based on the data of the corporate bonds with a rating of at least AA listed by Bloomberg. The change had no effect on the size of the discount rate and the measurement of the defined benefit obligation.

The long-term cost increase for medical care is expected to take place within seven years (previous year: eight years).

The 2018 G Heubeck mortality tables form the biometric basis for the computation of pension obligations in Germany. Current national biometric assumptions are used to compute benefit obligations at other Group companies.

A change in the principal valuation parameters would result in the following percentage changes in the defined benefit obligation:

Sensitivities of Defined Benefit Obligations as of December 31

	Pension plans		Other post-employment benefit plans	
in %	**2019**	**2020**	**2019**	**2020**
Discount rate				
+0.5% pt	(8.3)	(8.6)	(4.7)	(4.8)
–0.5% pt	9.6	9.9	5.2	5.3
Expected salary increases				
+0.25% pt	0.2	0.2	0.5	0.5
–0.25% pt	(0.2)	(0.2)	(0.5)	(0.5)
Expected benefit increases				
+0.25% pt	4.7	5.0	–	–
–0.25% pt	(4.5)	(4.7)	–	–
Mortality				
–10%	3.8	4.0	2.0	2.5
Expected increases in medical costs				
+1% pt	–	–	5.3	4.6
–1% pt	–	–	(4.3)	(3.8)

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 19 years (previous year: 19 years). This figure was based on weighted average durations of 21 years (previous year: 20 years) for Germany, 11 years (previous year: 11 years) for the U.S. and 19 years (previous year: 18 years) for Great Britain. The weighted average duration of the defined benefit obligations for other post-employment benefits was 10 years (previous year: 11 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	**2019**	**2020**	**2019**	**2020**
Funded status				
Defined benefit obligation for funded plans	1,816	1,932	22	19
External plan assets	(1,460)	(1,563)	(34)	(35)
Underfunding/overfunding of funded plans	**356**	**369**	**(12)**	**(16)**
Defined benefit obligation for unfunded plans	606	690	113	110
Funded status, December 31	**962**	**1,059**	**101**	**94**

15 | Other Non-Current and Current Provisions

On December 31, 2020, the LANXESS Group had other current provisions of €332 million (previous year: €409 million) and other non-current provisions of €349 million (previous year: €338 million). The maturity structure of other provisions is shown in the following table:

Other Provisions

	Dec. 31, 2019				Dec. 31, 2020			
€ million	Up to 1 year	1 to 5 years	Over 5 years	Total	Up to 1 year	1 to 5 years	Over 5 years	Total
Personnel	155	33	31	219	110	39	30	179
Environmental protection	32	42	117	191	28	43	108	179
Trade-related commitments	92	5	0	97	96	1	0	97
Restructuring	23	16	5	44	15	15	4	34
Miscellaneous	107	26	63	196	83	27	82	192
	409	**122**	**216**	**747**	**332**	**125**	**224**	**681**

In total, other provisions decreased from €747 million to €681 million in fiscal year 2020. The changes in other provisions were as follows:

Changes in Other Provisions in 2020

€ million	Jan. 1, 2020	Adjustments in accordance with IFRS 5	Acquisitions	Additions	Interest effect	Utilization	Reversals	Exchange differences, reclassifications	Dec. 31, 2020
Personnel	219	(1)	0	116	0	(146)	(5)	(4)	179
Environmental protection	191	–	–	16	4	(15)	0	(17)	179
Trade-related commitments	97	–	0	60	–	(46)	(14)	0	97
Restructuring	44	–	–	11	0	(12)	(1)	(8)	34
Miscellaneous	196	(2)	0	69	1	(46)	(19)	(7)	192
	747	**(3)**	**0**	**272**	**5**	**(265)**	**(39)**	**(36)**	**681**

An amount of €6 million was reclassified from restructuring provisions to provisions for pensions and other post-employment benefits in fiscal year 2020.

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 Board of Management and top-level managers. The program provides for cash settlement. The three existing Long-Term Stock Performance Plans (LTSP) were introduced in fiscal years 2010, 2014 and 2018. Under the LTSP 2010–2013 program introduced in fiscal year 2010, rights were granted for the years 2010–2013. Awards are based on the performance of LANXESS stock relative to the Dow Jones STOXX 600 Chemicals℠ Index. The LTSP 2014–2017 program introduced in fiscal year 2014 is essentially identical to the LTSP 2010–2013. The main difference is that awards are based on the performance of LANXESS stock relative to the MSCI World Chemicals Index. The total term of all tranches in both programs is generally seven years. In fiscal year 2016, the exercise periods for the 2012 and 2013 tranches of the LTSP 2010–2013 compensation program were extended by two years each, so the full term of these two tranches is now nine years.

The vesting period is four years for each tranche. 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. In addition, the participants are obliged to invest part of their base salary in LANXESS stock (personal investment). 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.

LTSP 2018–2021 was introduced in Germany and the U.S. in fiscal year 2018. The tranche has a total term of four years and exclusively comprises the vesting period. The issue date for the rights granted and still outstanding is January 1 of each year. For each year during the term of the LTSP plan, the basic price of the company's stock is calculated from the average closing prices for the stock in Xetra trading on the Frankfurt Stock Exchange. To calculate the average, for each tranche year the closing prices of the last ten trading days in the calendar month of December of the previous year and the closing prices for the first ten trading days of the calendar month of January of the current tranche year are calculated. The value of a right is dependent on the average performance of LANXESS stock relative to the MSCI World Chemicals Index during the vesting period. The performance relative to the index is calculated individually for each of the four years of the vesting period. The values for the four fiscal years falling in the respective tranche are then added together and averaged. Rights are exercised automatically at the end of the vesting period. If the stock outperforms the index by 85 percentage points or more, at least €0.50/US$0.50 is paid out. An additional €0.03/US$0.03 is paid out for each percentage point up to a performance of 100 percentage points. If the stock outperforms the index by between 100 and 115 percentage points, a further €0.06/US$0.06 will be paid per percentage point, resulting in a maximum possible payment of €2.00/US$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

%	2019	2020
Expected share price volatility	28.0	33.0
Expected dividend payment	2.0	2.0
Expected volatility of Dow Jones STOXX 600 Chemicals℠	16.0	19.0
Correlation between LANXESS stock and Dow Jones STOXX 600 Chemicals℠	72.0	76.0
Expected volatility of MSCI World Chemicals Index	13.0	18.0
Correlation between LANXESS stock and MSCI World Chemicals Index	65.0	73.0

The relevant risk-free interest rate in the reporting year was minus 0.34% (previous year: minus 0.54%).

The expected volatilities are based on the historical volatility of LANXESS stock and the Dow Jones STOXX 600 Chemicals[SM] Index or the MSCI World Chemicals Index in the past four years.

The following table provides information on the tranches outstanding:

Long-Term Stock Performance Plan

	LTSP 2010–2013		LTSP 2014–2017		LTSP 2018–2021		
	2012 tranche	**2013 tranche**	**2016 tranche**	**2017 tranche**	**2018 tranche**	**2019 tranche**	**2020 tranche**
Duration	9 years	9 years	7 years	7 years	4 years	4 years	4 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, 2020	Jan. 31, 2021	–	–	–
Initial LANXESS share price	€44.54	€63.25	€38.39	€64.84	€66.90	€42.57	€59.39
Initial Dow Jones STOXX 600 Chemicals[SM] price	533.45 pts	665.98 pts	–	–	–	–	–
Initial MSCI World Chemicals Index price	–	–	233.45 pts	276.04 pts	337.09 pts	280.46 pts	326.83 pts
Fair value per right as of December 31, 2019	€0.04	€0.04	€1.89	€0.54	€1.09/ $1.09[1]	€1.31/ $1.31[1]	–
Fair value per right as of December 31, 2020	€0.00	€0.01	–	€0.38	€1.00/ $1.00[1]	€1.23/ $1.23[1]	€0.92/ $0.92[1]
Change in number of outstanding rights							
Outstanding rights as of January 1, 2020	6,649,825	7,246,688	8,864,954	9,432,086	12,667,148	14,201,365	–
Adjustments in accordance with IFRS 5	–	–	–	11,700	12,213	12,446	–
Rights granted	–	–	–	–	–	23,637	15,065,507
Rights exercised	–	–	8,864,954	–	–	–	–
Rights compensated	280,783	319,035	–	428,555	668,096	791,956	664,722
Rights forfeited	105,866	126,419	–	180,739	111,890	112,230	72,862
Outstanding rights as of December 31, 2020	**6,263,176**	**6,801,234**	**0**	**8,811,092**	**11,874,949**	**13,308,370**	**14,327,923**

1) US$.

The adjustments in accordance with IFRS 5 result from the reporting of the Leather business unit as a discontinued operation and new rights in fiscal year 2020.

LANXESS shares were trading at €62.76 (previous year: €59.82) as of the end of 2020. The Dow Jones STOXX 600 Chemicals[SM] benchmark index stood at 1,116.70 points (previous year: 1,029.61) while the MSCI World Chemicals Index was at 371.87 points (previous year: 329.34).

Due to the performance of the LANXESS share relative to the benchmark and to the granting, settlement or forfeiture of rights, the net expense in fiscal year 2020 was €10 million (previous year: net expense of €26 million). A provision of €22 million existed as of December 31, 2020 (previous year: €31 million). In the current reporting year, as in the previous year, the rights exercisable as of the end of the reporting period had an intrinsic value of €0 million.

Environmental provisions

The LANXESS 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.

As LANXESS is a chemical company, the possibility therefore cannot be excluded that soil or groundwater contamination may have occurred at its locations in the past. Claims in this regard could be brought by government agencies, private organizations or individuals. Such claims would then relate to the remediation of sites or areas of land owned by the LANXESS Group where products were manufactured by third parties under contract manufacturing agreements or where waste from production facilities operated by the LANXESS Group was treated, stored or disposed of.

Potential liabilities exist with respect to various sites under legislation such as the U.S. environment law commonly known as “Superfund.” At locations in the U.S., numerous companies, including LANXESS, have been notified that the U.S. authorities or private individuals consider such companies to be potentially responsible parties under Superfund or related laws. At some sites, LANXESS may be the sole responsible party. Remediation measures have already been initiated at most of the sites concerned.

The existing provisions for environmental remediation costs relate primarily to the rehabilitation of contaminated sites, re-cultivation 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 ruled out. LANXESS nevertheless estimates that such additional costs, should they occur, would not materially impact the Group's earnings, asset and financial position.

Provisions for trade-related commitments

The provisions essentially relate to energy and waste disposal services not yet invoiced and outstanding invoices for performance completed to date. They also comprise provisions for impending losses and onerous contracts.

Provisions for restructuring

Provisions for restructuring totaled €34 million (previous year: €44 million) as of December 31, 2020, comprising €23 million (previous year: €16 million) for environmental protection measures, €7 million (previous year: €20 million) for human resources measures and €4 million (previous year: €8 million) for demolition work required to fulfill environmental obligations and other expenses.

Miscellaneous provisions

In particular, miscellaneous provisions comprise provisions for asset retirement obligations, 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, 2019

	Current	Non-current					
€ million	**2020**	**2021**	**2022**	**2023**	**2024**	**> 2024**	**Total**
Bonds	–	498	598	–	–	1,577	2,673
Liabilities to banks	0	–	–	–	–	–	0
Lease liabilities	41	33	26	10	6	25	100
Other primary financial liabilities	25	0	0	1	0	3	4
	66	**531**	**624**	**11**	**6**	**1,605**	**2,777**

Other Financial Liabilities as of December 31, 2020

	Current	Non-current					
€ million	**2021**	**2022**	**2023**	**2024**	**2025**	**> 2025**	**Total**
Bonds	500	598	–	–	495	1,084	2,177
Liabilities to banks	0	–	–	–	–	–	0
Lease liabilities	41	31	15	8	5	26	85
Other primary financial liabilities	25	0	1	–	2	0	3
	566	**629**	**16**	**8**	**502**	**1,110**	**2,265**

In the LANXESS Group, the following bonds were outstanding on December 31, 2020:

Bonds

Issuance	Nominal amount € million	Carrying amount € million	Interest rate %	Maturity
April 2012	100	100	3.500	April 2022
April 2012	100	99	3.950	April 2027
November 2012	500	498	2.625	November 2022
October 2016	500	500	0.250	October 2021
October 2016	500	495	1.000	October 2026
December 2016	500	490	4.500	December 2076
May 2018	500	495	1.125	May 2025

The weighted average interest rate on bonds is unchanged year-on-year at 2.0%.

Lease installments of €157 million (previous year: €173 million) are payable to the respective lessors in subsequent years. The interest component included amounts to €31 million (previous year: €32 million).

Other primary financial liabilities include accrued interest of €25 million (previous year: €25 million) on financial liabilities, which essentially relates to bonds.

Information on the fair values of financial liabilities and the contractually agreed payments, especially interest payments, is given in Note [37].

17 | Non-Current and Current Income Tax Liabilities

Current and non-current income tax liabilities break down as follows:

Income Tax Liabilities

€ million	Dec. 31, 2019 Non-current	Current	Total
Provisions	95	119	214
Payables	–	3	3
	95	**122**	**217**

Income Tax Liabilities

€ million	Dec. 31, 2020 Non-current	Current	Total
Provisions	75	20	95
Payables	–	4	4
	75	**24**	**99**

The non-current income tax liabilities essentially comprise uncertain tax positions for ongoing tax proceedings. Current income tax liabilities essentially include taxes incurred for fiscal year 2020 but not yet paid. The decline in current income tax liabilities is due to higher prepayments during the year. Furthermore, provisions for contested income taxes that were recognized in the previous year were paid out in the current year.

18 | Other Non-Current and Current Liabilities

Other non-current liabilities break down as follows at the end of the reporting period:

Other Non-Current Liabilities

€ million	Dec. 31, 2019	Dec. 31, 2020
Asset subsidies granted by third parties	32	29
Social security liabilities	5	6
Contract liabilities	12	5
Payroll liabilities	0	2
Miscellaneous liabilities	18	9
	67	**51**

The asset subsidies granted by third parties include government grants that are contingent upon the maintenance of employment or the use of assets for the company's own production purposes over defined periods of time.

Other Current Liabilities

€ million	Dec. 31, 2019	Dec. 31, 2020
Other tax liabilities	43	42
Contract liabilities	17	18
Social security liabilities	13	15
Payroll liabilities	12	11
Miscellaneous liabilities	26	43
	111	**129**

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.

Contract liabilities are recognized in accordance with IFRS 15 for advance consideration received for which performance has not yet been rendered.

Social security liabilities include, in particular, social insurance contributions that had not been paid by the closing date.

Miscellaneous liabilities essentially comprise accruals for outstanding invoices relating to the reporting period.

Contract Liabilities

€ million	2019	2020
January 1	39	29
Cumulative catch-up adjustments to revenues of the reporting period	3	(6)
Cumulative catch-up adjustments to revenues of previous reporting periods	(4)	2
Additions	22	20
Revenue recognized that was included in the beginning balance	(31)	(22)
Exchange differences	0	0
December 31	**29**	**23**

The additions essentially relate to advance payments from customers for outstanding performance obligations. The revenue recognized from the opening balance mainly relates to prior-year payments from customers and the recognition of the values for the quantities delivered in the reporting year from the business model of manufacturing products on the basis of long-term supply agreements with a contractually defined minimum purchase requirement, which are included in the opening balance.

19 | Trade Payables

In fiscal year 2020, trade payables amounted to €681 million (previous year: €656 million) and related almost exclusively to third parties. In the previous year, these included trade payables of €113 million to the former equity investment Currenta GmbH & Co. OHG, Leverkusen, Germany, and its affiliated companies.

As in the previous year, the entire amount totaling €681 million (previous year: €656 million) is due within one year. The increase as against the previous year essentially results from higher demand-driven production toward the end of fiscal year 2020.

20 | Further Information on Liabilities

€1,122 million of total liabilities (previous year: €1,614 million) have maturities of more than five years.

NOTES TO THE INCOME STATEMENT

21 | Sales

Sales, which amount to €6,104 million (previous year: €6,802 million), mainly comprise sales of internally generated chemical products less discounts and rebates. The services relate to sales- and product-related services, tolling agreements and other long-term services. A breakdown of sales and the change in sales by segment and region is given in the segment information (see Note [39]).

Type of Revenues

€ million	2019	2020
Sales of goods	6,708	6,011
Services	94	93
	6,802	6,104

Revenue Recognition

€ million	2019	2020
Point in time	6,399	5,656
Over time	403	448
	6,802	6,104

Prior-year figures restated

The sales recognized over time relate to the business model of manufacturing customer-specific products on the basis of long-term sales contracts with contractually defined minimum purchase requirements of €355 million (previous year: €309 million) and to services rendered over time of €93 million (previous year: €94 million).

For information on the effects of changes in contract assets and contract liabilities on sales, please refer to the respective reconciliations in Notes [5] and [18].

Under the business models of manufacturing products or customer-specific products on the basis of long-term sales contracts with contractually defined minimum purchase requirements, there were unfulfilled performance obligations of €2,406 million as of December 31, 2020 (previous year: €2,304 million). The associated sales are expected to be as follows:

Maturity Structure of Revenues

€ million	2019	2020
Up to 1 year	662	659
1 to 2 years	491	416
2 to 3 years	366	262
3 to 4 years	182	207
4 to 5 years	175	197
Over 5 years	428	665
	2,304	2,406

22 | Cost of Sales

Cost of Sales

€ million	2019	2020
Expenses for raw materials and merchandise	2,901	2,472
Direct manufacturing and other production costs	2,142	2,076
	5,043	**4,548**

The manufacturing costs include, among other costs, those for personnel, depreciation, amortization, write-downs, energy, and goods and services procured. The other production costs mainly comprise inventory valuation effects and inventory discrepancies.

23 | Selling Expenses

Selling Expenses

€ million	2019	2020
Marketing costs	504	469
Outward freight charges and other selling expenses	308	304
	812	**773**

The selling expenses essentially 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 €108 million (previous year: €114 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 €267 million (previous year: €274 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	2019	2020
Income from non-core business	43	34
Exceptional items	8	11
Income from the reversal of provisions	7	10
Gains from the disposal of non-current assets	2	1
Miscellaneous operating income	35	21
	95	**77**

Exceptional items predominantly include reimbursements in connection with strategic IT projects as well as income from the reversal of provisions, essentially for restructuring, recognized as exceptional items in previous years. Based on economic relevance, they comprise €4 million (previous year: €5 million) allocated to the cost of sales and €7 million (previous year: €3 million) allocated to general administrative expenses.

27 | Other Operating Expenses

Other Operating Expenses

€ million	2019	2020
Exceptional items	158	154
Expenses for non-core business	42	30
Expenses for hedging with derivative financial instruments	27	17
Loss allowance on trade receivables and other current assets	4	1
Losses from the disposal of non-current assets	1	0
Miscellaneous operating expenses	15	30
	247	**232**

Exceptional items in fiscal year 2020 include costs of €49 million for the strategic realignment, which also include exceptionals in connection with the sale of the Liquid Purification Technologies business unit's reverse osmosis membranes business. Furthermore, there were exceptional items for restructuring measures of €23 million to adapt the production network. There were also exceptional items of €35 million for strategic IT projects and of €47 million for digitalization, costs for M&A activities and other measures.

In the previous year, exceptional items included costs for the strategic realignment of €76 million. These mostly related to the sale of tin-based organometallics business at the site in Bergkamen, Germany, and to the sale of gallium-based organometallics business in Pyeongtaek, Republic of Korea. Furthermore, there were exceptional items for restructuring measures of €6 million to adapt the production network. This especially affected the Inorganic Pigments business unit's Jinshan site in China (Advanced Intermediates segment). There were also exceptional items of €25 million for strategic IT projects and of €51 million for digitalization, costs for M&A activities and other measures.

Of the exceptional items of €154 million (previous year: €158 million), €66 million (previous year: €68 million) related to the cost of sales in line with its economic relevance, while €0 million (previous year: €6 million) related to selling expenses and €88 million (previous year: €84 million) to general administration expenses.

28 | Financial Result

The financial result breaks down as follows:

Financial Result

€ million	2019	2020
Interest income	22	10
Interest expense	(76)	(66)
Net interest expense	**(54)**	**(56)**
Interest expense from compounding interest-bearing provisions	(29)	(21)
Net exchange gain/loss	2	4
Miscellaneous financial expense and income	0	4
Dividends and income from other affiliated companies	20	890
Other financial income and expense	**(7)**	**877**
Financial result	**(61)**	**821**

The change in interest income essentially relates to the decline in interest on income tax receivables. Interest expense includes in particular payments of bond interest adjusted for capitalized borrowing costs of €3 million (previous year: €3 million) and interest on income tax liabilities. Interest expense also includes the interest portion of the lease payments under leases, amounting to €4 million (previous year: €5 million). The change in the net exchange result depends in particular on the development of the currency hedges. In particular, other financial expenses and income include the income from the fair value measurement of a loan with options of conversion into equity instruments of €11 million. This is offset by an expense of €5 million from the measurement of near-cash assets at fair value. This item also includes income of €0 million (previous year: €1 million) from loss allowances for financial assets and the monetary loss of €2 million (previous year: €3 million) from restating the price level in the context of financial reporting in hyperinflationary economies. The increase in dividends and other income from equity investments essentially results from the gain of €740 million on the sale of the 40% interest in Currenta GmbH & Co. OHG, Leverkusen, Germany, and of €150 million (previous year: €21 million) from the profit participation in Currenta GmbH & Co. OHG, Leverkusen, Germany.

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	2019	2020
Current taxes	(118)	(117)
Deferred taxes		
temporary differences	34	(17)
statutory changes in tax rates	1	(10)
loss carryforwards	(22)	(21)
Income taxes	**(105)**	**(165)**

The actual tax expense for fiscal year 2020 was €165 million (previous year: €105 million). This was €148 million (previous year: €7 million) less than the expected tax expense of €313 million (previous year: €112 million).

In calculating the expected tax expense for the LANXESS Group, the aggregated income tax rate of 29.1% (previous year: 32.3%) for the German tax entity was applied. This comprises a corporation tax rate of 15.0%, plus the solidarity surcharge (5.5% of corporation tax) and trade tax.

The reconciliation of the expected tax result to the actual tax result is as follows:

Reconciliation to Actual Tax Result

€ million	2019	2020
Income before income taxes	346	1,074
Aggregated income tax rate of LANXESS AG	32.3%	29.1%
Expected tax result	(112)	(313)
Tax difference due to differences between local tax rates and the hypothetical tax rate	21	12
Reduction in taxes due to tax-free income and reduction of tax bases	11	2
Increase in taxes due to		
non-tax-deductible expenses	(15)	(9)
unrecognized deferred taxes on tax losses and temporary differences	(47)	(22)
Other tax effects	37	165
Actual tax result	**(105)**	**(165)**
Effective tax rate	30.3%	15.4%

The other tax effects of €165 million (previous year: €37 million) essentially result from the disposal of the equity investment in Currenta GmbH & Co. OHG, Leverkusen, Germany, and are due among other things to the payment of trade tax by Currenta as part of the taxation of its profits (and corresponding purchase price reduction). As in the previous year, the other tax effects also include reversals of write-downs on deferred taxes and taxes for previous years.

The deferred tax assets and liabilities are allocable to the various items of the statement of financial position as follows:

Deferred Taxes

	Dec. 31, 2019		Dec. 31, 2020	
€ million	Less deferred tax assets	Deferred tax liabilities	Less deferred tax assets	Deferred tax liabilities
Intangible assets	6	163	3	152
Property, plant and equipment	4	186	4	186
Inventories	29	16	26	8
Receivables and other assets	78	54	28	35
Pension provisions	288	1	339	0
Other provisions	87	–	92	0
Payables	42	3	27	1
Loss carryforwards	104	–	76	–
	638	**423**	**595**	**382**
of which non-current	402	363	422	340
Set-off	(314)	(314)	(269)	(269)
	324	**109**	**326**	**113**

In the previous year, deferred tax assets of €27 million on receivables and other assets related to the difference between the carrying amount of the equity investment in Currenta GmbH & Co. OHG, Leverkusen, Germany, recognized in the consolidated statement of financial position and the carrying amount of the equity investment recognized in the tax accounts of the parent company (outside basis differences). These were recognized as expenses on completion of the sale in the current reporting year.

The change in deferred taxes is calculated as follows:

Changes in Deferred Taxes

€ million	2019	2020
Deferred taxes, January 1	**198**	**215**
Adjustments in accordance with IFRS 5	4	–
Tax income/expense recognized in the income statement	13	(48)
Changes in companies consolidated	–	0
Deferred taxes recognized in other comprehensive income	7	49
Exchange differences	(7)	(3)
Deferred taxes, December 31	**215**	**213**

In the previous year, the adjustments in accordance with IFRS 5 related to the reporting of the Leather business unit as a discontinued operation. In this context, only the deferred taxes that will be disposed of when the interest is sold were reclassified.

The deferred taxes recognized in other comprehensive income comprised €54 million (previous year: €11 million) relating to remeasurements of the net defined benefit liability for post-employment benefit plans and minus

€5 million (previous year: minus €4 million) relating to financial instruments. In addition, other comprehensive income contains current taxes of €0 million (previous year: €3 million).

Deferred tax assets of €20 million (previous year: €16 million), which exceed the reversal of taxable temporary differences, relate to tax jurisdictions in which losses were incurred in fiscal year 2020 or the previous year. These include deferred taxes on loss carryforwards of €2 million (previous year: €1 million). Based on tax planning calculations and strategies, 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 €277 million (previous year: €400 million) were recognized on the €76 million (previous year: €104 million) in tax loss carryforwards that represent income likely to be realized in the future. This amount included deferred taxes of €12 million (previous year: €14 million) on loss carryforwards with an unlimited carryforward period.

Deferred taxes were not recognized for €846 million (previous year: €917 million) of tax loss carryforwards. Of this amount, €113 million (previous year: €119 million) can theoretically be used over more than five years. Further, deferred tax assets were not recognized in fiscal year 2020 for tax-deductible temporary differences of €169 million (previous year: €191 million). Accordingly, deferred taxes on loss carryforwards of €218 million (previous year: €231 million) and deferred tax assets on tax-deductible temporary differences of €43 million (previous year: €49 million) were not recognized.

30 | Earnings and Dividend per Share

Earnings per share for fiscal year 2020 amount to €10.22, consisting of €10.49 from continuing operations and minus €0.27 from discontinued operations. These values were calculated based on the weighted average number of shares outstanding in the reporting period. As of December 31, 2020, 86,346,303 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

	2019	2020	Change %
Net income (€ million)	205	885	> 100
from continuing operations	240	908	> 100
from discontinued operations	(35)	(23)	34.3
Weighted average number of shares outstanding	88,334,641	86,587,838	(2.0)
Earnings per share (basic/diluted) (€)	**2.32**	**10.22**	**> 100**
from continuing operations	2.72	10.49	> 100
from discontinued operations	(0.40)	(0.27)	34.3

LANXESS AG reported a distributable profit of €130 million for fiscal year 2020 (previous year: €279 million). The dividend payment made to stockholders of LANXESS AG for fiscal year 2019 amounted to €0.95 per share (previous year: €0.90 per share).

31 | Personnel Expenses

The breakdown of personnel expenses is as follows:

Personnel Expenses

€ million	2019	2020
Wages and salaries	1,080	1,031
Social security contributions	162	172
Retirement benefit expenses	90	93
Social assistance benefits	13	11
	1,345	**1,307**

Personnel expenses decreased in total in fiscal year 2020. This is essentially due to lower expenses in connection with performance-related compensation, a site closure in China and the sale of a subsidiary in the Republic of Korea. This was offset by pay adjustments and a slight increase in headcount. 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 2020 was 14,346 (previous year: 14,285). The year-on-year increase in headcount essentially results from the acquisition of the biocide manufacturer IPEL-Itibanyl Produtos Especiais Ltda., Jarinu, Brazil, in February 2020 and organic growth in the Germany region. This is offset by effects from a site closure in China and the sale of a subsidiary in the Republic of Korea.

Employees by Function

	2019	2020
Production	10,264	10,256
Administration	1,848	1,906
Marketing	1,658	1,660
Research	515	524
	14,285	**14,346**

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.

As in the previous year, contingent liabilities to third parties amounted to less than €1 million as of December 31, 2020.

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 €157 million (previous year: €137 million). All of these payments are due in fiscal year 2021.

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 (see “Companies consolidated”). Transactions with these companies are carried out on an arm’s length basis.

Transactions with Currenta GmbH & Co. OHG, Leverkusen, Germany, which was recognized under assets held for sale until it was sold on April 30, 2020, and its subsidiaries predominantly comprised the purchase of site services in the fields of utilities, infrastructure and logistics. The services amounted to €136 million in the first four months of fiscal year 2020, as against €423 million in the whole of fiscal year 2019. The LANXESS Group generated sales of €10 million from transactions with Currenta GmbH & Co. OHG and its affiliated companies by April 30, 2020, as against €29 million in fiscal year 2019. The other financial result also includes a profit participation in Currenta GmbH & Co. OHG of €150 million (previous year: €21 million). The business relationships with Currenta GmbH & Co. OHG resulted in trade payables of €113 million, lease liabilities of €6 million and a purchase commitment of €9 million as of December 31, 2019. Furthermore, there were trade receivables of €4 million and other receivables of €1 million from Currenta GmbH & Co. OHG and its affiliated companies as of December 31, 2019.

In addition, members of the Board of Management and the Supervisory Board as well as their close family members were identified as related parties. As in the previous year, there were no business transactions subject to reporting requirements in fiscal year 2020. Information on the compensation of the Board of Management and Supervisory Board can be found in the next section.

35 | Compensation of the Board of Management and the Supervisory Board

For fiscal year 2020, total compensation of €8,840 thousand (previous year: €11,790 thousand) was paid to the members of the Board of Management of LANXESS AG, comprising €5,677 thousand (previous year: €7,101 thousand) in short-term compensation (fixed annual salary, Annual Performance Payment (APP), benefits in kind and other) and other long-term compensation components of €962 thousand (previous year: €2,688 thousand) as part of the Long-Term Performance Bonus (LTPB). There were no adjustments for previous years (previous year: minus €34 thousand). The total also includes compensation paid under the stock-based Long-Term Stock Performance Plan (LTSP). A total of 2,201,250 (previous year: 2,035,000) compensation rights were granted to the members of the Board of Management in fiscal year 2020. The fair value of these rights at the grant date was €2,201 thousand (previous year: €2,035 thousand). Personnel expenses for stock-based compensation amounted to €1,197 thousand in fiscal year 2020 (previous year: income of €4,518 thousand).

Details of the compensation system for members of the Board of Management and an individual breakdown of the compensation are given in the "Compensation report" section of the combined management report for fiscal year 2020.

In addition, service costs of €2,068 thousand (previous year: €1,599 thousand) relating to defined benefit pension plans were incurred in fiscal year 2020 for members of the Board of Management as part of their compensation package. The present value of the defined benefit obligation was €23,226 thousand as of December 31, 2020 (previous year: €26,899 thousand).

In accordance with IAS 24, the total net expense for the compensation of the members of the Board of Management in fiscal year 2020 was €9,904 thousand (previous year: €15,872 thousand). The balances outstanding to members of the Board of Management as of December 31, 2020, totaled €7,294 thousand (previous year: €12,757 thousand), comprising provisions of €1,919 thousand (previous year: €3,483 thousand) for the APP, €2,239 thousand (previous year: €3,555 thousand) for the LTPB and €3,136 thousand (previous year: €5,719 thousand) for stock-based compensation.

Payments totaling €5,739 thousand (previous year: €7,070 thousand) and relating to pension benefits were made to former members of the Board of Management in fiscal year 2020, €4,576 thousand (previous year: €6,459 thousand) of which related to one-time capital payments. The total pension obligation toward former members of the Board of Management as of December 31, 2020, was €39,520 thousand (previous year: €34,629 thousand).

The members of the Supervisory Board received total compensation of €1,730 thousand in fiscal year 2020 (previous year: €1,864 thousand). This compensation is paid at the start of the following year. LANXESS AG's Annual Stockholders' Meeting on May 23, 2019, resolved to change the Supervisory Board compensation to fixed compensation only. The previous provision for stock-based compensation for the Supervisory Board was reversed and measured at €0 thousand as of December 31, 2020 (previous year: €1,670 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 "Compensation report" section in the combined management report for fiscal year 2020.

No loans were granted to members of the Board of Management or the Supervisory Board in fiscal year 2020 or the previous year.

36 | Leases

The LANXESS Group rents land, office buildings and warehouses for its business activities. In addition, rail tankers and tank containers are leased to transport raw materials and goods. The right-of-use assets recognized in this context developed as follows:

Change in Right-of-Use Assets from Leases 2019

€ million	Land and buildings	Technical equipment and machinery	Other fixtures, fittings and equipment	Total
Cost of acquisition or construction, Dec. 31, 2018	2	13	20	35
Adjustments in accordance with IFRS 16	108	10	17	135
Adjustments in accordance with IFRS 5	(3)	0	(1)	(4)
Additions	14	19	14	47
Retirements	(1)	0	0	(1)
Exchange differences	1	0	0	1
Cost of acquisition or construction, Dec. 31, 2019	**121**	**42**	**50**	**213**
Accumulated depreciation and write-downs, Dec. 31, 2018	(1)	(7)	(10)	(18)
Adjustments in accordance with IFRS 5	1	–	0	1
Depreciation in 2019	(28)	(10)	(11)	(49)
of which write-downs	(1)	0	0	(1)
Retirements	1	0	0	1
Exchange differences	0	0	0	0
Accumulated depreciation and write-downs, Dec. 31, 2019	**(27)**	**(17)**	**(21)**	**(65)**
Carrying amounts, Dec. 31, 2019	**94**	**25**	**29**	**148**

Change in Right-of-Use Assets from Leases 2020

€ million	Land and buildings	Technical equipment and machinery	Other fixtures, fittings and equipment	Total
Cost of acquisition or construction, Dec. 31, 2019	121	42	50	213
Adjustments in accordance with IFRS 5	(1)	–	–	(1)
Acquisitions	1	–	–	1
Additions	19	12	9	40
Retirements	(5)	(3)	(3)	(11)
Exchange differences	(4)	(1)	(2)	(7)
Cost of acquisition or construction, Dec. 31, 2020	**131**	**50**	**54**	**235**
Accumulated depreciation and write-downs, Dec. 31, 2019	(27)	(17)	(21)	(65)
Adjustments in accordance with IFRS 5	1	–	–	1
Depreciation in 2020	(27)	(13)	(12)	(52)
of which write-downs	(1)	–	–	(1)
Retirements	4	3	3	10
Exchange differences	2	0	(1)	3
Accumulated depreciation and write-downs, Dec. 31, 2020	**(47)**	**(27)**	**(29)**	**(103)**
Carrying amounts, Dec. 31, 2020	**84**	**23**	**25**	**132**

The adjustments in accordance with IFRS 5 result from the reporting of the Liquid Purification Technologies business unit's reverse osmosis membranes business under assets held for sale. In the previous year, the adjustments in accordance with IFRS 5 related to the reporting of the Leather business unit as a discontinued operation.

Of the €49 million in depreciation and amortization recognized in fiscal year 2019, €42 million related to the introduction of IFRS 16 and €7 million to leases classified as finance leases under IAS 17.

In fiscal year 2020, interest expenses for lease liabilities of €4 million (previous year: €5 million) were recognized in the income statement. The expected future payments for lease liabilities amount to €157 million (previous year: €173 million). Information on agreed undiscounted cash flows and the division of these cash flows into payments of principal and interest is given in Note [37]. Disclosures regarding the remaining terms and maturities of the lease liabilities can be found in Note [16].

In fiscal year 2020, expenses for short-term leases amounted to €5 million (previous year: €6 million) and expenses for leases for low-value assets amounted to €2 million (previous year: €3 million). This essentially equals the payments made for these leases. In the previous year, expenses for leases for which the lease term ended within twelve months of the date of initial application of IFRS 16 were included in the expenses for short-term leases.

The leases in the LANXESS Group may contain options to extend or terminate the lease in order to ensure the greatest possible operational flexibility. Leases are negotiated individually and contain differing terms and conditions. Extension options are included in the calculation of the lease liability if they are reasonably certain to be exercised. Potential future lease payments from extension options whose exercise is not reasonably certain amount to €224 million (previous year: €225 million). They essentially relate to the global leasing of office buildings and land. For leases of indefinite duration (evergreen leases), the next extension option was accounted for in each instance.

As in the previous year, there were no sale and leaseback transactions in fiscal year 2020. There were also no material leases that were already agreed but not set to commence until later fiscal years.

The LANXESS Group is the lessor in financial leases to a limited extent. Income of €7 million from operating leases in which LANXESS is the lessor was recognized in the reporting year (previous year: €7 million). Lease payments of €5 million are expected in the following year (previous year: €7 million), of €1 million from 2022 to 2025 (previous year: €2 million from 2021 to 2024) and €2 million after 2025 (previous year: €3 million after 2024).

37 | 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 €10 million (previous year: €11 million). This would mainly have affected other comprehensive income by increasing the reported gain correspondingly (previous year: reducing the loss). This effect mainly relates to the U.S. dollar. A corresponding depreciation of the euro would essentially have had 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, hence the LANXESS Group’s net interest position will improve if interest rates rise. A general change of one percentage point in interest rates as of December 31, 2020, would have altered Group net income by €13 million (previous year: €6 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 (previous year: €0 million) as a result of changes in the fair value of hedging instruments.

The following tables show the contractually agreed (undiscounted) cash flows for primary financial liabilities, the interest components thereof and derivative financial instruments:

December 31, 2019

€ million	2020	2021	2022	2023	2024	> 2024
Bonds	**(55)**	**(555)**	**(654)**	**(37)**	**(37)**	**(2,797)**
of which interest	(55)	(55)	(54)	(37)	(37)	(1,197)
Liabilities to banks	**0**	**–**	**–**	**–**	**–**	**–**
of which interest	0	–	–	–	–	–
Trade payables	**(656)**	**–**	**–**	**–**	**–**	**–**
of which interest	–	–	–	–	–	–
Lease liabilities	**(45)**	**(35)**	**(28)**	**(11)**	**(7)**	**(47)**
of which interest	(4)	(2)	(2)	(1)	(1)	(22)
Other primary financial liabilities	**(25)**	**–**	**–**	**(1)**	**–**	**(3)**
of which interest	(25)	–	–	–	–	–
Derivative liabilities						
Hedging instruments that qualify for hedge accounting						
Disbursements	(208)	(62)	–	–	–	–
Receipts	195	58	–	–	–	–
Other hedging instruments						
Disbursements	(399)	–	–	–	–	–
Receipts	394	–	–	–	–	–
Derivative assets						
Hedging instruments that qualify for hedge accounting						
Disbursements	(43)	(24)	(2)	–	–	–
Receipts	46	24	2	–	–	–
Other hedging instruments						
Disbursements	(241)	–	–	–	–	–
Receipts	244	–	–	–	–	–

December 31, 2020

€ million	2021	2022	2023	2024	2025	> 2025
Bonds	**(555)**	**(654)**	**(37)**	**(37)**	**(537)**	**(2,260)**
of which interest	(55)	(54)	(37)	(37)	(37)	(1,160)
Liabilities to banks	**0**	**–**	**–**	**–**	**–**	**–**
of which interest	–	–	–	–	–	–
Trade payables	**(681)**	**–**	**–**	**–**	**–**	**–**
of which interest	–	–	–	–	–	–
Lease liabilities	**(44)**	**(34)**	**(17)**	**(9)**	**(6)**	**(47)**
of which interest	(3)	(3)	(2)	(1)	(1)	(21)
Other primary financial liabilities	**(25)**	**0**	**(1)**	**–**	**(2)**	**0**
of which interest	(25)	–	–	–	–	–
Derivative liabilities						
Hedging instruments that qualify for hedge accounting						
Disbursements	(8)	(1)	–	–	–	–
Receipts	3	–	–	–	–	–
Other hedging instruments						
Disbursements	(610)	–	–	–	–	–
Receipts	602	–	–	–	–	–
Derivative assets						
Hedging instruments that qualify for hedge accounting						
Disbursements	(218)	(59)	–	–	–	–
Receipts	231	63	–	–	–	–
Other hedging instruments						
Disbursements	(295)	–	–	–	–	–
Receipts	300	–	–	–	–	–

The contractually agreed payments for other primary financial liabilities due in the reporting year after the end of the reporting period includes accrued interest of €25 million (previous year: €25 million) that essentially relates to bonds.

Carrying amounts, measurement and fair values of financial instruments

The following tables show the carrying amounts of the individual classes of financial assets and liabilities and their fair values. The basis of measurement is also shown:

Carrying Amounts, Measurement and Fair Values of Financial Instruments as of December 31, 2019

€ million	IFRS 9 measurement category	Carrying amount Dec. 31, 2019	Measurement according to IFRS 9			Measurement according to IFRS 16	Fair value Dec. 31, 2019
			Amortized cost	Fair value (other comprehensive income)	Fair value (profit or loss)		
Financial assets							
Trade receivables	AC	769	769	–	–	–	769
Other financial receivables							
Financial assets – at cost	AC	780	780	–	–	–	780
Financial assets – at fair value through profit or loss	FV P&L	0	–	–	0	–	0
Other financial receivables – at cost	AC	13	13	–	–	–	13
Other financial receivables – at fair value through profit or loss	FV P&L	6	–	–	6	–	6
Other financial receivables – at fair value through other comprehensive income (debt instruments)	FV OCI	0	–	0	–	–	0
Contract assets	AC	94	94	–	–	–	94
Cash and cash equivalents	AC	296	296	–	–	–	296
Equity instruments measured at fair value through other comprehensive income	FV OCI	0	–	0	–	–	0
Derivative assets							
Hedging instruments that qualify for hedge accounting	–	2	–	2	–	–	2
Other hedging instruments	FV P&L	4	–	–	4	–	4
Financial liabilities							
Bonds	AC	(2,673)	(2,673)	–	–	–	(2,864)
Liabilities to banks	AC	0	0	–	–	–	0
Trade payables	AC	(656)	(656)	–	–	–	(656)
Lease liabilities	–	(141)	–	–	–	(141)	–
Other primary financial liabilities	AC	(29)	(29)	–	–	–	(29)
Derivative liabilities							
Hedging instruments that qualify for hedge accounting	–	(11)	–	(11)	–	–	(11)
Other hedging instruments	FV P&L	(8)	–	–	(8)	–	(8)
Embedded derivatives	FV P&L	0	–	–	0	–	0

AC Financial Assets/Liabilities at Amortized Cost
FV OCI Financial Assets at Fair Value Other Comprehensive Income
FV P&L Financial Assets/Liabilities at Fair Value through Profit or Loss

Carrying Amounts, Measurement and Fair Values of Financial Instruments as of December 31, 2020

€ million	IFRS 9 measurement category	Carrying amount Dec. 31, 2020	Measurement according to IFRS 9			Measurement according to IFRS 16	Fair value Dec. 31, 2020
			Amortized cost	Fair value (other comprehensive income)	Fair value (profit or loss)		
Financial assets							
Trade receivables	AC	745	745	–	–	–	745
Other financial receivables							
Other financial receivables – at cost	AC	6	6	–	–	–	6
Other financial receivables – at fair value through profit or loss	FV P&L	20	–	–	20	–	20
Contract assets	AC	80	80	–	–	–	80
Near-cash assets	FV P&L	1,523	–	–	1,523	–	1,523
Cash and cash equivalents	AC	271	271	–	–	–	271
Equity instruments measured at fair value through other comprehensive income	FV OCI	0	–	0	–	–	0
Derivative assets							
Hedging instruments that qualify for hedge accounting	–	18	–	18	–	–	18
Other hedging instruments	FV P&L	5	–	–	5	–	5
Financial liabilities							
Bonds	AC	(2,677)	(2,677)	–	–	–	(2,854)
Liabilities to banks	AC	0	0	–	–	–	0
Trade payables	AC	(681)	(681)	–	–	–	(681)
Lease liabilities	–	(126)	–	–	–	(126)	–
Other primary financial liabilities	AC	(28)	(28)	–	–	–	(28)
Derivative liabilities							
Hedging instruments that qualify for hedge accounting	–	(6)	–	(6)	–	–	(6)
Other hedging instruments	FV P&L	(10)	–	–	(10)	–	(10)

AC Financial Assets/Liabilities at Amortized Cost
FV OCI Financial Assets at Fair Value Other Comprehensive Income
FV P&L Financial Assets/Liabilities at Fair Value through Profit or Loss

Fair value measurement of the bonds is allocated to Level 1 of the hierarchy outlined under "Fair value measurement." However, two bonds with a fair value of €233 million (previous year: €236 million) are allocated to Level 2 of the hierarchy. The fair value of liabilities allocated to Level 2 is calculated using discounted cash flows, taking observed market interest rates into account.

Carrying Amounts by Measurement Category

€ million	Dec. 31, 2019	Dec. 31, 2020
Financial assets measured at amortized cost	1,952	1,102
Financial assets measured at fair value through other comprehensive income (debt instruments)	0	–
Equity instruments measured at fair value through other comprehensive income	0	0
Financial assets required to be measured at fair value through profit or loss	10	1,548
Financial assets	**1,962**	**2,650**
Financial liabilities measured at amortized cost	(3,358)	(3,386)
Financial liabilities required to be measured at fair value through profit or loss	(8)	(10)
Financial liabilities	**(3,366)**	**(3,396)**

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 tables show the volumes of assets and liabilities that were measured at fair value on a recurring basis as of the end of the reporting period and the levels of the fair value hierarchy into which the measurement inputs were categorized. Reclassification between the levels is reviewed as of each reporting date. There were no reclassifications in fiscal year 2019 or 2020.

Assets and Liabilities Measured at Fair Value

€ million	Dec. 31, 2019 Level 1	Level 2	Level 3
Non-current assets			
Investments in other affiliated companies	–	–	0
Non-current derivative assets	–	1	–
Other non-current financial assets	–	1	5
Current assets			
Financial assets	0	–	–
Current derivative assets	–	5	–
Non-current liabilities			
Non-current derivative liabilities	–	2	–
Current liabilities			
Current derivative liabilities	–	17	–

Assets and Liabilities Measured at Fair Value

€ million	Dec. 31, 2020 Level 1	Level 2	Level 3
Non-current assets			
Investments in other affiliated companies	–	–	0
Non-current derivative assets	–	4	–
Other non-current financial assets	–	15	5
Current assets			
Current derivative assets	–	19	–
Near-cash assets	1,523	–	–
Non-current liabilities			
Non-current derivative liabilities	–	1	–
Current liabilities			
Current derivative liabilities	–	15	–

Other equity investments of €0 million, which are assigned to Level 3 of the measurement hierarchy, include unlisted equity instruments for which the amount of the equity interests held is used as the most reliable estimate of fair value. There are currently no plans to dispose of these investments.

Other non-current financial assets within Level 2 of the fair value hierarchy include a hybrid financial instrument of €14 million (previous year: €0 million) in connection with a loan receivable with options of conversion into equity instruments. The fair value of the conversion options was calculated on the basis of an option pricing model.

Other non-current financial assets assigned to Level 3 of €5 million (previous year: €5 million) include investments in High-Tech Gründerfonds, which are measured based on the amount of the equity interests held.

Level 1 of the fair value hierarchy includes near-cash assets of €1,523 million (previous year: €0 million). These relate to shares of money market funds that can be sold at any time.

BioAmber Inc., Minneapolis, U.S., which was recognized in other equity investments under Level 3 and written down in full through other comprehensive income in the previous year, was liquidated in the reporting year. The loss of €2 million recognized in other equity components was transferred to retained earnings.

Credit risk management

On initial recognition of financial assets measured at amortized cost or fair value through other comprehensive income, the Group calculates a loss allowance on the basis of probabilities of default. During the fiscal year, factors are observed that could indicate a significant increase in the risk of default. In order to assess whether there has been a significant increase in the risk of default, the risk of default at the end of the reporting period is compared to the risk of default on initial recognition. The indicators used include internal and external credit ratings, internal and external probabilities of default, material changes in business, financial and economic circumstances and material changes in operating earnings.

For *cash and cash equivalents and other financial receivables,* expected defaults for the next twelve months are used to calculate loss allowances provided there is no increased risk of default on contractual payments.

If contractual payments are more than 30 days past due, the loss allowance is based on the expected defaults for the entire term. An event of default occurs when contractual payments are more than 180 days past due. These are then written down to the expected repayment amount. Legal action is initiated over impaired assets in order to achieve full or partial repayment. Receivables are written down in full if insolvency proceedings are opened.

No increased risk of default was ascertained for the financial assets listed. Thus, their risk of default was calculated based on the next twelve months:

Carrying Amounts and Loss Allowances

	Dec. 31, 2019			Dec. 31, 2020		
€ million	Gross carrying amount	Loss allowances	Net carrying amount	Gross carrying amount	Loss allowances	Net carrying amount
Cash and cash equivalents	296	0	296	271	0	271
Other financial assets	794	(1)	793	6	0	6

As in the previous year, no cash and cash equivalents or other financial receivables were impaired due to actual defaults in fiscal year 2020.

The simplified model based on the lifetime expected credit losses is applied to *trade receivables*. These are calculated in a multi-stage process that analyses the economic circumstances, maturity structure and risk classes and then recognizes impairments if necessary. Trade receivables are written down by 50% if more than 120 days past due and by 100% if more than 180 days past due, if default is probable. Receivables are written down in full if insolvency proceedings are opened. Furthermore, loss allowances are calculated based on a past due matrix that takes into account historical loss rates for certain maturity structure classes and future probabilities of default on the basis of credit default swaps. The maturity structure of unimpaired trade receivables and their respective probabilities of default for each maturity class are as follows:

Aging Structure and Loss Allowances (Simplified Model) Dec. 31, 2019

€ million	Not past due	1–30 days past due	31–60 days past due	61–90 days past due	>90 days past due	**Total**
Net carrying amount of trade receivables	671	83	10	2	3	**769**
Default rates calculated	**0.0%**	**0.1%**	**0.7%**	**1.9%**	**3.0%**	

Aging Structure and Loss Allowances (Simplified Model) Dec. 31, 2020

€ million	Not past due	1–30 days past due	31–60 days past due	61–90 days past due	>90 days past due	**Total**
Net carrying amount of trade receivables	674	61	6	2	2	**745**
Default rates calculated	**0.0%**	**0.2%**	**1.3%**	**4.3%**	**8.9%**	

The total carrying amounts and loss allowances for trade receivables and contract assets are as follows:

Carrying Amounts and Loss Allowances

€ million	Dec. 31, 2019 Gross carrying amount	Dec. 31, 2019 Loss allowances	Dec. 31, 2019 Net carrying amount	Dec. 31, 2020 Gross carrying amount	Dec. 31, 2020 Loss allowances	Dec. 31, 2020 Net carrying amount
Trade receivables	781	(12)	769	755	(10)	745
Contract assets	94	0	94	80	0	80

Loss allowances for *contract assets* are calculated based on the counterparty's individual probability of default applying the simplified model for the entire term.

The outstanding contractual payments that were written down in fiscal year 2020 and for which legal action was initiated amount to €1 million (previous year: €2 million). The following tables show the development of loss allowances for all financial assets from their opening value to the end of the reporting period for fiscal years 2019 and 2020:

Reconciliation Loss Allowance 2019

€ million	Expected loss allowance for cash and cash equivalents and other financial receivables[1] 12 months	Expected loss allowance for trade receivables and contract assets Lifetime simplified model	Expected loss allowance for credit-impaired assets at acquisition	Total
January 1	2	14	1	**17**
Adjustments in accordance with IFRS 5	–	(4)	–	**(4)**
Newly acquired financial assets	–	5	–	**5**
Release	0	(2)	0	**(2)**
Financial assets derecognized in the period – sale, repayment, modification	(1)	(2)	0	**(3)**
Change of model or risk parameters	–	0	–	**0**
Currency or other differences	0	0	0	**0**
December 31	**1**	**11**	**1**	**13**

1) Cash and cash equivalents and other financial receivables are not presented separately for reasons of materiality.

Reconciliation Loss Allowance 2020

€ million	Expected loss allowance for cash and cash equivalents and other financial receivables[1] 12 months	Expected loss allowance for trade receivables and contract assets Lifetime simplified model	Expected loss allowance for credit-impaired assets at acquisition	Total
January 1	1	11	1	**13**
Newly acquired financial assets	–	3	–	**3**
Release	0	(2)	0	**(2)**
Financial assets derecognized in the period – sale, repayment, modification	(1)	(2)	(1)	**(4)**
Change of model or risk parameters	–	0	–	**0**
Currency or other differences	0	0	0	**0**
December 31	**0**	**10**	**0**	**10**

1) Cash and cash equivalents and other financial receivables are not presented separately for reasons of materiality.

In the previous year, €3 million of the adjustments in accordance with IFRS 5 related to the reporting of the Leather business unit as a discontinued operation and the sale of the subsidiary LANXESS Electronic Materials L.L.C., Pyeongtaek, Republic of Korea, the receivables of which amounting to €1 million were written down in full.

The expected credit losses for cash and cash equivalents and other financial receivables essentially resulted from money market and financial investments in the previous year. The investments were not classified as receivables at risk of default as the counterparties have an investment grade rating according to international agencies and are therefore a low credit risk. The acquired, impaired financial assets included trade receivables from the acquisition of Chemtura in fiscal year 2017.

The change in the expected credit losses for trade receivables and contract assets results from ordinary operations. Due to a large and diversified customer structure, there is no material credit risk for trade receivables.

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 tables show how legally enforceable netting arrangements impact, or could impact, the Group's financial position:

Offsetting of Financial Assets and Financial Liabilities as of December 31, 2019

€ 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	769	(2)	0	767
Derivative assets	6	(4)	–	2
Financial liabilities				
Trade payables	(656)	2	0	(654)
Derivative liabilities	(19)	4	–	(15)

Offsetting of Financial Assets and Financial Liabilities as of December 31, 2020

€ 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	745	(2)	–	743
Derivative assets	23	(1)	–	22
Financial liabilities				
Trade payables	(681)	2	–	(679)
Derivative liabilities	(16)	1	–	(15)

Either contracting party may offset on a net basis the positive and negative fair values arising from past-due derivative asset or liability contracts with the same counterparty.

Net results by measurement category

The following tables provide an overview of the net results based on the measurement categories according to IFRS 9:

Net Results by Measurement Category

€ million	2019	2020
Financial assets measured at amortized cost	2	31
Financial assets and liabilities required to be measured at fair value through profit or loss	6	(26)
Equity instruments measured at fair value through other comprehensive income	0	0
Financial liabilities measured at amortized cost	(62)	(49)
	(54)	**(44)**

Net gains and losses essentially comprise interest income and expense and realized and unrealized exchange gains and losses. Total interest revenue for financial assets that are measured at amortized cost amounts to €4 million (previous year: €5 million); the total interest expense for financial liabilities that are not measured at fair value through profit or loss is €62 million (previous year: €67 million).

In addition, fees of €3 million were incurred in fiscal year 2020 (previous year: €5 million) in connection with financial instruments.

Collateralization of financial liabilities

There were no financial liabilities collateralized by mortgages or other property claims in fiscal year 2020 or the previous year.

Mezzanine financing

Mezzanine instruments such as profit participation rights, convertible bonds or warrant bonds have not been issued. Information on the possible issuance of such instruments is given in Note [13].

38 | 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 under "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 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 €1,074 million (previous year: €346 million). The financial result in fiscal year 2020 essentially relates to the adjustment of income from the disposal of the 40% interest in Currenta GmbH & Co. OHG, Leverkusen, Germany, and the profit participation in Currenta GmbH & Co. OHG, Leverkusen, Germany, for fiscal year 2019. Furthermore, income before income taxes also includes depreciation, amortization, write-downs and reversals of write-downs of €504 million (previous year: €503 million). Income taxes paid in fiscal year 2020 amounted to €215 million (previous year: €193 million). The change in net working capital resulted in cash inflows of €106 million (previous year: €68 million). Taking into account the change in other assets and liabilities of minus €34 million (previous year: minus €123 million), cash inflows provided by operating activities from continuing operations amounted to €594 million in the reporting year (previous year: €634 million). Cash used in the operating activities of discontinued operations amounts to €9 million (previous year: cash provided of €9 million).

Net cash used in investing activities

Purchases of property, plant and equipment and intangible assets led to cash outflows of €456 million in fiscal year 2020 (previous year: €508 million). In connection with the acquisition/sale of subsidiaries and other business units, there were payments of €25 million, which essentially related to the acquisition of the biocide manufacturer IPEL-Itibanyl Produtos Especiais Ltda., Jarinu, Brazil. The sale of subsidiaries and other business units led to proceeds of €740 million from the disposal of the 40% interest in Currenta GmbH & Co. OHG, Leverkusen, Germany, and €78 million from the disposal of the chrome chemicals business. The cash inflow from interest and dividends received of €155 million (previous year: €26 million) essentially resulted from the profit participation in Currenta GmbH & Co. OHG, Leverkusen, Germany, of €150 million (previous year: €21 million) for the respective previous years. In particular, the investment of funds received and maturing money market investments led to payments for financial and other assets held for investment purposes in fiscal year 2020. Cash outflows for the external funding of pension obligations (CTA) in fiscal year 2020 amounted to €100 million (previous year: €0 million). The net cash outflow for the investing activities of continuing operations amounted to €350 million (previous year: €697 million). Discontinued operations resulted in cash outflows from investing activities of €3 million (previous year: €15 million).

Net cash used in financing activities

The net repayment of borrowings of €48 million (previous year: €86 million) was attributable to financial liabilities as follows:

Reconciliation of Borrowings 2019

€ million	Dec. 31, 2018	Adjustments according to IFRS 16	Adjustments according to IFRS 5	Cash changes	Non-cash changes			Dec. 31, 2019
					Lease liabilities new additions	Exchange differences	Interest effect from compounding, accrued interest and other changes	
Bonds	2,669	–	–	–	–	–	4	2,673
Liabilities to banks	29	–	–	(29)	–	0	–	0
Lease liabilities	17	133	(4)	(56)	47	(1)	5	141
Other primary financial liabilities	30	–	–	(1)	–	0	–	29
	2,745	**133**	**(4)**	**(86)**	**47**	**(1)**	**9**	**2,843**

Reconciliation of Borrowings 2020

€ million	Dec. 31, 2019	Adjustments according to IFRS 5	Cash changes	Non-cash changes				Dec. 31, 2020
				Acquisitions	Lease liabilities new additions	Exchange differences	Interest effect from compounding, accrued interest and other changes	
Bonds	2,673	–	–	–	–	–	4	2,677
Liabilities to banks	0	–	0	–	–	0	–	0
Lease liabilities	141	(1)	(47)	1	37	(3)	(2)	126
Other primary financial liabilities	29	–	(1)	–	–	0	0	28
	2,843	**(1)**	**(48)**	**1**	**37**	**(3)**	**2**	**2,831**

Moreover, the proceeds from borrowings and the repayments of borrowings reflect the temporary drawdown on and subsequent full repayment of the syndicated credit facility of €1 billion.

Interest payments and other financial disbursements led to cash outflows of €79 million (previous year: €66 million). In fiscal year 2020, cash outflows for dividend payments amounted to €82 million (previous year: €79 million) and payments for the stock repurchase amounted to €37 million. There was therefore a total cash outflow of €246 million (previous year: €431 million) for financing activities in continuing operations. Discontinued operations resulted in a net cash outflow of €1 million (previous year: €2 million).

Cash and cash equivalents

Cash and cash equivalents, which comprise cash, checks and bank balances, amounted to €271 million (previous year: €296 million). In accordance with IAS 7, this item also includes securities with maturities of up to three months from the date of acquisition.

39 | Segment Reporting

Key Data by Segment

€ million	Advanced Intermediates 2019	Advanced Intermediates 2020	Specialty Additives 2019	Specialty Additives 2020	Consumer Protection 2019	Consumer Protection 2020	Engineering Materials 2019	Engineering Materials 2020	Reconciliation 2019	Reconciliation 2020	LANXESS 2019	LANXESS 2020
External sales	2,251	1,999	1,965	1,728	1,050	1,110	1,450	1,190	86	77	6,802	6,104
Inter-segment sales	38	39	5	11	61	51	0	–	(104)	(101)	0	0
Segment/Group sales	2,289	2,038	1,970	1,739	1,111	1,161	1,450	1,190	(18)	(24)	6,802	6,104
Segment result/EBITDA pre exceptionals	383	336	353	284	198	233	238	151	(153)	(142)	1,019	862
Exceptional items affecting EBITDA	(15)	2	(16)	(17)	0	0	0	(1)	(78)	(89)	(109)	(105)
Segment assets	1,537	1,497	2,739	2,397	986	979	1,287	1,217	225	247	6,774	6,337
Segment acquisitions	–	–	–	–	–	26	–	–	–	–	–	26
Segment capital expenditures	202	169	128	120	66	75	111	94	71	79	578	537
Depreciation and amortization	132	127	157	161	81	79	65	67	25	30	460	464
Write-downs	38	4	2	17	1	18	1	0	2	1	44	40
Reversals of impairment charges	–	0	1	–	0	–	–	–	–	0	1	0
Segment liabilities	701	702	546	568	396	419	346	323	773	742	2,762	2,754
Employees (December 31)	3,831	3,736	2,942	2,687	2,286	2,439	2,203	2,191	3,042	3,256	14,304	14,309
Employees (average for the year)	3,879	3,771	2,950	2,715	2,271	2,418	2,176	2,199	3,009	3,243	14,285	14,346

Prior-year figures restated

Key Data by Region

€ million	EMEA (excluding Germany)		Germany		North America		Latin America		Asia-Pacific		LANXESS	
	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020
External sales by market	2,128	1,876	1,251	1,128	1,554	1,408	331	295	1,538	1,397	6,802	6,104
Non-current region assets	635	654	1,431	1,473	2,099	1,876	69	67	310	286	4,544	4,356
Segment acquisitions	–	–	–	–	–	–	–	26	–	–	–	26
Segment capital expenditures	83	92	331	282	120	128	10	6	34	29	578	537
Employees (December 31)	1,806	1,787	7,558	7,627	2,031	1,979	716	797	2,193	2,119	14,304	14,309

Segment reporting

The segment reporting is in line with the internal management of operating business and the internal reporting structure of the LANXESS Group. In total, segment reporting comprises four reporting segments composed of ten operating units. The operating units are grouped together on the basis of the type of products and production processes, the type of customer groups and sales methods.

The internal management of the operating business and thus the internal reporting structure were adjusted as of January 1, 2020. LANXESS now pools its consumer protection products in a new Consumer Protection segment. The structure of the segment reporting has changed accordingly. The new segment replaces the former Performance Chemicals segment and comprises the Material Protection Products, Liquid Purification Technologies and Saltigo business units. The Inorganic Pigments business unit was allocated to the Advanced Intermediates segment. The previous year's figures were restated in line with the new segment structure.

The Leather business unit has been classified as a discontinued operation since December 2019 and is therefore no longer part of the reportable Consumer Protection (formerly: Performance Chemicals) segment. Information on discontinued operations is presented under "Companies consolidated."

On December 31, 2020, the LANXESS Group comprised the following reporting segments:

Segments	Activities
Advanced Intermediates	The Advanced Intermediates segment comprises operational business areas that essentially manufacture standardized and high-volume products in capital-intensive and predominantly continuous production processes. The products manufactured essentially comprise basic and fine chemicals, organometallics, rubber materials, and inorganic pigments for the coloring of construction materials as well as paints and coatings.
Specialty Additives	The Specialty Additives segment comprises operational business units that manufacture additives in chemical production processes. The product portfolio includes additives for the rubber, plastic and paint industries, construction and electrical industry, such as lubricants, flame retardants, plasticizers and bromine derivatives for a variety of applications.
Consumer Protection (formerly Performance Chemicals)	The Consumer Protection segment comprises operational business units that manufacture consumer protection products in chemical production processes. The products are subject to high regulatory requirements and are highly variable with options for configuration or are manufactured especially for individual customers in campaigns, batches, or specific chemical production processes. The products essentially comprise disinfectant, hygiene and preservative solutions, technologies for the treatment of water and other liquids, and precursors and intermediates for the agrochemicals, pharmaceuticals and specialty chemicals industries.
Engineering Materials	The Engineering Materials segment combines operational business units which manufacture high-tech plastics and high-performance composites using mainly continuous production processes. The production includes technical plastics, glass fibers and fiber composites as well as elastomers on a urethane basis for applications in the automotive and electrical/electronics industries, the construction industry, medicine and the sports and leisure sectors.

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.

Reconciliation eliminates inter-segment sales and reflects assets, liabilities and results not allocable to the core segments including, in particular, those pertaining to the Corporate Center. Due to the recognition of the Leather business unit as a discontinued operation, the components remaining in the LANXESS Group were reclassified from the Consumer Protection (formerly: Performance Chemicals) segment to reconciliation.

The transfer prices used for inter-segment business transactions are calculated using the OECD rules as if they had been agreed between independent third parties in comparable circumstances (arm's length principle).

The majority of employees shown in reconciliation provide services for more than one segment. They include technical service staff.

The reporting regions are those into which LANXESS's activities are organized: EMEA (Europe [excluding Germany], Middle East, Africa), Germany, North America, Latin America and Asia-Pacific. Regional sales are calculated according to the recipient's place of business. In fiscal year 2020, no individual customer of the LANXESS Group accounted for 10% or more of Group sales.

The earnings indicator used for internal management purposes in the LANXESS Group is the operating result before depreciation and amortization (EBITDA) pre exceptionals (see "Value management and control system" in the combined management report for fiscal year 2020). This is disclosed as the "segment result." The starting point for calculating EBITDA pre exceptionals is the operating result (EBIT), which comprises gross profit, selling expenses, general administration expenses, research and development expenses and other operating income and expenses. EBIT and EBITDA are alternative key financial ratios not defined according to the International Financial Reporting Standards (IFRS). These are viewed as supplementary and not a substitute to the data prepared according to IFRS. EBITDA pre exceptionals is calculated from EBIT before depreciation/reversals of property, plant and equipment, amortization and impairments of intangible assets, disregarding exceptional items. The latter are effects that, by nature or extent, have a significant impact on the earnings position, but for which inclusion in the evaluation of business performance over several reporting periods does not seem to be appropriate. Exceptional items may include write-downs, reversals of impairment charges or the proceeds from the disposal of assets, certain IT expenses, restructuring expenses and income from the reversal of provisions established in this context and reductions in earnings resulting from portfolio adjustments or purchase price allocations.

Segment sales include sales recognized over time of €448 million (previous year: €403 million), €41 million (previous year: €37 million) of which relate to the Advanced Intermediates segment, €2 million (previous year: €2 million) to the Specialty Additives segment, €360 million (previous year: €315 million) to the Consumer Protection segment, €16 million (previous year: €17 million) to the Engineering Materials segment, and €29 million (previous year: €32 million) to reconciliation. All other sales are recognized at a point in time. Please see Note [21] for further information.

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.

As in the previous year, the negative exceptional items within EBITDA of €116 million (previous year: €117 million) in fiscal year 2020 essentially related to expenses in connection with the strategic realignment of the LANXESS Group, strategic IT projects and digitalization projects. They are offset by positive exceptional items of €11 million (previous year: €8 million), which essentially relate to reimbursements in connection with the adjustment of the production network and income from the reversal of provisions recognized as exceptional items in previous years.

The segment acquisitions include the acquired net assets including goodwill as of the acquisition date.

Capital expenditures made by the segments comprise additions to intangible assets, property, plant and equipment.

All depreciation, amortization and write-downs were recognized directly in profit or loss.

Reconciliation of Segment Sales

€ million	2019	2020
Total segment sales	**6,820**	**6,128**
Other	86	77
Consolidation	(104)	(101)
Group sales	**6,802**	**6,104**

Prior-year figures restated

Reconciliation of Segment Results

€ million	2019	2020
Total segment results	**1,172**	**1,004**
Depreciation and amortization	(504)	(504)
Reversals of impairment charges	1	0
Exceptional items affecting EBITDA	(109)	(105)
Other financial income and expense	(7)	877
Net interest expense	(54)	(56)
Other	(153)	(142)
Income before income taxes	**346**	**1,074**

The reconciliation of segment results to income before income taxes contains total exceptional items comprising net charges of €143 million (previous year: charges of €150 million) (see Notes [26] and [27]). These include exceptional items within EBITDA of minus €105 million (previous year: minus €109 million) and write-downs of minus €38 million (previous year: minus €41 million).

Reconciliation of Segment Assets

€ million	Dec. 31, 2019	Dec. 31, 2020
Total segment assets	**6,549**	**6,090**
Adjustments to discontinued operations	203	112
Cash and cash equivalents	296	271
Deferred taxes	324	326
Near-cash assets	–	1,523
Income tax receivables	199	182
Derivative assets	6	23
Other financial assets	893	106
Other	225	247
Group assets	**8,695**	**8,880**

Segment assets essentially comprise intangible assets, property, plant and equipment including right-of-use assets from leases, inventories and trade receivables. They do not include items such as cash and cash equivalents and deferred taxes.

Reconciliation of Segment Liabilities

€ million	Dec. 31, 2019	Dec. 31, 2020
Total segment liabilities	**1,989**	**2,011**
Adjustments to discontinued operations	98	69
Other financial liabilities	2,843	2,831
Derivative liabilities	19	16
Income tax liabilities	217	99
Deferred taxes	109	113
Other	773	742
Group liabilities	**6,048**	**5,881**

Segment liabilities essentially comprise provisions, trade payables and other liabilities. The reconciliation ("Other" line) of segment liabilities essentially contains pension and other provisions that are attributable to the Corporate Center. They do not include income tax liabilities in particular, as well as derivative and other financial liabilities.

40 | Audit Fees

In fiscal year 2020, total audit fees of €2,540 thousand (previous year: €2,917 thousand) for the auditor of the consolidated financial statements of the LANXESS Group were recognized as expenses. The total amount includes €2,227 thousand (previous year: €2,497 thousand) relating to audits of financial statements. The fees were essentially paid for the audit of LANXESS AG's annual financial statements and the consolidated financial statements, including the early warning system, and for the review of the condensed consolidated interim financial statements. €195 thousand (previous year: €273 thousand) relates to other assurance services.

These essentially include services in connection with sustainability reporting and audit certification services. €118 thousand (previous year: €127 thousand) relates to other services. In the previous year, €20 thousand related to tax advisory services. Other services essentially comprised project-related consulting services. 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.

41 | 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.

42 | Utilization of Disclosure Exemptions

In fiscal year 2020, the following German subsidiaries made use of disclosure exemptions pursuant to Section 264, Paragraph 3 of the German Commercial Code (HGB):

- Achte LXS GmbH, Cologne
- Bond-Laminates GmbH, Brilon
- CheMondis GmbH, Cologne
- IAB Ionenaustauscher GmbH Bitterfeld, Greppin
- IMD Natural Solutions GmbH, Dortmund
- LANXESS Deutschland GmbH, Cologne
- LANXESS Distribution GmbH, Leverkusen
- LANXESS Global Business Services GmbH, Cologne
- LANXESS Organometallics GmbH, Bergkamen
- Saltigo GmbH, Leverkusen

In addition, the following German subsidiary made use of the disclosure exemption pursuant to Section 264b in conjunction with Section 264, Paragraph 3 of the German Commercial Code (HGB) in fiscal year 2020:

- LANXESS Trademark GmbH & Co. KG, Leverkusen

Outside Germany, LANXESS Limited (registration no. 03498959), Newbury, Great Britain, utilized the exemption from the auditing of its annual financial statements as permitted by Section 479A of the Companies Act 2006. As required by law, LANXESS AG, as the parent company, guaranteed all outstanding liabilities as of December 31, 2020, with respect to Section 479C of the Companies Act 2006.

43 | Events after the Reporting Period

On January 1, 2021, in conjunction with the strategic reorientation of the Liquid Purification Technologies business unit to focus on ion exchanger business, LANXESS completed the sale of its reverse osmosis membranes business to SUEZ WTS Germany GmbH, Düsseldorf, Germany, a subsidiary of the corporation SUEZ S.A., Paris, France. In the statement of financial position as of December 31, 2020, the assets and liabilities to be disposed of were recognized as held for sale. Please refer to "Assets held for sale" under "Companies consolidated" for further information.

In addition, LANXESS signed an agreement on the acquisition of the Theseo Group on February 9, 2021. The group, headquartered in Laval, France, is a leading manufacturer of disinfection and hygiene solutions in Europe and Latin America. The products are used in particular in livestock farming to prevent and control diseases. Theseo has around 100 employees at its sites in Laval, France; Wietmarschen, Germany; Hull, Great Britain; and Campinas, Brazil, and generated sales of a lower eight-figure sum in euros in 2020.

LANXESS signed an agreement to acquire INTACE SAS, Paris, France, on January 14, 2021. The acquisition enhances LANXESS's position as one of the world's leading manufacturers of biocides and antimicrobial active ingredients. The biocide specialist is a manufacturer of special-purpose fungicides for the packaging industry. The acquired company generated sales of a medium seven-figure amount in fiscal year 2020.

On February 14, 2021, LANXESS concluded an agreement with the U.S. private equity firm American Securities LLC regarding the acquisition of 100% of the shares in Emerald Kalama Chemical. The U.S. company is a one of the world's leading manufacturers of special chemicals, primarily for the consumer goods sector. LANXESS will finance the purchase price of around US$1 billion with existing liquidity. The transaction is still subject to the approval of the responsible authorities and is expected to be completed in the second half of 2021. Emerald Kalama Chemical has around 500 employees worldwide and operates production sites in Kalama, U.S., Rotterdam, Netherlands, and Widnes, Great Britain. In fiscal year 2020, the company generated sales of around US$425 million and EBITDA pre exceptionals of US$90 million.

No other events of particular significance took place after December 31, 2020, that could be expected to have a material effect on the earnings, asset and financial position of the LANXESS Group or LANXESS AG.

Cologne, February 23, 2021
LANXESS Aktiengesellschaft

The Board of Management

Matthias Zachert Dr. Anno Borkowsky

Dr. Stephanie Coßmann Dr. Hubert Fink

Michael Pontzen

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable financial reporting principles, the consolidated financial statements give a true and fair view of the earnings, asset and financial position of the Group, and the combined management report includes a fair review of the development and performance of the business and the position of the LANXESS Group and LANXESS AG, together with a description of the principal opportunities and risks associated with the expected development of the LANXESS Group and LANXESS AG.

Cologne, February 23, 2021
LANXESS Aktiengesellschaft

The Board of Management

Matthias Zachert	Dr. Anno Borkowsky
Dr. Stephanie Coßmann	Dr. Hubert Fink
Michael Pontzen	

Independent Auditor’s Report

The following copy of the auditor's report also includes a “Assurance report in accordance with § 317 Abs. 3b HGB on the electronic reproduction of the annual financial statements and the management report prepared for publication purposes” (“Separate report on ESEF conformity”). The subject matter (ESEF documents to be audited) to which the separate report on ESEF conformity relates is not attached. The audited ESEF documents can be inspected in or retrieved from the Federal Gazette.

To LANXESS Aktiengesellschaft, Cologne

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Audit Opinions

We have audited the consolidated financial statements of LANXESS Aktiengesellschaft, Cologne, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2020, and the consolidated statement of comprehensive income, consolidated statement of profit or loss, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January 1 to December 31, 2020, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of LANXESS Aktiengesellschaft, which is combined with the Company’s management report, for the financial year from January 1 to December 31, 2020. In accordance with the German legal requirements, we have not audited the content of the group statement on corporate governance pursuant to § [Article] 289f HGB [Handelsgesetzbuch: German Commercial Code] and § 315d HGB.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315e Abs. [paragraph] 1 HGB and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2020, and of its financial performance for the financial year from January 1 to December 31, 2020, and
- the accompanying group management report as a whole provides an appropriate view of the Group’s position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of the statement on corporate governance referred to above.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as “EU Audit Regulation”) in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the “Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report” section of our auditor’s report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1 to December 31, 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

1 Goodwill Impairment
2 Pension provisions

Our presentation of these key audit matters has been structured in each case as follows:

① Matter and issue
② Audit approach and findings
③ Reference to further information

Hereinafter we present the key audit matters:

1 Goodwill Impairment

① Goodwill of €808 million (9% of consolidated total assets or 27% of Group equity) is reported under the "Goodwill" balance sheet item in the Company's consolidated financial statements. The Company allocates goodwill to the respective cash-generating units. Goodwill is tested for impairment once a year, unless events or a change in circumstances indicates any sooner that goodwill may be impaired. The carrying amount of the relevant cash-generating units, including goodwill, is compared with the corresponding recoverable amount in the context of the impairment test. The recoverable amount is always calculated on the basis of fair value less costs to sell. The present value of the future cash flows from the respective cash-generating units normally serves as the basis of measurement. Present values are calculated using discounted cash flow models. The discounted cash flow models are based on cash flow projections, which in turn are based on the five-year plan approved by management and applicable at the time the impairment test is carried out. The future net cash flows are discounted using a weighted cost of capital. The impairment test determined that no impairment losses had to be recognized.

This matter was of particular significance to our audit, because the result of this measurement depends to a large extent on the Company's management's assessment of future cash inflows, the discount rate used, the growth rates assumed, and other assumptions made and is therefore subject to considerable uncertainty.

② As part of our audit, we reviewed the methodology employed for the purposes of performing the impairment test, among other things. We assessed the appropriateness of the future cash inflows used in the measurement, among other things by comparing this data with the current budgets in the five-year plan approved by management, and reconciling it against general and sector-specific market expectations. We also assessed whether the basis for including the costs of Group functions was accurate. With the knowledge that even relatively small changes in the discount rate applied can have material effects on the value of the entity calculated in this way, we also included in our review the parameters used to determine the discount rate applied, including the weighted average cost of capital, and evaluated the measurement model. Furthermore, we reviewed the sensitivity analysis carried out by the Company and additionally performed our own sensitivity analysis for the cash-generating units and, taking into account the information available, determined that the carrying amounts of the cash-generating units, including the allocated goodwill, were adequately covered by the discounted future cash flows. Overall, the measurement inputs and assumptions used by management are in line with our expectations and are also within the ranges considered by us to be reasonable.

③ The Company's disclosures on goodwill are contained in the sections entitled “Intangible assets,” “Method and impact of the global impairment tests,” and “Judgments and estimates” in the notes to the consolidated financial statements.

❷ Pension provisions

① Pension provisions amounting to €1.205 million are reported in the consolidated financial statements of the Company under the balance sheet item “Provisions for pensions and similar obligations.” The pension provisions comprise mainly obligations from defined benefit pension plans plan assets.

Obligations under defined benefit plans are measured using the projected unit credit method. This requires assumptions to be made in particular about long-term rates of growth in salaries and pensions, average life expectancy, and staff turnover. Furthermore, the discount rate applied as of the balance sheet date must be determined by reference to market yields on high-quality corporate bonds with matching currencies and terms which are consistent with the expected maturities of the obligations. This usually requires the data to be extrapolated, since no sufficiently long-term corporate bonds exist. The plan assets are measured at fair value.

From our point of view, these matters were of particular importance in the context of our audit because the recognition and measurement of this item – which is significant in terms of its amount – are based to a large extent on estimates and assumptions made by the company's management.

② Our audit included evaluating the actuarial expert reports obtained and the professional qualifications of the external experts. We also examined the specific features of the actuarial calculations and reviewed the numerical data, the actuarial parameters and the valuation methods on which the valuations were based for compliance with standards and appropriateness, in addition to other procedures. In addition, we analyzed the changes in the obligation and the cost components in accordance with actuarial expert reports in the light of changes occurring in the valuation parameters and the numerical data, and verified their plausibility. For the purposes of our audit of the fair value of plan assets, we obtained bank confirmations.

Based on our audit procedures, we satisfied ourselves that the estimates and assumption made by management were justified and adequately documented.

③ The disclosures on the provisions for pensions can be found in the section entitled “Pension provisions and similar obligations” in the notes to the consolidated financial statements.

Other Information

The executive directors are responsible for the other information. The other information comprises the statement on corporate governance pursuant to § 289f HGB and § 315d HGB.

The other information comprises further the remaining parts of the annual report – excluding cross-references to external information – with the exception of the audited consolidated financial statements, the audited group management report and our auditor's report, and the separate non-financial report pursuant to § 289b Abs. 3 HGB and § 315b Abs. 3 HGB.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

› is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
› otherwise appears to be materially misstated.

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Assurance Report in Accordance with § 317 Abs. 3b HGB on the Electronic Reproduction of the Consolidated Financial Statements and the Group Management Report Prepared for Publication Purposes

Reasonable Assurance Conclusion

We have performed an assurance engagement in accordance with § 317 Abs. 3b HGB to obtain reasonable assurance about whether the reproduction of the consolidated financial statements and the group management report (hereinafter the "ESEF documents") contained in the attached electronic file [lanxess.zip] and prepared for publication purposes complies in all material respects with the requirements of § 328 Abs. 1 HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this assurance engagement only extends to the conversion of the information contained in the consolidated financial statements and the group management report into the ESEF format and therefore relates neither to the information contained within this reproduction nor to any other information contained in the above-mentioned electronic file.

In our opinion, the reproduction of the consolidated financial statements and the group management report contained in the above-mentioned attached electronic file and prepared for publication purposes complies in all material respects with the requirements of § 328 Abs. 1 HGB for the electronic reporting format. We do not express any opinion on the information contained in this reproduction nor on any other information contained in the above-mentioned electronic file beyond this reasonable assurance conclusion and our audit opinion on the accompanying consolidated financial statements and the accompanying group management report for the financial year from January 1 to December 31, 2020 contained in the "Report on the Audit of the Consolidated Financial Statements and on the Group Management Report" above.

Basis for the Reasonable Assurance Conclusion

We conducted our assurance engagement on the reproduction of the consolidated financial statements and the group management report contained in the above-mentioned attached electronic file in accordance with § 317 Abs. 3b HGB and the Exposure Draft of IDW Assurance Standard: Assurance in Accordance with § 317 Abs. 3b HGB on the Electronic Reproduction of Financial Statements and Management Reports Prepared for Publication Purposes (ED IDW AsS 410) and the International Standard on Assurance Engagements 3000 (Revised). Accordingly, our responsibilities are further described below in the "Group Auditor's Responsibilities for the Assurance Engagement on the ESEF Documents" section. Our audit firm has applied the IDW Standard on Quality Management: Requirements for Quality Management in the Audit Firm (IDW QS 1).

Responsibilities of the Executive Directors and the Supervisory Board for the ESEF Documents

The executive directors of the Company are responsible for the preparation of the ESEF documents including the electronic reproduction of the consolidated financial statements and the group management report in accordance with § 328 Abs. 1 Satz 4 Nr. 1 HGB and for the tagging of the consolidated financial statements in accordance with § 328 Abs. 1 Satz 4 Nr. 2 HGB.

In addition, the executive directors of the Company are responsible for such internal control as they have considered necessary to enable the preparation of ESEF documents that are free from material non-compliance with the requirements of § 328 Abs. 1 HGB for the electronic reporting format, whether due to fraud or error.

The executive directors of the Company are also responsible for the submission of the ESEF documents together with the auditor's report and the attached audited consolidated financial statements and audited group management report as well as other documents to be published to the operator of the German Federal Gazette [Bundesanzeiger].

The supervisory board is responsible for overseeing the preparation of the ESEF documents as part of the financial reporting process.

Group Auditor's Responsibilities for the Assurance Engagement on the ESEF Documents

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material non-compliance with the requirements of § 328 Abs. 1 HGB, whether due to fraud or error. We exercise professional judgment and maintain professional skepticism throughout the assurance engagement. We also:

› Identify and assess the risks of material non-compliance with the requirements of § 328 Abs. 1 HGB, whether due to fraud or error, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance conclusion.
› Obtain an understanding of internal control relevant to the assurance engagement on the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance conclusion on the effectiveness of these controls.
› Evaluate the technical validity of the ESEF documents, i.e., whether the electronic file containing the ESEF documents meets the requirements of the Delegated Regulation (EU) 2019/815 in the version applicable as at the balance sheet date on the technical specification for this electronic file.

- Evaluate whether the ESEF documents enables a XHTML reproduction with content equivalent to the audited consolidated financial statements and to the audited group management report.
- Evaluate whether the tagging of the ESEF documents with Inline XBRL technology (iXBRL) enables an appropriate and complete machine-readable XBRL copy of the XHTML reproduction.

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on August 27, 2020. We were engaged by the supervisory board on September 15, 2020. We have been the group auditor of the LANXESS Aktiengesellschaft, Cologne, without interruption since the financial year 2005.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Jörg Sechser.

Cologne, February 24, 2021

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Jörg Sechser	ppa. Martin Krug
German Public Auditor	German Public Auditor

FURTHER INFORMATION

About this Report

REPORTING METHODOLOGY

This report comprises the financial and sustainability reporting by the LANXESS Group. It is aligned to national and international standards for financial and sustainability reporting, especially the International Financial Reporting Standards (IFRS), German accounting standards (DRS) and the principles of the U.N. Global Compact. This report was also created in compliance with the GRI standards ("core" option).

This report contains information according to the transparency requirements of the U.K. Modern Slavery Act. "Slavery and human trafficking statement"

Reporting is performed annually. The last report for fiscal year 2019 was published in March 2020.

NON-FINANCIAL REPORTING

In the Corporate Responsibility section of this Annual Report, we fulfill our obligation to issue a non-financial Group report. The non-financial disclosures required in accordance with Sections 315b and 315c in conjunction with Sections 289c to 289e HGB and shown separately in the layout were prepared by the Board of Management and reviewed by the Supervisory Board of LANXESS AG. The non-financial report and the associated data collection processes have undergone a review with limited assurance in line with the auditing standard ISAE 3000 (revised) by Pricewaterhouse-Coopers GmbH Wirtschaftsprüfungsgesellschaft on behalf of the Supervisory Board. The audit report can be found on page 247 of this report. The reporting year is 2020. The report covers the Group companies that are also included in the consolidated financial statements. Unless indicated otherwise, the disclosures apply to the entire Group. References to disclosures not included in the combined management report of the LANXESS Group and LANXESS AG or in the consolidated financial statements represent further information and do not form part of the non-financial Group report.

Within the non-financial report, we generally use the international standards of the Global Reporting Initiative (GRI) as the framework for the materiality analysis and reporting on management approaches and on general and topic-specific disclosures. More information about our business model

Information on environmental protection provisions of €179 million for potential future costs of environmental protection and remediation measures can be found in Note [15].

Index to the Non-financial Statement

Topics		NFR issues	Page
Corporate Governance		Human rights	22 et seq.
		Anti-corruption	23 et seq.
Resilient Sourcing	Establishment of a systematic sustainability risk analysis to evaluate all suppliers	Environmental issues	39
		Human rights	22 et seq.
	Identification and reduction of sustainability risks in the supply chain	Environmental issues	39
		Human rights	22 et seq.
Safe and Sustainable Sites	Uniform standards and processes worldwide	Environmental issues	20 et seq.
	Global process safety	Environmental issues	41 et seq.
	Water consumption, wastewater, water risk sites	Environmental issues	42 et seq.
	Corporate citizenship	Social issues	47
Climate Action and Energy Efficiency	Emissions	Environmental issues	49 et seq.
	Energy efficiency	Environmental issues	52 et seq.
Energized Employees and Performing Teams	Employee retention	Employee issues	29 et seq.
	Employee development	Employee issues	27 et seq.
	Occupational safety	Employee issues	36 et seq.
	Employee welfare/work-life balance	Employee issues	34 et seq.
	Diversity & Inclusion	Employee issues	31 et seq.

DATA COLLECTION

The reporting year is 2020. In compiling the data, we applied the principles of balance, comparability, accuracy, timeliness, clarity and reliability. The report covers the Group companies that are also included in the consolidated financial statements. We expect the sale of all operations of the Leather business unit to be completed by mid-2021. In our financial reporting, we therefore recognize Leather as a discontinued operation in accordance with IFRS 5 as of December 31, 2020. Reporting regarding non-financial issues follows fundamentally the same analysis perspective. Audited figures are presented separately for continuing operations and Leather. Other figures cover the entire Group unless indicated otherwise.

For disclosure of HR key figures, LANXESS uses a global reporting system that contains the key data for the entire Group.

We use electronic data capture systems for the systematic global recording of key performance indicators (KPIs) in the areas of safety and environmental protection. The two performance indicators we use to measure occupational safety – the lost time injury frequency rate (LTIFR, known as MAQ in Germany) and the recordable incident rate (RIR) – apply to all sites. Environmental protection data are gathered only at those production sites in which the company has a holding of more than 50%. 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 data, PricewaterhouseCoopers has audited selected key figures with limited assurance. These are identified accordingly in the report.

KEY REPORT CONTENT

The content of the report for fiscal year 2020 is based on a materiality analysis performed in the fourth quarter of 2017. All key issues identified are described in detail in this report.

The following table identifies the boundaries (GRI 103-1) between the key issues and the GRI standards that they cover.

Boundaries

Key issues	Within the organization	Outside the organization			Management approach (GRI 103-2, 103-3)/ associated GRI standard[1]
	Advanced Intermediates/Speciality Additives/ Consumer Protection/Engineering Materials	Suppliers	Customers	Society	
Good Corporate Governance	X	X	X	X	Management approach: p. 19–24, 64–72 GRI 205: Anti-corruption GRI 206: Anticompetitive Behavior GRI 207: Taxes 2019 GRI 307: Environmental Compliance GRI 406: Non-discrimination GRI 408: Child Labor GRI 409: Forced Labor GRI 410: Security Practices GRI 411: Indigenous Rights GRI 412: Human Rights Assessment GRI 415: Public Policy GRI 416: Customer Health and Safety GRI 417: Marketing and Labeling GRI 418: Customer Privacy GRI 419: Socioeconomic Compliance
Energized Employees and Performing Teams	X			X	Management approach: p. 17–18, 20–21, 24–39 GRI 202: Market Presence GRI 401: Employment GRI 402: Labor/Management Relations GRI 403: Occupational Health and Safety 2018 GRI 404: Training and Education GRI 405: Diversity and Equal Opportunity GRI 407: Freedom of Association and Collective Bargaining
Resilient Sourcing	X	X			Management approach: p. 16, 21–23, 39–40, 89 GRI 204: Procurement Practices GRI 308: Supplier Environmental Assessment GRI 414: Supplier Social Assessment
Safe and Sustainable Sites	X			X	Management approach: p. 16, 20–21, 41–49 GRI 203: Indirect Economic Impacts GRI 303: Water and Effluents 2018 GRI 306: Effluents and Waste GRI 413: Local Communities
Climate Action and Energy Efficiency	X	X	X	X	Management approach: p. 17, 20–21, 49–53 GRI 302: Energy GRI 305: Emissions
Sustainable Product Portfolio	X		X	X	Management approach: p. 18, 54–55 GRI 301: Materials GRI 416: Customer Health and Safety GRI 417: Marketing and Labeling
Business-Driven Innovation	X		X		Management approach: p. 19, 56–57, 90–91
Valuing Customer Relationships	X		X		Management approach: p. 19, 57–58

1) 2016, if not stated otherwise.

Non-financial Group Report: Independent Assurance Report

INDEPENDENT PRACTITIONER'S REPORT ON A LIMITED ASSURANCE ENGAGEMENT ON NON-FINANCIAL REPORTING[1)]

"To LANXESS AG, Cologne

We have performed a limited assurance engagement on the separate non-financial group report pursuant to § (Article) 315b Abs. (paragraph) 3 HGB ("Handelsgesetzbuch": "German Commercial Code") of LANXESS AG, Cologne, (hereinafter the "Company") for the period from 1 January to 31 December 2020 which includes the information marked with a gray side stripe in the "Corporate Responsibility" section of the Annual Report (hereinafter the "Non-financial Report").

Responsibilities of the Executive Directors

The executive directors of the Company are responsible for the preparation of the Non-financial Report in accordance with §§ 315c in conjunction with 289c to 289e HGB.

This responsibility of Company's executive directors includes the selection and application of appropriate methods of non-financial reporting as well as making assumptions and estimates related to individual non-financial disclosures which are reasonable in the circumstances. Furthermore, the executive directors are responsible for such internal controls as they have considered necessary to enable the preparation of a Non-financial Report that is free from material misstatement whether due to fraud or error.

Independence and Quality Control of the Audit Firm

We have complied with the German professional provisions regarding independence as well as other ethical requirements.

Our audit firm applies the national legal requirements and professional standards – in particular the Professional Code for German Public Auditors and German Chartered Auditors ("Berufssatzung für Wirtschaftsprüfer und vereidigte Buchprüfer": "": "BS WP/vBP") as well as the Standard on Quality Control 1 published by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany; IDW): Requirements to quality control for audit firms (IDW Qualitätssicherungsstandard 1: Anforderungen an die Qualitätssicherung in der Wirtschaftsprüferpraxis – IDW QS 1) – and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Practitioner's Responsibility

Our responsibility is to express a limited assurance conclusion on the information in the Non-financial Report based on the assurance engagement we have performed.

Within the scope of our engagement we did not perform an audit on external sources of information or expert opinions, referred to in the Non-financial Report

We conducted our assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the IAASB. This Standard requires that we plan and perform the assurance engagement to allow us to conclude with limited assurance that nothing has come to our attention that causes us to believe that the Company's Non-financial Report for the period from 1 January 2020 to 31 December 2020 has not been prepared, in all material aspects, in accordance with §§ 315c in conjunction with 289c to 289e HGB.

1) PricewaterhouseCoopers GmbH has performed a limited assurance engagement on the German version of the separate non-financial group report and issued an independent practitioner's report in German language, which is authoritative. The following text is a translation of the independent practitioner's report.

In a limited assurance engagement the assurance procedures are less in extent than for a reasonable assurance engagement, and therefore a substantially lower level of assurance is obtained. The assurance procedures selected depend on the practitioner's judgment.

Within the scope of our assurance engagement, we performed amongst others the following assurance procedures and further activities:

- Obtaining an understanding of the structure of the sustainability organization and of the stakeholder engagement
- Inquiries of relevant personnel involved in the preparation of the Non-financial Report regarding the preparation process, the internal control system relating to this process and selected disclosures in the Non-financial Report
- Identification of the likely risks of material misstatement of the Non-financial Report
- Analytical evaluation of selected disclosures in the Non-financial Report
- Comparison of selected disclosures with corresponding data in the consolidated financial statements and in the group management report
- Evaluation of the presentation of the non-financial information

Assurance Conclusion

Based on the assurance procedures performed and assurance evidence obtained, nothing has come to our attention that causes us to believe that the Company's Non-financial Report for the period from 1 January to 31 December 2020 has not been prepared, in all material aspects, in accordance with §§ 315c in conjunction with 289c to 289e HGB.

Intended Use of the Assurance Report

We issue this report on the basis of the engagement agreed with the Company. The assurance engagement has been performed for purposes of the Company and the report is solely intended to inform the Company about the results of the limited assurance engagement. The report is not intended for any third parties to base any (financial) decision thereon. Our responsibility lies only with the Company. We do not assume any responsibility towards third parties.

Cologne, 24 February 2021

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Hendrik Fink	ppa. Theres Schäfer
Wirtschaftsprüfer	Wirtschaftsprüferin
[German public auditor]	[German public auditor]

Environmental and Safety Performance Data: Independent Assurance Report

INDEPENDENT PRACTITIONER'S REPORT ON A LIMITED ASSURANCE ENGAGEMENT ON SUSTAINABILITY INFORMATION[1)]

"To LANXESS AG, Cologne

We have performed a limited assurance engagement on data in the "Environmental and Safety Performance Data" table included in the "Safe and sustainable sites" section of the "Corporate Responsibility" chapter in the Annual Report 2020 of LANXESS AG, Cologne (hereinafter: "the Company"), for the period from 1 January to 31 December 2020 (hereinafter: the "Environmental and Safety Performance Data" table).

Responsibilities of the Executive Directors

The executive directors of the Company are responsible for the preparation of the "Environmental and Safety Performance Data" table in accordance with the principles stated in the Sustainability Reporting Standards of the Global Reporting Initiative (hereinafter the "GRI-Criteria").

This responsibility of Company's executive directors includes the selection and application of appropriate methods to prepare the "Environmental and Safety Performance Data" table as well as making assumptions and estimates related to individual sustainability disclosures, which are reasonable in the circumstances. Furthermore, the executive directors are responsible for such internal controls as they have considered necessary to enable the preparation of the "Environmental and Safety Performance Data" table that is free from material misstatement whether due to fraud or error.

Independence and Quality Control of the Audit Firm

We have complied with the German professional provisions regarding independence as well as other ethical requirements.

Our audit firm applies the national legal requirements and professional standards – in particular the Professional Code for German Public Auditors and German Chartered Auditors ("Berufssatzung für Wirtschaftsprüfer und vereidigte Buchprüfer": "BS WP/vBP") as well as the Standard on Quality Control 1 published by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany; IDW): Requirements to quality control for audit firms (IDW Qualitätssicherungsstandard 1: Anforderungen an die Qualitätssicherung in der Wirtschaftsprüferpraxis – IDW QS 1) – and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Practitioner's Responsibility

Our responsibility is to express a limited assurance conclusion on the sustainability information in the "Environmental and Safety Performance Data" table based on the assurance engagement we have performed.

We conducted our assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the IAASB. This Standard requires that we plan and perform the assurance engagement to allow us to conclude with limited assurance that nothing has come to our attention that causes us to believe that the disclosures in the "Environmental and Safety Performance Data" table for the period from 1 January to 31 December 2020 have not been prepared, in all material aspects, in accordance with the relevant GRI-Criteria.

1) PricewaterhouseCoopers GmbH has performed a limited assurance engagement on the German version of the "Environmental and Safety Performance Data" table included in the "Safe and sustainable sites" section of the "Corporate Responsibility" chapter in the Annual Report 2020 of LANXESS AG and issued an independent assurance report in German language, which is authoritative. The following text is a translation of the independent assurance report.

In a limited assurance engagement the assurance procedures are less in extent than for a reasonable assurance engagement and therefore a substantially lower level of assurance is obtained. The assurance procedures selected depend on the practitioner's judgment.

Within the scope of our assurance engagement, we performed amongst others the following assurance procedures and further activities:

- Inquiries of the Company's management and 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
- Identification of potential risks of material misstatements based on the GRI criteria
- 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

Assurance Conclusion

Based on the assurance procedures performed and assurance evidence obtained, nothing has come to our attention that causes us to believe that the disclosures in the "Environmental and Safety Performance Data" table for the period from 1 January to 31 December 2020 have not been prepared, in all material aspects, in accordance with the relevant GRI-Criteria.

Intended Use of the Assurance Report

We issue this report on the basis of the engagement agreed with the Company. The assurance engagement has been performed for purposes of the Company and the report is solely intended to inform the Company as to the results of the assurance engagement. The report is not intended to provide third parties with support in making (financial) decisions. Our responsibility lies solely toward the Company. We do not assume any responsibility towards third parties.

Cologne, 24 February 2021

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Hendrik Fink	ppa. Theres Schäfer
Wirtschaftsprüfer	Wirtschaftsprüferin"
[German public auditor]	[German public auditor]

GRI Content Index

GRI standard/disclosure		Location	Comments and online annexes	UNGC
GRI 101: Foundation 2016		P. 244-246		
GRI 102: General Disclosures 2016				
ORGANIZATIONAL PROFILE				
102-1	Name of the organization		LANXESS AG	
102-2	Activities, brands, products, and services	P. 84–85	Products and Solutions	
102-3	Location of headquarters		Cologne, Germany	
102-4	Location of operations	P. 84–85, 98–99	Sites	
102-5	Ownership and legal form	P. 61, 81		
102-6	Markets served	P. 90, 92, 98–99		
102-7	Scale of the organization	P. 3, 46, 114		
102-8	Information on employees and other workers	P. 32		6
102-9	Supply chain	P. 39–40, 89		
102-10	Significant changes to the organization and its supply chain	P. 39–40, 81–83, 173–178		
102-11	Precautionary Principle or approach	P. 56–57, 130–132		1–10
102-12	External initiatives	P. 12–14, 20–21, 39–40, 45, 49–52, 256	Education initiative	1–10
102-13	Membership of associations	P. 14, 40, 258		
102-14	Statement from senior decision-maker	P. 4		1–10
102-15	Key impacts, risks, and opportunities	P. 6–10, 12–13, 49–50, 130–146	LANXESS and the SDGs Material topics	

GRI standard/disclosure		Location	Comments and online annexes	UNGC
ETHICS AND INTEGRITY				
102-16	Values, principles, standards, and norms of behavior	P. 12–13, 19–24		1, 2, 10
102-17	Mechanisms for advice and concerns about ethics	P. 19–20, 21–23		
GOVERNANCE				
102-18	Governance structure	P. 64–74		10
102-19	Delegating authority	P. 14–15, 19–22		
102-20	Executive-level responsibility for economic, environmental, and social topics	P. 20		
102-21	Consulting stakeholders on economic, environmental, and social topics	P. 14, 71–72	Stakeholder dialog	
102-22	Composition of the highest governance body and its committees	P. 68–71, 77	Supervisory Board	
102-23	Chair of the highest governance body	P. 77		
102-24	Nominating and selecting the highest governance body	P. 68–71		
102-25	Conflicts of interest	P. 70, 72–74, 211–212		
102-26	Role of highest governance body in setting purpose, values, and strategy	P. 6–10, 14–15, 19–20, 75–78, 123–125		
102-27	Collective knowledge of highest governance body	P. 68–71	Supervisory Board	
102-28	Evaluating the highest governance body's performance	P. 66–67	Voting results	
102-29	Identifying and managing economic, environmental, and social impacts	P. 71–72, 75–78		

GRI standard/disclosure		Location	Comments and online annexes	UNGC
102-30	Effectiveness of risk management processes	P. 76–78, 132–134		
102-31	Review of economic, environmental, and social topics	P. 76–78		
102-32	Highest governance body's role in sustainability reporting	P. 76		
102-33	Communicating critical concerns	P. 21–24, 76–77		
102-34	Nature and total number of critical concerns	P. 22, 24		
102-35	Remuneration policies	P. 115–126		
102-36	Process for determining remuneration	P. 115–126		
102-37	Stakeholders' involvement in remuneration	P. 115–126		
102-38	Annual total compensation ratio	P. 115–126		
102-39	Percentage increase in annual total compensation ratio	P. 115–126		
STAKEHOLDER ENGAGEMENT				
102-40	List of stakeholder groups	P. 14	Stakeholder dialog	
102-41	Collective bargaining agreements	P. 39		3
102-42	Identifying and selecting stakeholders	P. 14	Stakeholder dialog	
102-43	Approach to stakeholder engagement	P. 14, 29–30, 36–37, 54–57	Stakeholder dialog	
102-44	Key topics and concerns raised	P. 14, 54–57	Stakeholder dialog	
REPORTING PRACTICE				
102-45	Entities included in the consolidated financial statements	P. 177–178		
102-46	Defining report content and topic Boundaries	P. 14–15	Material topics	
102-47	List of material topics	P. 15, 244		
102-48	Restatements of information	P. 245		
102-49	Changes in reporting	P. 172–178		
102-50	Reporting period	P. 244		
102-51	Date of most recent report	P. 244		
102-52	Reporting cycle	P. 244		
102-53	Contact point for questions regarding the report	P. 260		

GRI standard/disclosure		Location	Comments and online annexes	UNGC
102-54	Claims of reporting in accordance with the GRI Standards	P. 244		
102-55	GRI Content Index	P. 251–257		
102-56	External assurance	P. 247–250		
GRI 200: ECONOMIC STANDARD				
GRI 201: Economic Performance 2016				
GRI 103	Management approach 2016 (including 103-1, 103-2, 103-3)	P. 6–10, 17, 81–86		
201-1	Direct economic value generated and distributed	P. 3, 47, 60–61, 91, 94, 132, 149, 151, 182, 231		
201-2	Financial implications and other risks and opportunities due to climate change	P. 9–10, 49–51, 136, 139–140		
201-3	Defined benefit plan obligations and other retirement plans	P. 191–199		
GRI 202: Market Presence 2016				
GRI 103	Management approach 2016 (including 103-1, 103-2, 103-3)	P. 20–21, 24–29		
202-1	Ratios of standard entry level wage by gender compared to local minimum wage		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.	
202-2	Proportion of senior management hired from the local community	P. 29		

GRI standard/disclosure		Location	Comments and online annexes	UNGC
GRI 203: Indirect Economic Impacts 2016				
GRI 103	Management approach 2016 (including 103-1, 103-2, 103-3)	P. 47–49		
203-1	Infrastructure investments and services supported	P. 47–49	Societal Added Value	
GRI 204: Procurement Practices 2016				
GRI 103	Management approach 2016 (including 103-1, 103-2, 103-3)	P. 89		
204-1	Proportion of spending on local suppliers	P. 89		
GRI 205: Anti-corruption 2016				
GRI 103	Management approach 2016 (including 103-1, 103-2, 103-3)	P. 19–22, 23–24		
205-1	Operations assessed for risks related to corruption	P. 23–24		10
205-2	Communication and training about anti-corruption policies and procedures	P. 23		10
205-3	Confirmed incidents of corruption and actions taken	P. 24		10
GRI 206: Anti-competitive Behavior 2016				
GRI 103	Management approach 2016 (including 103-1, 103-2, 103-3)	P. 19–22		
206-1	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices		The company was not involved in any legal actions regarding anti-competitive behavior or violations of antitrust law in 2020.	
GRI 207: Tax 2019				
GRI 103	Management approach 2016 (including 103-1, 103-2, 103-3)	P. 19–20, 208–210		
207-1	Approach to tax		Tax guideline	
207-2	Tax governance, control, and risk management		Tax guideline	
207-3	Stakeholder engagement and management of concerns related to tax		Tax guideline	
207-4	Country-by-country reporting		Tax guideline	

GRI standard/disclosure		Location	Comments and online annexes	UNGC
GRI 300: ENVIRONMENTAL STANDARDS				
GRI 301: Materials 2016				
GRI 103	Management approach 2016 (including 103-1, 103-2, 103-3)	P. 20–21, 39–40, 89		
301-1	Materials used by weight or volume	P. 89		7, 8
GRI 302: Energy 2016				
GRI 103	Management approach 2016 (including 103-1, 103-2, 103-3)	P. 17, 20–21, 52–53		
302-1	Energy consumption within the organization	P. 46		7, 8
302-2	Energy consumption outside the organization	P. 46		7, 8
302-3	Energy intensity	P. 52–53		8
302-4	Reduction of energy consumption	P. 52–53		7, 8, 9
302-5	Reductions in energy requirements of products and services	P. 52–53, 56–57	New mobility solutions	
GRI 303: Water and Effluents 2018				
GRI 103	Management approach 2016 (including 103-1, 103-2, 103-3)	P. 16, 20–21, 42–44		
303-1	Interactions with water as a shared resource	P. 42–44	Safe and Sustainable Sites Business Driven Innovation	7, 8
303-2	Management of water discharge-related impacts	P. 42–44		7, 8
303-3	Water withdrawal	P. 42–44, 46		7, 8
303-4	Water discharge	P. 42–44, 46		7, 8
303-5	Water consumption	P. 42–44, 46		7, 8
GRI 305: Emissions 2016				
GRI 103	Management approach 2016 (including 103-1, 103-2, 103-3)	P. 17, 20–21		
305-1	Direct (Scope 1) GHG emissions	P. 46, 51		7, 8
305-2	Energy indirect (Scope 2) GHG emissions	P. 46, 51		7, 8
305-3	Other indirect (Scope 3) GHG emissions	P. 51		7, 8

GRI standard/disclosure		Location	Comments and online annexes	UNGC
305-4	GHG emissions intensity	P. 51		8
305-5	Reduction of GHG emissions	P. 46, 51–52	Business Driven Innovation	8, 9
305-6	Emissions of ozone-depleting substances (ODS)	P. 46		7
305-7	Nitrogen oxides (No_x), sulfur oxides (So_x), and other significant air emissions	P. 46, 52		7, 8
GRI 306: Effluents and Waste 2016				
GRI 103	Management approach 2016 (including 103-1, 103-2, 103-3)	P. 16, 20–21, 44–45		
306-2	Waste by type and disposal destination	P. 45–46		
306-3	Significant spills		In total, there were seven relevant incidents, of which four had to be reported. An explosion of a fiberglass container in El Dorado resulted in property damage. In Lillo, Belgium, an explosion occurred as a result of chemical decomposition, whereby three people received minor injuries. Substances were released in five cases, but these were safely collected and disposed of within the respective sites.	7, 8
GRI 307: Environmental Compliance 2016				
GRI 103	Management approach 2016 (including 103-1, 103-2, 103-3)	P. 19–21		
307-1	Non-compliance with environmental laws and regulations		Should material cases occur, these would have to be reported in the audited financial statements.	7, 8
GRI 308: Supplier Environmental Assessment 2016				
GRI 103	Management approach 2016 (including 103-1, 103-2, 103-3)	P. 16, 39–40		
308-1	New suppliers that were screened using environmental criteria	P. 39–40		8
308-2	Negative environmental impacts in the supply chain and actions taken	P. 39–40		8

GRI standard/disclosure		Location	Comments and online annexes	UNGC
GRI 400: SOCIAL STANDARDS				
GRI 401: Employment 2016				
GRI 103	Management approach 2016 (including 103-1, 103-2, 103-3)	P. 24, 29–31, 33–35		
401-1	New employee hires and employee turnover	P. 26, 29–30		6
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	P. 33–36		6
401-3	Parental leave	P. 35		
GRI 402: Labor/Management Relations 2016				
GRI 103	Management approach 2016 (including 103-1, 103-2, 103-3)	P. 24, 39		
402-1	Minimum notice periods regarding operational changes		In accordance with the German Works Constitution Act, LANXESS is obliged to inform the Works Council fully and in good time of any planned operational changes that could result in material disadvantage to all or substantial parts of the workforce. The Economics Committee is also informed on a regular basis about the company's economic affairs. We fully comply with our legal obligations with respect to the responsible bodies. Similar requirements applicable in other countries are always complied with.	3
GRI 403: Occupational Health and Safety 2018				
GRI 103	Management approach 2016 (including 103-1, 103-2, 103-3)	P. 35–38		
403-1	Occupational health and safety management system	P. 38		
403-2	Hazard identification, risk assessment, and incident investigation	P. 38		
403-3	Occupational health services	P. 35		

GRI standard/disclosure		Location	Comments and online annexes	UNGC
403-4	Worker participation, consultation, and communication on occupational health and safety	P. 37–38	Protecting the health and safety of our employees is a regular aspect of the dialog between employee and employer representatives in all countries where collective agreements apply. In Germany, and going above and beyond legal requirements, agreements exist with employee representatives as well as for occupational health management and company integration management. The operational teams are managed by steering committees made up equally of employer and employee representatives.	
403-5	Worker training on occupational health and safety	P. 36–37, 41		
403-6	Promotion of worker health	P. 35–36		
403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	P. 37–38		
403-8	Workers covered by an occupational health and safety management system		Most of the company's offerings to promote health and wellbeing apply to workers who are employees or whose workplace is controlled by the organization. Local offerings are supplemented by global programs, such as Xwork. There are suitable occupational safety measures for all persons working on company premises.	
403-9	Work-related injuries	P. 38, 41	LANXESS collects and reviews injury and accident data of the contractors working at LANXESS sites. These data are treated confidentially and are not published.	

GRI standard/disclosure		Location	Comments and online annexes	UNGC
GRI 404: Training and Education 2016				
GRI 103	Management approach 2016 (including 103-1, 103-2, 103-3)	P. 24–29		
404-1	Average hours of training per year per employee	P. 26–29		6
404-2	Programs for upgrading employee skills and transition assistance programs	P. 26–29		
404-3	Percentage of employees receiving regular performance and career development reviews		At present, all managers worldwide receive an annual, system-based performance assessment and development planning. As part of our corporate culture, all managers and employees are called upon to give each other regular feedback, e.g. in regular review meetings. The system-based solution is available to all managers as well as selected non-management employees. Individual targets were also agreed with a majority of employees.	6
GRI 405: Diversity and Equal Opportunity 2016				
GRI 103	Management approach 2016 (including 103-1, 103-2, 103-3)	P. 31–32, 68–71		
405-1	Diversity of governance bodies and employees	P. 31–32, 34, 68–71		6
405-2	Ratio of basic salary and remuneration of women to men	P. 33–34		6
GRI 406: Non-discrimination 2016				
GRI 103	Management approach 2016 (including 103-1, 103-2, 103-3)	P. 21–23, 31–32		
406-1	Incidents of discrimination and corrective actions taken	P. 22–23		6

GRI standard/disclosure		Location	Comments and online annexes	UNGC
GRI 407: Freedom of Association and Collective Bargaining 2016				
GRI 103	Management approach 2016 (including 103-1, 103-2, 103-3)	P. 19–23, 39		
407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	P. 39		3
GRI 408: Child Labor 2016				
GRI 103	Management approach 2016 (including 103-1, 103-2, 103-3)	P. 12–13, 19–23		
408-1	Operations and suppliers at significant risk for incidents of child labor	P. 21–23		1, 2, 5
GRI 409: Forced or Compulsory Labor 2016				
GRI 103	Management approach 2016 (including 103-1, 103-2, 103-3)	P. 12–13, 19–23		
409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labor	P. 21–23		1, 2, 4
GRI 410: Security Practices 2016				
GRI 103	Management approach 2016 (including 103-1, 103-2, 103-3)	P. 19–23		
410-1	Security personnel trained in human rights policies or procedures		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, 2

GRI standard/disclosure		Location	Comments and online annexes	UNGC
GRI 411: Rights of Indigenous Peoples 2016				
GRI 103	Management approach 2016 (including 103-1, 103-2, 103-3)	P. 12–13, 19–23		
411-1	Incidents of violations involving rights of indigenous peoples		Our employees and external third parties can use the SpeakUp system to report grievances concerning the violation of indigenous rights. In fiscal year 2020, we received no reports or other indications of cases involving the violation of indigenous rights.	1, 2
GRI 412: Human Rights Assessment 2016				
GRI 103	Management approach 2016 (including 103-1, 103-2, 103-3)	P. 12–13, 19–23		
412-1	Operations that have been subject to human rights reviews or impact assessments	P. 22–23		1, 2
412-2	Employee training on human rights policies or procedures	P. 22–23		1, 2
412-3	Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	P. 22–23		1, 2
GRI 413: Local Communities 2016				
GRI 103	Management approach 2016 (including 103-1, 103-2, 103-3)	P. 12–13, 41–49, 53, 55		
413-1	Operations with local community engagement, impact assessments, and development programs	P. 47–49, 55	Societal Added Value	
413-2	Operations with significant actual and potential negative impacts on local communities	P. 13, 41–46, 53	Impact Assessment	

GRI standard/disclosure		Location	Comments and online annexes	UNGC
GRI 414: Supplier Social Assessment 2016				
GRI 103	Management approach 2016 (including 103-1, 103-2, 103-3)	P. 16, 39–40		
414-1	New suppliers that were screened using social criteria	P. 39–40		1, 2
414-2	Negative social impacts in the supply chain and actions taken	P. 39–40		1, 2
GRI 415: Public Policy 2016				
GRI 103	Management approach 2016 (including 103-1, 103-2, 103-3)	P. 19–20, 23		
415-1	Political contributions	P. 23	Stakeholder dialog	10
GRI 416: Customer Health and Safety 2016				
GRI 103	Management approach 2016 (including 103-1, 103-2, 103-3)	P. 54–55		
416-1	Assessment of the health and safety impacts of product and service categories	P. 39–40, 54–55	Evaluation of product portfolio	
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services		Our employees and external third parties can use the SpeakUp system to report grievances concerning non-compliance with regulations concerning health and safety. We received no indications of corresponding non-compliance for fiscal year 2020.	
GRI 417: Marketing and Labeling 2016				
GRI 103	Management approach 2016 (including 103-1, 103-2, 103-3)	P. 54–55		
417-1	Requirements for product and service information and labeling	P. 54–55		

GRI standard/disclosure		Location	Comments and online annexes	UNGC
417-2	Incidents of non-compliance concerning product and service information and labeling		Our employees and external third parties can use the SpeakUp system to report grievances concerning non-compliance with regulations and voluntary codes concerning product and service information. We received no indications of corresponding non-compliance for fiscal year 2020.	
GRI 418: Customer Privacy 2016				
GRI 103	Management approach 2016 (including 103-1, 103-2, 103-3)	P. 19–22		
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data		Our employees and external third parties can use the SpeakUp system to report complaints regarding customer data privacy. In fiscal year 2020, we received no reports or other indications of complaints regarding breaches of customer privacy and losses of customer data.	
GRI 419: Socioeconomic Compliance 2016				
GRI 103	Management approach 2016 (including 103-1, 103-2, 103-3)	P. 19–23		
419-1	Non-compliance with laws and regulations in the social and economic area		Should material cases occur, these would have to be reported in the audited financial statements.	

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cdp.net

tfs-initiative.com

sustainabledevelopment.un.org

LANXESS Stock in Sustainability Indices

sustainability-indices.com

ftse.com/products/indices/FTSE4Good

Financial Calendar 2021

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DEC

Contacts & Masthead

MASTHEAD

LANXESS AG
Kennedyplatz 1
50569 Cologne, Germany
Tel. +49 (0) 221 8885 0
www.lanxess.com

Consultancy:
Kirchhoff Consult AG, Hamburg, Germany

Design and production:
Kirchhoff Consult AG, Hamburg, Germany

CONTACTS

Corporate Communications
Christiane Minderjahn
Tel. +49 (0) 221 8885 2674
mediarelations@lanxess.com

Investor Relations
André Simon
Tel. +49 (0) 221 8885 3494
ir@lanxess.com

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LANXESS AG
50569 Cologne
www.lanxess.com