2021

ANNUAL REPORT

LANXESS
Energizing Chemistry

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NFR Audited disclosures of the LANXESS Group that are included in the 2021 non-financial Group report

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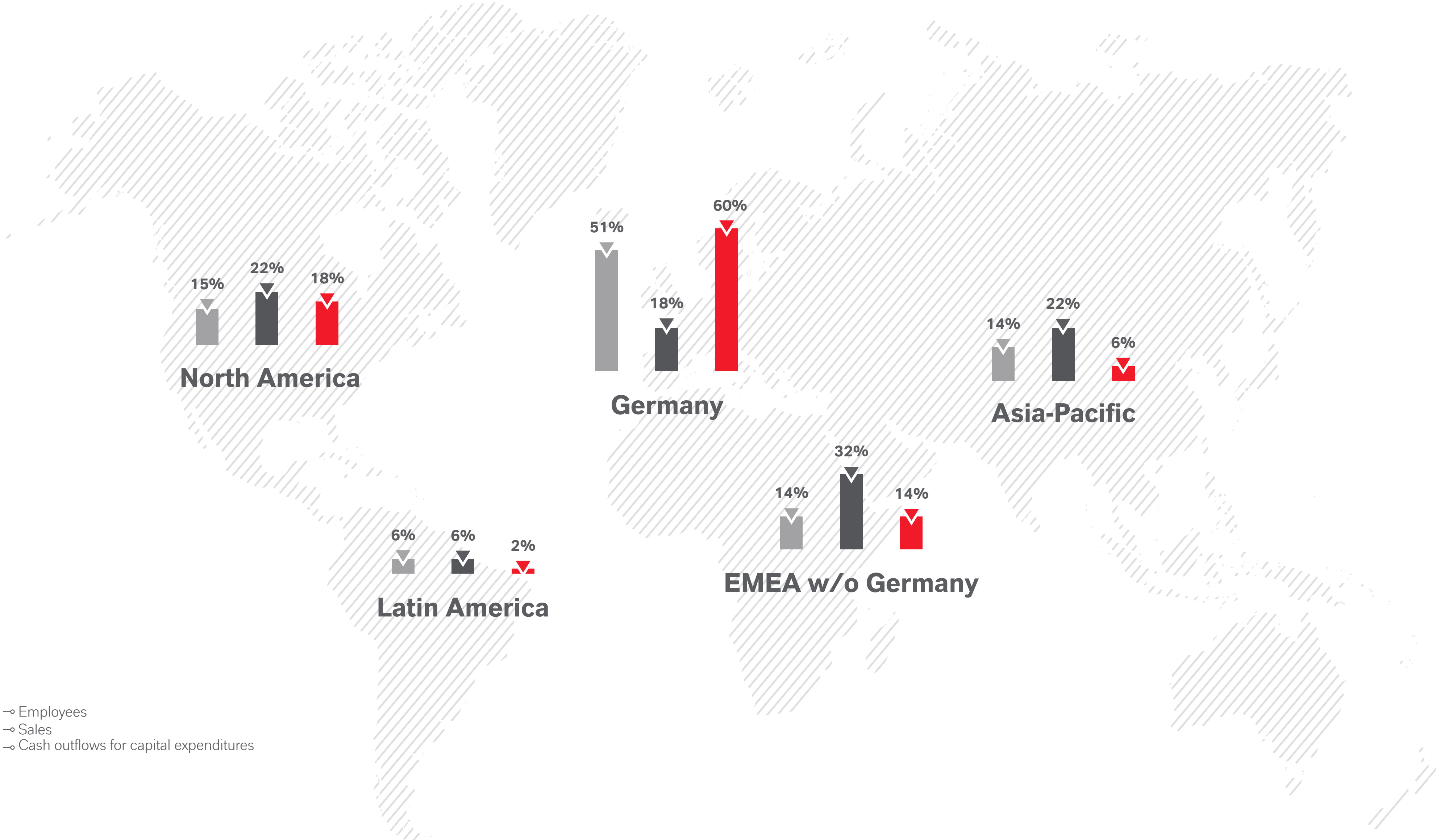
References to websites

LANXESS AT A GLANCE

Group Structure

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

GLOBAL PRESENCE



Employees
Sales
Cash outflows for capital expenditures

KEY DATA 2021

LANXESS Group

€ million	Q4 2020	Q4 2021	Change %	2020	2021	Change %
Sales	1,503	2,082	38.5	6,104	7,557	23.8
Gross profit	377	461	22.3	1,556	1,845	18.6
Gross profit margin	25.1%	22.1%		25.5%	24.4%	
EBITDA pre exceptionals[1]	200	213	6.5	862	1,010	17.2
EBITDA margin pre exceptionals[1]	13.3%	10.2%		14.1%	13.4%	
EBITDA[1]	170	164	(3.5)	757	863	14.0
EBIT pre exceptionals[1]	84	72	(14.3)	396	500	26.3
EBIT[1]	35	23	(34.3)	253	350	38.3
EBIT margin[1]	2.3%	1.1%		4.1%	4.6%	
Net income (loss)	(3)	29	> 100	885	267	(69.8)
from continuing operations	17	10	(41.2)	908	218	(76.0)
from discontinued operations	(20)	19	> 100	(23)	49	> 100
Weighted average number of shares outstanding	86,346,303	86,346,303	–	86,587,838	86,346,303	(0.3)
Earnings per share (€)	(0.03)	0.34	> 100	10.22	3.09	(69.8)
from continuing operations	0.20	0.12	(40.0)	10.49	2.52	(76.0)
from discontinued operations	(0.23)	0.22	> 100	(0.27)	0.57	> 100
Earnings per share from continuing operations adjusted for exceptional items and amortization of intangible assets (€)[2]	0.82	0.87	6.1	3.50	4.83	38.0
Dividend per share (€)				1.00	1.05[7]	5.0
ROCE[3]				7.5%	6.6%	
Cash flow from operating activities – continuing operations	262	311	18.7	594	439	(26.1)
Depreciation and amortization	135	141	4.4	504	513	1.8
Cash outflows for capital expenditures	192	208	8.3	456	479	5.0
Total assets				8,880	10,518	18.4
Equity (including non-controlling interests)				2,999	3,762	25.4
Equity ratio[4]				33.8%	35.8%	
Provisions for pensions and other post-employment benefits				1,205	877	(27.2)
Net financial liabilities[5]				1,012	2,345	> 100
Net financial liabilities after deduction of short-term money market investments and securities[6]				1,012	2,245	> 100

	Q4 2020	Q4 2021	Change %	2020	2021	Change %
Employees (as of Dec. 31)				14,756[8]	14,866[8]	0.7
Work-related injuries resulting in at least 1 day's absence (per million hours worked)				1.1	0.9	(18.2)
Proportion of apprentices hired in Germany				85.0%	83.0%	
Turnover resulting from voluntary resignations				2.2%	3.4%	
Specific energy consumption (in gigajoules per metric ton of product)				5.65	5.91	4.6
Specific CO_2e Scope 1 emissions (in CO_2 equivalents, metric tons per metric ton of product)				0.29	0.27	(6.9)
Specific CO_2e Scope 2 emissions (in CO_2 equivalents, metric tons per metric ton of product)				0.29	0.27	(6.9)
Specific water consumption (in cubic meters/k€)				2.13	1.68	(21.1)

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, Leverkusen, Germany. 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, 2020 and 2021, 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) Dividend proposal to the Annual Stockholders' Meeting on May 25, 2022.

8) There were 14,866 employees in continuing operations as of the reporting date after 14,309 as of December 31, 2020.

Letter from the CEO

Ladies and Gentlemen,

For us, 2021 was a year of growth – despite the pandemic and global crisis. We proved our resilience even in this challenging market environment with supply shortages and increased raw material, energy and freight costs: We are strong and can deliver reliably.

This was demonstrated particularly well in our Consumer Protection segment, which concentrates on chemical consumer protection products.

We expanded this young area further with four strategic acquisitions right at the beginning of the year. The first of these acquisitions was Intace – a manufacturer of special fungicides for the production of paper and packaging. This was followed by the purchase of another French company, Theseo – a provider of disinfection and hygiene solutions for livestock farming.

The most important flagship project in the development of Consumer Protection was the acquisition of the U.S. chemicals company Emerald Kalama Chemical, the second-largest acquisition in our company's history. The portfolio includes preservatives for use in food, household products and cosmetics, and flavors and fragrances, which at LANXESS are now allocated to the new Flavors & Fragrances business unit.

This transaction expands our portfolio in the consumer sector and opens up new areas of application. At the same time, we are enlarging our presence in North America, which is a growth region for us.

The next planned acquisition of IFF Microbial Control fits perfectly into our strategic focus: specialty chemicals with attractive margins, highly effective applications and a global presence. The substances that IFF manufactures are used in preservatives and disinfectants as well as household products and industrial water treatment. We will thus become one of the world's largest providers of antimicrobial protection products. At the same time, Consumer Protection therefore has the potential to become the strongest segment in the Group, and we are drawing closer to our target of taking a leading role in the respective markets with our products worldwide.

As you can see, we achieved a lot in 2021. We intend to continue making progress and occupying new business areas. A good example of this is electric mobility, which entails great opportunities for LANXESS, as we already produce many of the raw materials for battery manufacturing. Since April 2021, we have cooperated with Chinese company Tinci – one of the world's leading manufacturers of lithium-ion battery materials. As early as this year, we will be manufacturing electrolyte formulations for lithium-ion batteries for Tinci in a high-tech plant of our subsidiary Saltigo – a pioneering step towards this high-growth market of the future.

When setting a decisive strategic course for the future of LANXESS, sustainability is always the guiding principle for our activities. This philosophy is expressed in our commitment to the ten principles of the U.N. Global Compact, which we renewed in 2021.

Our efforts in the field of climate protection and sustainability are also being recognized and rewarded outside LANXESS. For example, LANXESS took first place in the "Chemicals" category in the Dow Jones Sustainability Index (DJSI) Europe. In the DJSI World, our company took second place.

To our stockholders, I say that we focused on a diverse range of issues in 2021, and we achieved a lot together at LANXESS. I would like to thank all employees around the world on behalf of the entire Board of Management for their dedication and outstanding work. We still have challenging tasks ahead of us. I am confident, if we pool our strengths, that we will secure LANXESS a successful future together. Our transformation to a higher level will continue, and we will continue to help to shape the realignment of the chemical industry in the years to come.

Best regards,

Matthias Zachert

Matthias Zachert
Chairman of the Board of Management

STRATEGY

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Taking opportunities

The coronavirus pandemic continues to leave an indelible mark on economic and social life around the world. But crises always also bring opportunities. We have used our strong position to further accelerate LANXESS's development into an even more sustainable and growing specialty chemicals company.

COMPLEX CHALLENGES DEMAND DYNAMIC SOLUTIONS

The already challenging macroeconomic developments of recent years have been exacerbated by the coronavirus pandemic. The global upturn is suffering because of disrupted supply chains and insufficient availability of important raw materials and components after the brakes were slammed on the economy in 2020. In addition, massively rising energy, raw material and logistics costs are weighing on production, especially in Europe. Individuals and businesses are living a new normality and facing the challenge of coping with this normality.

Sustainability, especially climate protection, is one of the few leading global issues in these times. But here too we are seeing a world of different speeds and stages of development. For Europe, the ambitious European Green Deal points the way to a climate-neutral continent and more sustainable value creation. Under new political leadership, the U.S. has also set a target of making its economy climate neutral by no later than 2050.

In line with its importance for more than 90% of all value chains, the chemical industry must drive this radical transformation, and intends to do so. High-tech plastics for vehicles and charging infrastructure and specialty chemicals for battery technologies are important elements of 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 and the population grows.

These are the trends that our strategy is focused on. We are ready to make the world more sustainable with our products and our innovation – and in this way to generate 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 continuously put our strategy into practice. In line with our strategic guidelines, we are evolving into a sustainable company in many respects. Even in phases of economic turmoil, we continue to build on integrated value chains, competitive and sustainable products and sites, and our strengths in specialty chemicals markets in which we occupy a leading position with our businesses. 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. In 2021, we conducted an extensive review of these guidelines and adjusted them where necessary. The topic of climate protection is now afforded an even greater focus.

Our Strategic Guidelines

Raw materials	Sites	Costs	Value chains & products	Sales markets	Growth & balance
We manage our raw material portfolio strategically in order to keep our value chains competitive.	We manufacture at competitive, sustainable, and climate neutral “Verbund sites.”	We keep costs competitive across the value chain.	We strive for a sustainable and carbon-neutral product portfolio based on integrated and balanced value chains.	We focus on specialty chemicals markets with higher profitability and market leadership.	We leverage long-term growth potential in Asia and the U.S. and balance our regional sales.

Portfolio balanced further

We set two clear priorities in our portfolio strategy: Firstly, we will consistently drive the expansion of our business with consumer applications. Secondly, we will strengthen our presence as one of the leading providers in mid-sized, partially regulated and thus protected markets for specialty products. Especially in times of crisis, attractive opportunities for value-generating acquisitions arise for companies that can act from a position of strength. We took several of these opportunities in the reporting year and thus significantly expanded our most profitable Consumer Protection segment.

On August 3, 2021, we acquired all the shares in Emerald Kalama Chemical from U.S. private equity firm American Securities LLC in the second-largest acquisition in our company’s history up to that time. As one of the world’s leading manufacturers of specialty chemicals, the U.S. company generated around three-quarters of its sales from consumer goods in fiscal year 2020. These include preservatives for use in food, household products and cosmetics, and flavors and fragrances. These businesses provide the basis for our newly founded Flavors & Fragrances business unit. In addition, the product portfolio in the Specialty Additives segment is expanded by specialty chemicals for industrial applications, such as for the plastics and adhesives industries. The acquisition also strengthens our position in the global business with antimicrobial active ingredients and preservatives, especially for consumer products. As part of the transaction, we took on around 470 employees worldwide as well as production sites in Kalama, U.S.; Rotterdam, Netherlands; and Widnes, Great Britain.

Just a few weeks later, we laid the groundwork for another major acquisition: On August 23, 2021, we signed an agreement with the U.S. corporation International Flavors & Fragrances Inc. (IFF) to acquire its Microbial Control business. IFF Microbial Control is one of the leading providers of antimicrobial active ingredients and formulations for material protection, preservatives and disinfectants. The products are used in numerous applications, especially in personal care and household products, in industrial water treatment, and in paints and coatings. IFF Microbial Control has around 270 employees and runs two production plants of its own in St. Charles, Louisiana, and Institute, West Virginia, U.S. The business also has a large network of partners including active ingredient manufacturers and formulators. We expect this transaction to be completed in the second quarter of 2022. Once the acquisition is completed, the business is likewise to be integrated into the Consumer Protection segment.

At the beginning of March 2021, we completed the acquisition of the French company INTACE S.A.S., Paris, France, a smaller manufacturer of special fungicides for the packaging and paper industry. The acquisition of the French Theseo Group, a leading manufacturer of disinfection and hygiene solutions in Europe and Latin America headquartered in Laval, France, followed just one month later. With this acquisition, we have expanded our portfolio with products for pest control, animal nutrition and animal health and now offer and extensive range of disinfection and hygiene solutions. Theseo has around 100 employees at its sites in Laval, France; Wietmarschen, Germany; Hull, Great Britain; and Descalvado, Brazil.

Our portfolio strategy also entails separating from businesses that no longer have long-term future prospects at LANXESS. We decided in 2019 to divest all operations of the Leather business unit, comprising chrome chemicals, the chrome ore mine and organic leather chemicals. Firstly, we sold the chrome chemicals business at the beginning of 2020. In June 2021, we disposed of the organic leather chemicals business. The sale of the chrome ore mine – the last remaining part of the business unit – was completed in September 2021.

In addition, the sale of our reverse osmosis membranes business from the Liquid Purification Technologies business unit to SUEZ S.A., Paris, France, took effect at the beginning of 2021. We thus repositioned our water treatment technology business in order to focus on the sale of ion exchange resins.

We also want to actively enhance our portfolio in line with our strategic guidelines in the years ahead. LANXESS will therefore continue to have a changing face – dominated by sustainability, profitability and growth.

Growth from investment and innovation

We continuously promote our organic growth by investing in our existing businesses. In order to meet the strong demand for ion exchange resins from our Liquid Purification Technologies business unit, we are adding a new production line to the existing production plants in Leverkusen, Germany, and Jhagadia, India. The new lines are expected to commence operations in 2024. In response to strong demand from the growing Chinese automotive industry, we are building a second compounding facility for high-tech plastics in Changzhou, China. The new facility with an investment volume of around €30 million is to commence operations in the first quarter of 2023. We are also investing a sum in the double-digit millions at the Mannheim site in order to expand our capacity for the production of extreme pressure additives for the lubricants industry. The additional volumes are to be available from 2023. In Nantong, China, a new production line in the Urethane Systems business unit for the manufacture of water-based polyurethane, which is used among other things in coated materials for vehicle interiors, commenced operations in November 2021. As the automotive industry is consistently switching from solvent-based to environmentally friendly, water-based coatings, we see great potential with attractive growth rates here.

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.

Having launched Adiprene Green – our first product line based on renewable resources and with a reduced carbon footprint – on the market in the previous year, our business units unveiled more products geared towards an efficient circular economy in the reporting year. We manufacture them using renewable or recycled materials and will sell them under the new Scopeblue brand in the future on the basis of their outstanding sustainability profile. The label will signify products that either comprise at least 50% sustainable raw materials or whose carbon footprint is at least 50% less than that of their conventional counterparts.

In the field of thermochemical recycling, we have agreed a cooperation with the Karlsruhe Institute of Technology (KIT). Thermochemical 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. As part of the cooperation, we wish to jointly advance the possibilities to recycle plastics containing additives by means of pyrolysis, i.e. thermal decomposition, of plastic waste, as well as optimize the processes and transfer them to an industrial scale.

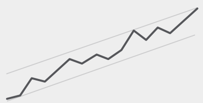
Our Group initiative for electric mobility commenced operations in mid-2020. The aim of the initiative is to develop sustainable, value-generating business models relating to new mobility. The initiative is also engaged in the formation of relevant ecosystems in the circular economy and represented in important national and international bodies. In the reporting year, we agreed a promising partnership with Guangzhou Tinci Materials Technology Co., one of the world's leading electrolyte manufacturers. Starting in 2022, we will produce high-performance electrolyte formulations for lithium-ion batteries on behalf of the Chinese company. The electrolyte is responsible for transporting lithium ions in the battery cell and is therefore a key component of the battery. For production, we will use a high-tech plant operated by its Saltigo business unit. At the site in El Dorado, U.S., our cooperation partner Standard Lithium Ltd. completed the construction of the pilot plant for the extraction and processing of lithium salt and commenced fully-integrated operations with LANXESS's existing infrastructure to produce lithium carbonate in battery-grade quality on a pilot scale.

Information on key product innovations in the reporting year

Financial targets

Under persistently challenging conditions, our operating earnings margin – measured in terms of EBITDA pre exceptionals – amounted to 13.4% in the reporting year. It decreased year-on-year due to an above-average rise in input costs (raw materials, energy, and logistics). Considered over the business cycle of the last few years, the margin volatility remains stable within the targeted range. Adjusted for growth investments, cash conversion amounted to around 53% in 2021 and was therefore lower than the targeted minimum of 60%. This is primarily due to investment in projects with long-term high ROCE. We continue to aim to increase our financial targets in 2022.

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

We will of course continue to invest in attractive projects with a high return on investment when we are convinced that we can thus create 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 MANAGEMENT REALIGNED

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: In 2040, we intend to be climate neutral.

Further information on our global climate strategy

Water stress, which is on the rise around the world, is closely associated with climate change. Here, too, we are taking action 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 for us.

Further information on our waste management

In order to be as aware as possible of all impacts 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. To this end, we continued to develop the product portfolio evaluation that we introduced in 2016 in the reporting year and, where possible, harmonized it with the requirements of the EU taxonomy.

Further information on our product portfolio

In addition, we have embedded our sustainability ambitions more firmly within the company by adjusting our incentive systems and management structures. Since the beginning of 2021, there has been a new compensation system for the Board of Management and the first management level below the Board of Management. Roughly one-third of the variable compensation is now linked to the extent to which LANXESS achieves its sustainability targets. More specifically, the company's performance in the reduction of greenhouse gas emissions and in occupational health and safety in 2021 is factored into the evaluation system. In the newly created Sustainability Committee, the Board of Management members make joint decisions on key sustainability issues. These include climate protection and energy, occupational health and safety, environmental protection, products and circular value chains, the workforce, corporate culture and transparent reporting on sustainability performance.

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 corporate financing. For example, we have a "sustainable" credit facility of €1 billion, for which 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 November 2021, we also successfully placed our first sustainability-linked bond of €600 million on the European capital market. The interest rate is linked to the achievement of our climate targets.

We see our top placements in international sustainability indices and ratings as recognition of our efforts: LANXESS was listed in the Dow Jones Sustainability Index (DJSI) World for the eleventh time in a row. As in the previous year, we took second place in our relevant category, "Chemicals." Moreover, LANXESS was included in DJSI Europe for the fifth time in a row – and defended its position as the best company in the sector. The CDP also awarded LANXESS an A grade for successful climate management once again. We received another upgrade in the renowned sustainability rating by MSCI ESG Research, in which we have now attained the second-highest category, AA. In addition, LANXESS improved to Platinum level in the sustainability rating by EcoVadis. This rating is given to the top 1% of the 75,000 companies analyzed by EcoVadis.

Despite all the challenges and obstacles, LANXESS is now in a better position than ever before. We will therefore continue to set new, ambitious targets in order to generate long-term value for our stakeholders.

CORPORATE RESPONSIBILITY

Commitment to Sustainable Transformation

With the impact of the coronavirus pandemic, there is growing awareness that global society no longer has any time to lose on its way to more sustainable value creation. Our ambitious targets, for example in climate protection, and diverse measures prove that we will play an active role in this significant process for the benefit of society and our company.

Our mission is the transformation to circular, climate-neutral value creation – which must also be fair and safe. 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.

Internationally recognized standards and frameworks give us valuable guidance in this transformation process:

- 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.
- 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.
- Among the internationally recognized principles of business activity to which we are committed are the employment standards of the International Labour Organization, an agency of the United Nations. These are aimed at 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.

The 17 Sustainable Development Goals

As "Agenda 2030," the Sustainable Development Goals in particular provide important guidance. 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

NFR Audited disclosures of the LANXESS Group that are included in the 2021 non-financial Group report

SUSTAINABILITY MANAGEMENT LOCATED AT BOARD OF MANAGEMENT LEVEL

Sustainability-Related Committees and Board of Management Responsibilities in Fiscal Year 2021

Sustainability Committee
All Board of Management members

Sub-committees

Climate & Energy	Health, Safety & Environment	Value Chain Circularity & Product Stewardship	People & Governance	Stakeholder Expectations and Reporting Standards
Dr. Hubert Fink	Dr. Hubert Fink	Dr. Anno Borkowsky	Dr. Stephanie Coßmann	Michael Pontzen

In order to more consistently pursue our sustainability targets, we established a new committee structure at the beginning of 2021. The top decision-making body is now the **Sustainability Committee**, which manages all key issues relating to sustainability. Its members include all members of the Board of Management. Five sub-committees report to the Sustainability Committee, which deal with various focal points of our sustainability strategy and are each headed by a Board of Management member:

- "Climate & Energy" sub-committee – implementation of the LANXESS "Climate neutral 2040" climate program
- "Health, Safety & Environment" sub-committee – development of sustainable and safe production sites
- "Value Chain Circularity & Product Stewardship" sub-committee – promotion of sustainable products and value chains
- "People & Governance" sub-committee – coordination of issues of LANXESS's corporate and social responsibility
- "Stakeholder expectations and reporting standards" sub-committee – fulfillment of external reporting standards and stakeholder management

Other key aspects of sustainable action in our view are compliance with and the continual development of our values, rules and standards as well as forward-looking risk management.

Further information on corporate governance at LANXESS

Further information on risk management at LANXESS

We also guarantee responsible business activity with our integrated management system, on which we report in detail in the "Safe and Sustainable Sites" section.

DIALOG FOR THE FUTURE

The successful transformation of our industry along the entire value chain is possible only in continuous exchange and close cooperation with our stakeholders. 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 are in intensive exchange and contribute actively to dialog and cooperation formats, especially with regard to the major transformation issues "climate protection and "circular economy." For example, LANXESS is one of only a few companies from the chemicals industry that is a founding member of the BDI Circular Economy initiative. The initiative provides a platform for dialog between business, politics, science and society in order to jointly develop tools to promote the market for recycled raw materials and unlock potential for waste prevention. Meanwhile, the collaborative project "Circular economy as a driver of innovation for a climate-neutral and resource-efficient economy" (CEWI) is focusing on the building and automotive sectors. The project funded by the German

Federal Ministry for the Environment, Nature Conservation and Nuclear Safety is organized by the KlimaWirtschaft Foundation, which LANXESS has supported as a sponsor since the reporting year, as well as the Wuppertal Institute for Climate, Environment and Energy, and WWF Germany.

On a global scale, we are now also involved in the International Sustainability and Carbon Certification (ISCC) initiative. ISCC is a multi-stakeholder initiative governed by an association with more than 140 members. We will play an active role in the further development of the ISCC standards on the road to a sustainable, climate-neutral and circular economy.

The World Business Council for Sustainable Development (WBCSD), which we joined at the beginning of 2020, is another 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. The nearly 200 member companies represent over 19 million employees and more than US$8.5 trillion in sales. As part of our membership, we are among the founding members of the Circular Cars Initiative (CCI) and the Circular Electronics Partnership (CEP). The CCI is a partnership between stakeholders from the automobility ecosystem (e.g. industry, policymakers and fleet purchasers) to eliminate or minimize total lifecycle emissions. The CEP is the first private-sector alliance for circular electronics. Its vision seeks to maximize the value of components, products and materials through their full lifecycles, using safe and fair labor and depending on only circular resources.

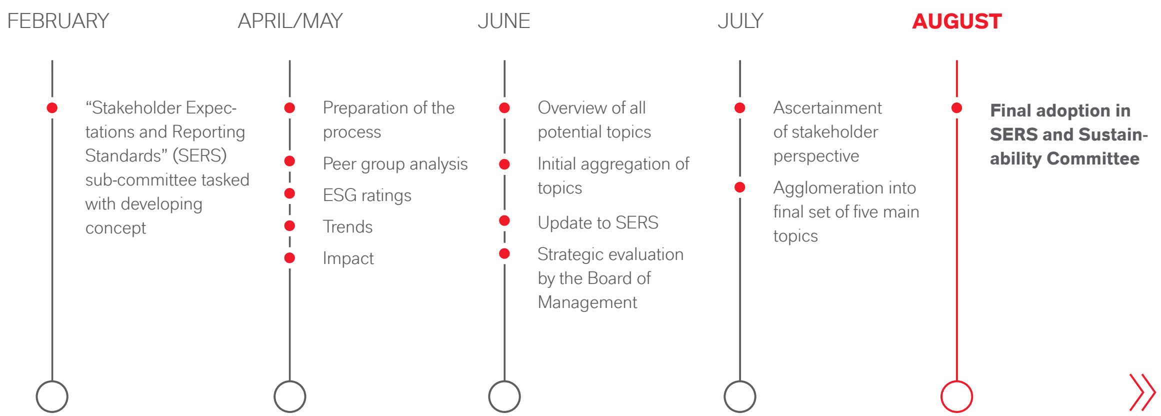
Further information on the topics and dialog forums for each relevant stakeholder group

SYSTEMATIC PRIORITIZATION OF SUSTAINABILITY TOPICS

Everything LANXESS does must have due regard for our strategic guidelines, the relevant interests of our stakeholders, and the material effects of our actions on our company and society. A materiality analysis in line with the requirements of the Global Reporting Initiative (GRI) helps us to systematically prioritize the wide range of action areas and use resources as effectively as possible. It is based on four principles: sustainability context, materiality, completeness, and inclusion of stakeholders.

In response to the dynamic transformation since the last comprehensive materiality analysis in 2017, we conducted a new analysis in the reporting year. As a result, we have condensed the number of our sustainability topics from seven to five, but sharpened the focus on important new topics such as the circular economy. The five main topics were confirmed by the Sustainability Committee in August 2021 and provide our relevant management framework. They also influence the structure of our external reporting on the topic of corporate responsibility.

Materiality Process 2021



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Material Topics

Circular and Sustainable Sourcing	Safe and Sustainable Sites	Climate Action and Energy Efficiency	Good Governance and Energized Employees	Sustainable Products
Our increasingly circular 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.	We manufacture sustainable products at competitive and sustainable chemical sites. Continuous process improvements and investments are fundamental for our success. We care about the communities of which our sites are a part.	For us, 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. In 2040, LANXESS is to be a climate-neutral company.	We aim to be an attractive employer and to develop peoples' full potential throughout their professional life. To this end, we create a motivating working environment for all employees, striving for high engagement and impact. We nurture and promote a value-based, performance-orientated culture.	We systematically evaluate the sustainability of our portfolio and consider sustainability criteria in the development of products and applications. We have long-term relationships with our customers, drive innovation together and help them to make their business sustainable.

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 non-financial report contains disclosures 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 as shown in the "About this Report" section on page 247.

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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 aspects 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

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We have formulated specific goals for all key topics. 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 CO_2e targets regarding Scope 1 and Scope 2 and the LTIFR are achieved. The Sustainability Committee systematically examined the existing goals and indicators, fleshed these out where necessary, and also defined new goals in the reporting year.

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LANXESS Corporate Responsibility Goals

Topic	Goal	Indicator	Deadline	Status Quo 2021	SDG	Page
Circular and Sustainable Sourcing					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 risk analysis system is being migrated successively with the global roll-out of a general update of our SAP system. The North America region was connected in the reporting year. Germany and the rest of Europe are to follow in the second quarter of 2022.		21–23
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 necessary due to the successive migration of the risk analysis system.		21–23
Circular raw materials	Development of a process to track, monitor and continuously improve the proportion of renewable raw materials in our products	Development of a process	2022	New target		21–22
Safe and Sustainable Sites					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, 2021, our matrix certificate covered 38 certifiable companies with 71 sites in 21 countries. In relation to the number of employees, this equates to 85% coverage of our matrix certificate (not included in the newly acquired sites in 2021: 88.5%). 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 97% of our sites had ISO 14001 certification.		24–25
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 five relevant incidents, of which three are classified as reportable.		24
	Continuous reduction in environmental incidents	Number of reportable environmental incidents	Ongoing	There were two environmental incidents (release of saline solution and hydrogen sulfide) in El Dorado, U.S.		24
	Continuous reduction in transportation incidents	Number of reportable transportation	Ongoing	There was a transportation incident with relevant product release in India.		24–26
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 amounted to 1.68 cubic meters/thousand euro (–21% year-on-year).		26–28
Wastewater	Reduction of total organic carbon (TOC) by 2% per year	Kilograms per thousand euros of sales	Ongoing	The specific TOC amounted to 0.17 kilograms/thousand euro (–10% year-on-year).		26–28

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LANXESS Corporate Responsibility Goals

Topic	Goal	Indicator	Deadline	Status Quo 2021	SDG	Page
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 began in 2021.		26–28
	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 10.5% compared with the base year 2019.		26–28
Climate Action and Energy Efficiency					3, 7, 8, 12, 13	
Emissions	Reduction of CO_2e emissions by 60% versus 2004 (establishment of LANXESS; 6.5 million metric tons of CO_2e) 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)	Absolute CO_2e emissions (Scope 1 and 2)	End of 2025	Absolute CO_2e emissions amounted to 2,591 thousand metric tons. This constitutes a 60% reduction versus 2004, when the company was founded. The specific Scope 1 emissions decreased year-on-year to 0.27 metric tons of CO_2e per metric ton of product. The specific Scope 2 emissions decreased year-on-year to 0.27 metric tons of CO_2e per metric ton of product.		33–35
	Reduction of emissions of non-methane volatile organic compounds (NMVOC) by 25% compared to base year 2015	Absolute NMVOC emissions	End of 2025	Absolute VOC emissions were reduced by 85% compared to the base year.		33–35
	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			33–35
	Climate neutrality for the entire Group	Absolute CO_2e emissions (Scope 1 and 2)	End of 2040			33–35
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. Specific energy consumption amounted to 1.64 MWh/t in the reporting year.		35–36

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LANXESS Corporate Responsibility Goals

Topic	Goal	Indicator	Deadline	Status Quo 2021	SDG	Page
		Good Governance and Energized Employees			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 3.4%.		49–51
Employee development	At least 80% of apprentices hired after completing their training	Proportion of apprentices hired in Germany	Ongoing until the end of 2023	83% of apprentices were hired.		45
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 2021, the proportion was 89%.		48–49
Diversity & Inclusion	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.		42–43
	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 18.2%.		42–43
	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 25.7%.		42–43
	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 102 participants in 2021, the proportions amounted to 25% female and 60% non-German participants.		42–43
	Increase proportion of women in management to 30%	Proportion of women in management	End of 2030	The proportion of women was 24.0%.		42–43
Occupational safety	Continuous decrease in the LTIFR by > 50% (reference LTIFR of 2.0 in 2016)	LTIFR	End of 2025	The LTIFR was 0.9%.		53–55

LANXESS Corporate Responsibility Goals

Topic	Goal	Indicator	Deadline	Status Quo 2021	SDG	Page
		Sustainable Products			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.		58–61
	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-2020. The proportion of inspected/updated dossiers is 7%.		57
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	142 projects in the reporting year were aimed at developing new/improving existing products and applications.		64–65
	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	81 projects in the reporting year concerned process technology issues with a view to reducing costs, improving efficiency or increasing capacity.		33–34
Long-term customer relationship	Improvement in customer satisfaction and maintenance of customer loyalty: customer loyalty index > 75	Customer loyalty index score	2022	In the 2022 survey, the customer loyalty index score was 71. The survey is carried out every two years.		65–66

CIRCULAR AND SUSTAINABLE SOURCING

16 thousand
suppliers Group-wide

NFR

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 (GPL) 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.

The ongoing strain in global supply chains continued to pose challenges in the reporting year and resulted in rising raw material prices. In addition, significant fluctuations in electricity and gas prices in the fourth quarter had an impact on our production costs, especially in Europe. Due to an accident in the tank farm of the hazardous waste incinerator plant at Chempark Leverkusen, lower waste management capacity is currently available to use at this location, which is also restricting our production capacity. In China, the government-ordered power rationing at several of our sites caused interruptions to production.

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In 2021, procurement transactions with over 16,000 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.

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. To flesh out our requirements, we revised the content of the Code during the fiscal year and added additional topics. In connection with this, the name was changed to the "Business Partner Code of Conduct" in order to make it clear that we expect sustainable and ethical conduct not only from our suppliers.

NFR

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.

Our organic raw materials are currently still based primarily on fossil sources. We are striving to increase the proportion of sustainable raw materials. The market for sustainable raw materials is undergoing long-term development. To make progress, we are already working with multiple major partners and testing their research products. A realistic scenario is that we will increasingly bring individual products based on sustainable raw materials to market before this is possible for the entire product range. However, the use of bio-based organic raw materials also entails challenges and potential conflicts. For example, the production of food must always take priority over the use of biomass to manufacture chemical products. Therefore, we proceed with caution when purchasing bio-based raw materials and ensure that the biomass we use is produced in a renewable manner and is not competing with food production.

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bp and LANXESS join forces on renewable raw materials for plastics production

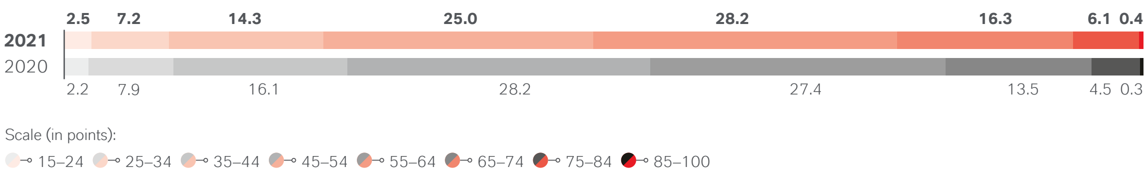
High-performance plastics are the solution for many sustainable products. It is also important to us to also make the production of this valuable material sustainable. In this context, the use of bio-based raw materials, along with modern recycling processes, is a key lever. Against this backdrop, we have entered into a strategic partnership with energy company bp for the use of sustainable raw materials in high-tech plastics production. Since the fourth quarter of 2021, bp has supplied our production site in Antwerp, Belgium, with sustainably produced cyclohexane. Our long-standing partner uses bio-based and bio-circular feedstocks for its production. These can be, for example, rapeseed oil or biomass. The sustainable origin of the raw materials is certified according to ISCC Plus rules ("International Sustainability and Carbon Certification").

NFR

Our inorganic raw materials are primarily obtained from the biological cycle, e.g. nitrogen from the air or sodium chloride from seawater. These raw materials are renewable in principle, but not necessarily sustainable, as their extraction requires high energy usage in the form of electricity. In order to reduce their carbon footprint, more renewable energies will have to be used for their extraction. Here, too, we are engaged in strategic partnerships with our suppliers in order to achieve this. Further information can be found under "Sustainable Products."

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. TfS has established itself in the chemicals industry as the clear standard for a sustainable supply chain. The focus here is on environmental protection, workers' rights and human rights including the prevention of child labor, labor standards, occupational safety, business ethics and sustainable procurement practices.

Overall Scores of Our Suppliers at EcoVadis
%



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Because the assessment results and audit reports are shared within the initiative, we had more than 10,500 sustainability assessments and around 740 audit reports available to us as of the end of 2021. Suppliers whose sustainability-related activities have been assessed in TfS audits or assessments represent 67% 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, we established the SCORE process in our 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 48.7 points is above the EcoVadis benchmark of 43.9 points. With regard to our suppliers' weak points, no trend could be discerned in 2021 again. We had no reason in the year under review to end our collaboration with suppliers due to sustainability aspects.

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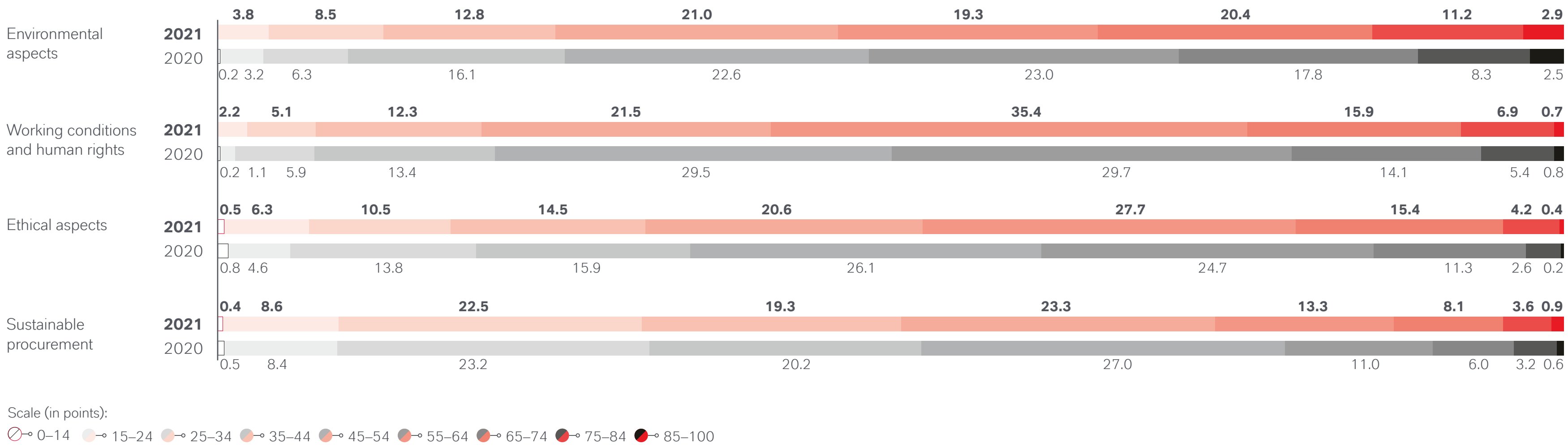
Detailed Scores of Our Suppliers at EcoVadis
%



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With regard to the migration of a database-supported risk analysis system into our SAP system, we successfully completed the test phase in the reporting year. The global roll-out is now taking place in parallel with a general update of the SAP system. This is already complete in North America; Germany and the rest of Europe are to follow in the second quarter of 2022. The risk analysis system allows us to retrieve supplier-related data from around 600,000 sources and in various qualitative dimensions – such as regulatory, environmental, social or financial – in real time.

SAFE AND SUSTAINABLE SITES

37
HSE (Health, Safety, Environment) checks at production facilities

65
production sites in 19 countries

NFR

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.

Uniform standards in production

LANXESS operates a total of 65 production sites and has a presence in 19 countries (investments ≥ 50%, as of December 31, 2021). 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.

NFR

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 2021, a total of 35 production facilities (previous year: 32) were examined in the context of HSE compliance checks (health, safety and environment), including 16 (previous year: 16) in Germany. Eight HSE compliance checks planned outside Germany were postponed to 2022 (6) and two to 2023 (2) as a result of the coronavirus pandemic. In 2021, we conducted HSE gap analyses at two sites acquired from Emerald Kalama.

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

NFR

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 2021 reporting year was in single digits.

We are continuing the systematic digitalization of production, including by digitizing our paper-based operational management and maintenance checklists. Tablets are now in use that are directly connected to the central IT systems at LANXESS and enable real-time access to data. The solution includes the end-to-end integration of digital data processing in the work process and ensures that data are archived correctly and automatically. Thanks to the clear, complete data, we can now directly derive necessary measures and implement them immediately. This not only increases work efficiency in production and maintenance, but also avoids duplication of work.

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.

85%
matrix certificate coverage

NFR

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

We ensure that progress in integrating new sites into our management system and its performance are regularly reviewed worldwide by independent external experts. In 2021, we successfully passed the recertification audit in accordance with the standards ISO 9001:2015 and 14001:2015 and the surveillance audit in accordance with ISO 50001:2018. In the reporting year, the sites in Elmira, Canada, and Gastonia South, U.S., acquired from Chemtura were added to the matrix certificate. Over half of the sites taken on with the acquisition of Chemtura have already been certified in accordance with ISO 9001 and ISO 14001. For the time being, they hold these certifications separately. We are planning to gradually integrate these sites into our matrix certificate. The same applies to the sites acquired from Emerald Kalama and Theseo in the reporting year and their certificates.

NFR

As of December 31, 2021, our matrix certificate covered 38 certifiable companies (companies with staff and in which LANXESS has a stake of over 50%) with a total of 71 sites in 21 countries. In relation to the number of employees, this equates to 85% coverage (not included in the newly acquired sites in 2021: 88.5%).

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 well as the newly acquired Theseo Germany GmbH in Wietmarschen. As of December 31, 2021, the energy management system had reached coverage of 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.

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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.

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, an increasing number of countries and Group companies have been gradually connected to the system. For example, we successfully integrated the former Chemtura sites in North America into the central safety-data system in 2020. The integration of further former Chemtura sites in Germany and Great Britain planned for 2021 was postponed to 2022. We will also begin the integration of Theseo and Emerald Kalama Chemicals in 2022.

NFR

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 planned expansion to other sites – especially the U.S. – and the further load-securing training sessions have 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 accordance with the state of the art, taking environmental standards and local requirements into account.

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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.

LANXESS is aware of water's ecological and social significance beyond water's importance as an economic resource. Access to water and sanitary facilities are a fundamental human right. Water availability and quality are global challenges that we can and must address locally. 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."

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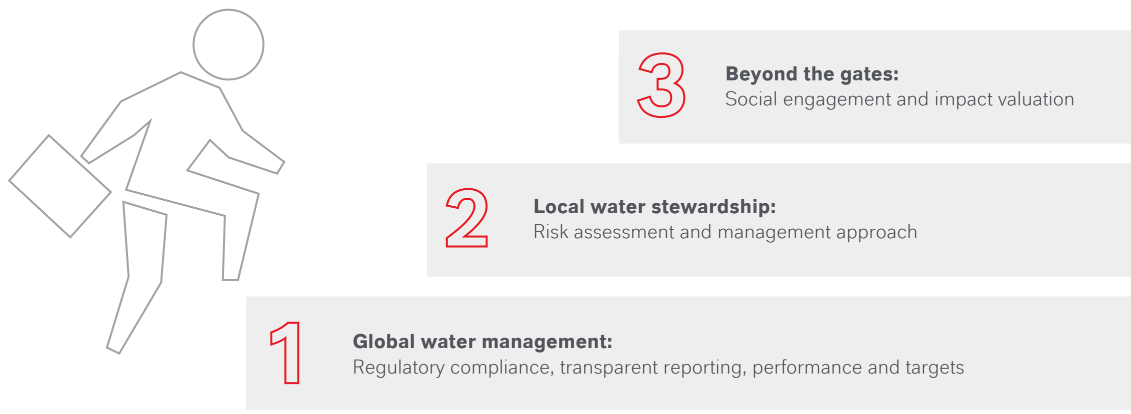
In order to push our engagement further, we launched our global LANXESS Water Program in 2020. The program is designed to promote sustainable water management with the aim of continuously improving the way water is used.

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.

LANXESS Water Program



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Our annual analysis of all LANXESS production sites using the WWF Water Risk Filter showed that a total of 14 of our production sites are still in water-stress areas. These sites accounted for around 2% of our total water withdrawal in 2021. Around 91% of our water withdrawal takes place in areas with low water stress.

We have developed an extensive water risk analysis, which we update every two years, in order to build upon the 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 updated water stress score we developed (average of current and future water stress) as well as the specific water withdrawal per metric ton of a product. In our first analysis in 2020, we identified a total of four sites in Jhagadia and Nagda, India; Latina, Italy; and Qingdao, China, which are located in particularly severely affected water risk regions.

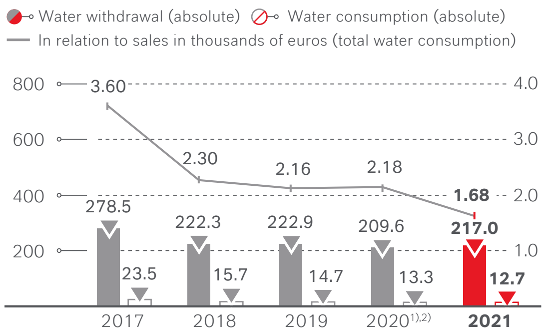
We believe we are on track to achieve our target to reduce absolute water withdrawal at water risk sites by 15% compared with 2019 by 2023. The planning of relevant savings measures is complete; prioritized projects are all already in the pilot phase. In addition, we initiated local water stewardship programs at all water risk sites in the reporting year, which are to be implemented by 2023. They are based on recognized scientific methodologies 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 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.

Sparing use of water

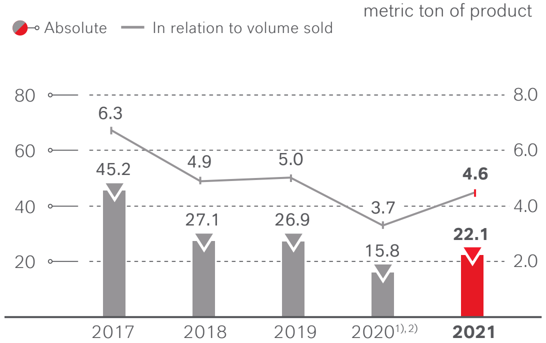
Handling scarce water resources in a conscious and careful manner is an investment in the future. In order to break the link between our growth and water consumption and potential stresses from wastewater discharge, we have set ambitious targets at Group level. We are aiming for an annual reduction of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

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



1) Continuing operations
2) 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) Continuing operations
2) 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 2021, 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. Direct comparison between water withdrawal and water consumption shows that large volumes of water were withdrawn (e.g. in the form of once-through cooling water) but were returned to the water cycle in the same quality. Water consumption is calculated by subtracting once-through cooling water, dissipated steam, wastewater (treated and untreated) and other water sold to third parties. Our water withdrawal increased slightly in 2021, mainly due to newly acquired companies. In fiscal year 2021, we recorded the water discharged to third parties separately for the first time and included this in the calculation of water consumption. The recognition of the water discharge data shows a slightly improved water consumption value in comparison with the previous year. In the past fiscal year, we achieved our target of reducing specific water consumption.

The volume of treated wastewater increased in 2021. This is mainly due to the additional volumes of wastewater at the acquired sites. The assessment of qualitative indicators is also part of LANXESS's tracking of key environmental figures.

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One of the most important wastewater parameters is TOC (total organic carbon). In fiscal year 2021, the specific TOC after wastewater treatment decreased to 0.17 kilograms/thousand euros (previous year: 0.20 kilograms/thousand euros). Because of the simultaneous increase in sales, we achieved the reduction target of 2%.

Further information on our use of water can be found in our "Water" Background Paper.

Sustainable waste management

We aim to avoid hazardous as well as non-hazardous waste as far as possible and to break the link between our business growth and waste production. Rigorous material-flow management from use of raw materials to product finishing is aimed at ensuring that we use resources as efficiently as possible and minimize our waste volumes.

Our business units are working constantly on various research projects for the prevention, reduction and recycling of waste. In turn, our networked sites enable us to re-use many waste and secondary flows as a raw material directly in neighboring plants – both our own as well as those of other chemicals companies – to create closed loops and thus avoid the generation of waste.

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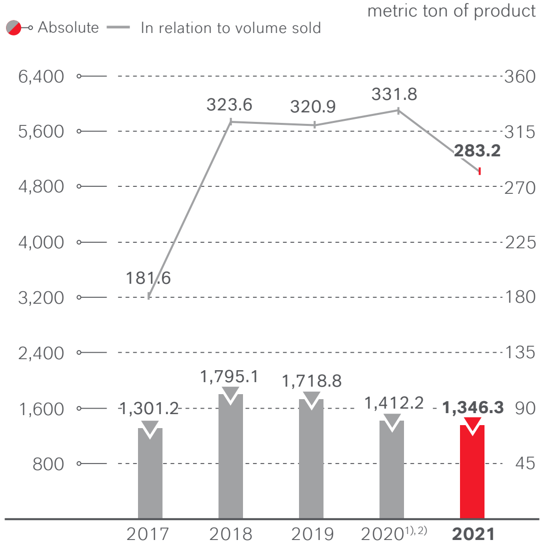
In addition, we are working to achieve the targets defined in the international program "Operation Clean Sweep" (OCS) of the Society of the Plastics Industry. OCS aims to prevent plastic particles or pellets from entering the marine environment and having an undesired impact. By joining in 2016, we made 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.

Total Waste



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

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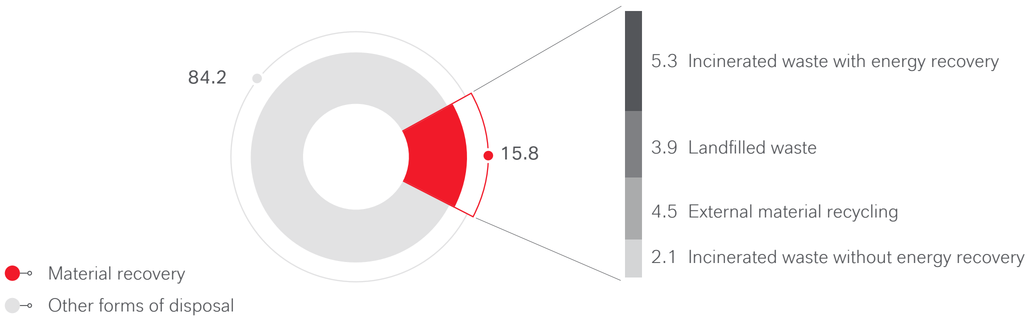
The total amount of waste generated decreased compared to the previous year. In addition to technical improvements at our site in El Dorado, U.S., the scheduled production facility shutdown at this site also contributed to the significant reduction in 2021. The biggest share of our waste volumes comprises slightly polluted wastewater at the El Dorado 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.

Waste for Disposal

%



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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%.

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PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft audited our environmental and safety performance data and the requisite data-gathering processes with limited assurance for fiscal year 2021.

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Environmental and Safety Performance Data*

	2019	2020 Continuing operations	2020 Leather business unit	2021
Safety				
Occupational injuries to LANXESS employees resulting in at least one day's absence (per million hours worked) (LTIFR[1])	1.6	1.0	3.3	0.9
Volume sold[2] in thousand metric tons	**5,356**	**4,256**	**124**	**4,754**
Energy consumption in petajoules (10^{15} joules)[3]	**27.1**	**24.4**	**0.34**	**28.1**
Direct energy sources (GRI 302-1)				
Non-renewable	11.3	9.5	0.21	11.2
Renewable (biomass)	1.9	2.4	–	3.3
Indirect energy sources (GRI 302-1)[4]				
Electricity consumption	6.55	5.8	0.07	6.3
Heat and steam consumption	6.7	6	0.06	6.60
Energy consumption for cooling	0.5	0.55	–	0.54
Other	0.15	0.15	–	0.11
Water and wastewater in million cubic meters				
Total water withdrawal (GRI 303-3)	**222.9**	**209.6**	**0.64**	**217.0**
Surface water	52.7	48.4	–	57.5
Groundwater	5.2	4.3	0.04	4.6
Third-party wastewater	1.1	1.2	–	1.1
Third-party water	163.9	155.7	0.60	153.8
Total water withdrawal in water-stress areas (GRI 303-3)	**5.7**	**4.7**	**0.04**	**4.5**
Volume of once-through cooling water (GRI 303-4)	**181.4**	**169.7**	**0.49**	**176.4**
Total wastewater discharge (GRI 303-4)				
Wastewater discharge (treated)[5]	26.9	15.8	0.04	22.1
Wastewater discharge (untreated)[5]	–	178.8	0.48	187.4
Wastewater emissions (after treatment) in thousand metric tons				
Total nitrogen	0.4	0.4	0.001	0.5
Total organic carbon (TOC)[6]	1.2	1.2	0.006	1.3
Heavy metals[7]	0.0023	0.0021	0	0.0023
Total water consumption in million cubic meters (GRI 303-5)[8]	**14.7**	**13.3**	**0.13**	**12.7**
Emissions to air in thousand metric tons				
Total greenhouse gas emissions CO_2e (GRI 305-1, GRI 305-2)	2,950	2,533	32	2,591
Direct (Scope 1)[9]	1,459	1,263	12	1,284
Indirect (Scope 2)[10]	1,491	1,270	20	1,307
Ozone-depleting substances (GRI 305-6)	0.00716	0.004	0	0.004
NO_x, SO_x and other emissions (GRI 305-7)				
NO_x[11]	2.6	2.1	0.01	1.4
SO_2[12]	0.9	0.9	–	0.9
CO	1.7	2.1	–	3.2
NH_3	0.048	0.021	–	0.03
NMVOC[13]	0.7	1.2	0.02	0.8
Waste in thousand metric tons				
Total weight of waste (GRI 306-3)	1,718.8	1,412.2	1.1	1,346.3
Incineration with energy recovery	66.1	77.1	–	70.7
Incineration without energy recovery	29.3	30.5	0.2	28.7
Landfilling	152.1	52.1	0.6	52.4
Material recovery	58.9	47.9	0.3	60.5
Other forms of disposal	1,412.4	1,204.6	–	1,134.0
Type of waste				
Hazardous	687.8	566.45	0.6	664.8
Non-hazardous	1,031.0	845.75	0.5	681.5

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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%. 2021: The Kalama, Widnes, Botlek, Laval, Hull, and Wietmarschen production sites added as a result of the acquisitions of Emerald Kalama Chemicals (as of August 3, 2021) and Theseo Group (as of April 1, 2021) were included in the environmental figures pro rata. 2019/2020/2021: Some of the data is based on estimates and projections.
On the basis of the current portfolio with Emerald Kalama Chemicals and Theseo Group, LANXESS's Scope 1 and Scope 2 emissions for the full year 2020 would have amounted to 2,784 thousand metric tons of CO_2e. For the full year 2021, the Scope 1 and Scope 2 emissions would have amounted to 2,739 thousand metric tons of CO_2e.

1) LTIFR: rate of accidents with an incapacity certificate per planned million hours worked resulting in one workday or more lost following the day of the accident, calculated for all employees at all sites (including temporary workers for Germany, NAFTA, China, and India).
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 2021, the COD is 3.9 kt.
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. 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. 2021: Total water withdrawal less once-through cooling water, the volume of sold steam, wastewater (treated and untreated) and other water sold to third parties.
9) The emission factors used for fuels are based on calculations by the U.S. EPA (GHG Emission Factors Hub, September 15, 2021) 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 Sixth Assessment Report (AR6 2021). Previously 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: 2017: 215 kt CO_2, 2018: 230 kt CO_2, 2019: 184 kt CO_2, 2020: 268 kt CO_2, 2021: 294 kt CO_2.
10) All Scope 2 greenhouse gases are calculated as CO_2e. In 2021, the conversion factors used were provided by the energy producers. Where these were not available, factors from the IEA (International Energy Agency) from 2019 were used for fiscal year 2021, factors from 2018 were used for fiscal year 2020 and factors from 2017 were used for fiscal year 2019. The Scope 2 CO_2 emissions are calculated using the market-based method in accordance with the GHG Protocol. Using the location-based method, Scope 2 CO_2 emissions for 2021 amounted to 1,562 kt.
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.

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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.

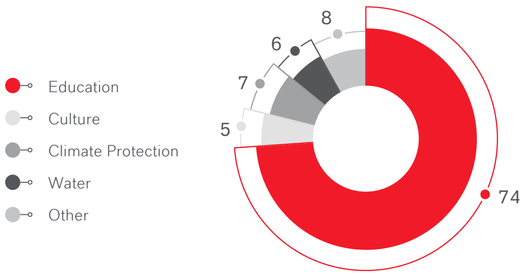
We provided around €1.4 million globally for our projects in 2021 (previous year: around €1.5 million). The regional focal points of our activities in the reporting year were the EMEA and USMCA regions.

In decisions on social commitment, we 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 885,954 (previous year: roughly 1,500,000) people benefited from our projects in 2021. We use a system of performance indicators to measure the social impact of our activities above and beyond the number of people who benefit. In 2021, we performed an impact assessment for 90% of the projects we carried out, 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 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)]

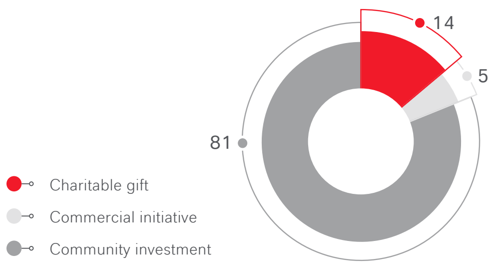
%



1) Number of projects: 109

Social Activities by Type of Investment[1)]

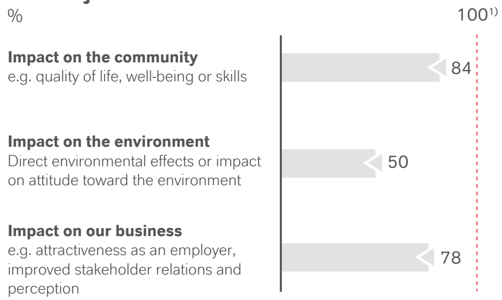
%



1) Number of projects: 109

Impact Dimensions of Evaluated Activities and Projects

%



1) Number of projects: 98

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Commitment to education, climate protection, water and culture

Under the LANXESS education initiative, starting in 2008, we have initiated more than 500 projects at our sites worldwide to get young people interested in the natural sciences at an early age.

We are particularly keen to support teachers who advance new lesson formats and thus switch on their students' inquiring minds. In the reporting year, for example, a school in Bergkamen received a five-figure sum for student experiments involving plant pigments and the use of drones in agriculture, as well as a green classroom. In Dormagen, we enabled a secondary school to design a multi-functional laboratory. As is tradition, the LANXESS laboratory days also met with a great response. This year, classes from various schools in North Rhine-Westphalia visited the Leverkusen Industry Museum.

In Canada, we launched the LANXESS Learners Program in 2021. This helps a local government organization in the region of our Elmira site to fund artistic and cultural activities for children in financially challenged communities. In our STEM education program at the site in El Dorado, U.S., we provided a total of US$250,000 over a period of five years to promote science, technology, engineering and mathematics. In cooperation with the Goethe-Institut, we support highly talented students in China who want to study science in Germany.

We have worked to protect the climate, for example, by installing a photovoltaic system at the Marianum children's home in Krefeld. With a capacity of nearly 100 kWp, an estimated 90,000 kWh will be produced per year, and around 76% of the electricity will be used directly at Marianum. The rest will be made available to other households in Krefeld via the in-house transformer station or used to "refuel" electric vehicles. The "Sun, Wind and Weather" project box also helps to raise the young residents' awareness of climate protection. We also financed the construction of a photovoltaic system at a school near our Brazilian site in Porto Feliz.

As a sponsor of the Allegheny Land Trust in the U.S., we are helping to conserve one of the largest remaining green spaces in the Pittsburgh region. The project aims to protect and conserve the former Churchill Valley Country Club and its 148 hectares of natural green space and a growing habit for native flora and fauna.

Urban and industrial water recycling and water security were the themes of the "Clean water for a better life" research competition in China, which we organized for the seventh time in 2021. We use the competition to support talented young academics, who spend several months looking at questions of environmental and water conservation from various perspectives and across disciplines and regions.

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 likewise supported for more than ten years, gives talented young musicians from all over Asia the opportunity of first-class musical training. In the reporting year, our promotion of culture particularly included helping to create digital stages for authors and musicians during the pandemic.

LANXESS aids victims of catastrophic flooding

Beyond our strategic engagements, there are always events that demand our rapid assistance – such as the catastrophic flooding that caused severe damage mainly in North Rhine-Westphalia and Rhineland-Palatinate in July 2021. Several areas of Leverkusen, the biggest LANXESS site worldwide, were also directly affected. We quickly donated €100,000 to "Bürgerstiftung Leverkusen" to help ease the initial hardship. In addition, we called on our employees to donate to "Aktion Deutschland hilft e.V." and doubled the total they donated from around €100,000 to €200,000. In addition to the financial support, LANXESS employees also physically pitched in for each other and in the regions affected. We gave them the freedom to do so – as well as those deployed as voluntary aid workers for organizations in the flood-hit regions.

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. At the Climate Change Conference in Glasgow in November 2021, this ambition was for the first time backed up with concrete reduction requirements for greenhouse gas emissions. By 2030, for example, global CO_2 emissions must be cut by 45% versus 2010, and net-zero emissions must be achieved by 2050. Meanwhile, in Germany, the "Climate Protection Plan 2050" currently 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 towards its goal of becoming more environmentally friendly. Between 2004 and 2018, we halved our greenhouse gas emissions from around 6.5 million metric 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.

In light of this, it was time to set new, ambitious medium- and long-term 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 metric tons of CO_2e. We will thus have achieved a 75% reduction compared to the emissions when LANXESS was founded. To measure our climate-relevant emissions, we collect data on emissions of greenhouse gases defined in the Kyoto Protocol and calculate their greenhouse effect in comparison to carbon dioxide. We include emissions from our own production (Scope 1) and from external energy sources (Scope 2) in the calculation.

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.

Clear strategy to lower emissions

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

1. **Launch climate protection projects (medium-term target)**
   Over the next few years, several measures will significantly lower greenhouse gases. In the previous year, we commenced operations at our first facility for the decomposition of nitrous oxide into its harmless components, nitrogen and oxygen, at the site in Lillo, Belgium. This reduces our annual emissions of the particularly harmful greenhouse gas by up to 150,000 metric tons of CO_2e. After the installation of a second facility in 2023, CO_2e emissions will fall by another 300,000 metric tons.

   In addition, we are also switching the entire energy supply at our Indian sites to renewable energy sources, specifically biomass and solar power. This will cut our CO_2e emissions by a further 150,000 metric tons from 2024. As of the reporting date, the percent of renewable energies at the Jhagadia site was already 39%, while the Nagda site achieved around 71%. We already operate a highly efficient cogeneration plant entirely with biomass in Porto Feliz, Brazil. We are also planning to phase out the use of coal-based energy at our major production sites in Germany.

   Under these projects and other measures, we want to decrease our CO_2e emissions to 2.6 million metric tons by 2025.

2. **Break the link between emissions and growth (long-term target)**
   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

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acquisitions. This gives business units that achieve better than average reductions in greenhouse gas emissions a direct financial advantage. In 2020, the Board of Management and the Supervisory Board also decided that 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.

3. **Strengthen process and technological innovations (long-term target)**
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 metric 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.

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Uncertainty over emissions trading

In Europe, 14 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 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 important rules – especially for the period after 2022 – 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 again received the best possible score of "A" in the climate category in the assessment for 2021, which puts LANXESS among the top 2% of the more than 12,000 companies rated by CDP. These gratifying results gave us encouragement to continue systematically pursuing our climate protection strategy.

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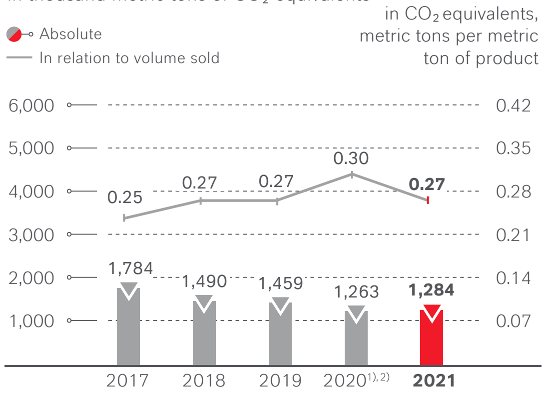
Greenhouse Gas Emissions (Scope 1)
in thousand metric tons of CO_2 equivalents



1) Continuing operations
2) LANXESS total: Scope 1: 1,275, specific: 0.29
From 2021, GWP100 factors of the IPCC Sixth Assessment Report (AR6 (2021)) are used. Previously IPCC Second Assessment Report (SAR (1995)).

In 2021, our absolute Scope 1 emissions are at the previous year's level. This is due to the increased emissions as a result of the changes in the business portfolio in 2021 and the increase in the production volume after the pandemic-driven decline in the previous year. These effects counteract the implemented reductions. For example, the reduction of nitrous oxide emissions in Belgium continued. In addition, Scope 1 emissions were reduced via the increased use of biomass. Specific Scope 1 emissions nevertheless decreased year-on-year due to the increased production volume.

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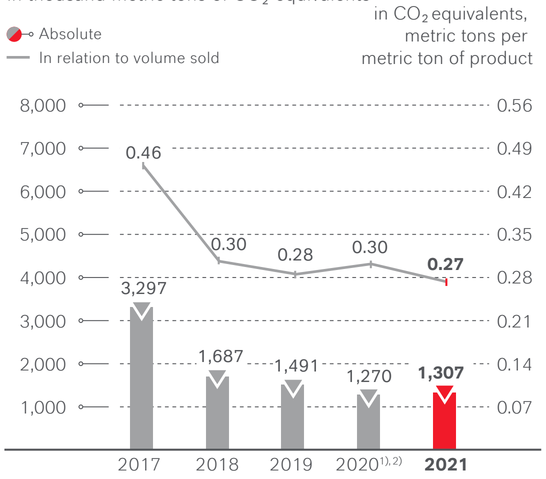
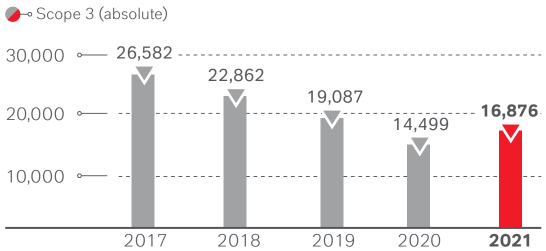
Greenhouse Gas Emissions (Scope 2)
in thousand metric tons of CO_2 equivalents



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

Scope 2 emissions are also level with the previous year. This development is based firstly on increased energy consumption due to a higher production volume and the changes in the business portfolio and secondly to the further decline in emissions factors in the reporting year. The specific figure was reduced slightly despite the increased energy consumption.

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

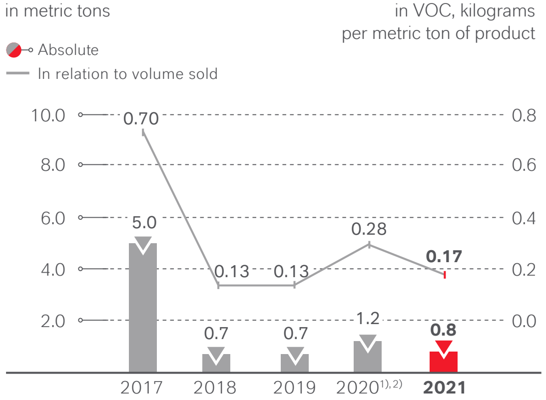


On the basis of the current portfolio with Emerald Kalama Chemicals and Theseo Group, LANXESS's Scope 3 emissions for the full year 2021 would have amounted to 17,750 thousand metric tons of CO_2e.

In fiscal year 2021, our Scope 3 emissions likewise increased as a result of the higher production volume and the changes in the business portfolio.

Other atmospheric emissions

VOC Emissions
in metric tons



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

In fiscal year 2021, the VOC emissions, which increased in the previous year, were significantly reduced again. The absolute and specific figures are now roughly on a par with the pre-pandemic level again.

LANXESS supports the KlimaWirtschaft Foundation

A forward-looking energy and climate policy framework is a prerequisite for German industry to remain competitive. Since June 2021, LANXESS has therefore been one of the first two representatives of the chemical industry to support the KlimaWirtschaft Foundation, an initiative of chairmen, CEOs and family businesses. The foundation's aim is to call on politicians to establish effective market-based conditions for climate protection and to support the problem-solving skills of German companies. In collaboration with 17 industrial companies, the Foundation, Agora Energiewende and Roland Berger had compiled twelve recommendations for action at the start of 2021. We are firmly convinced that our many years of experience in reducing greenhouse gases will be beneficial to the Foundation.

klimawirtschaft.org

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.

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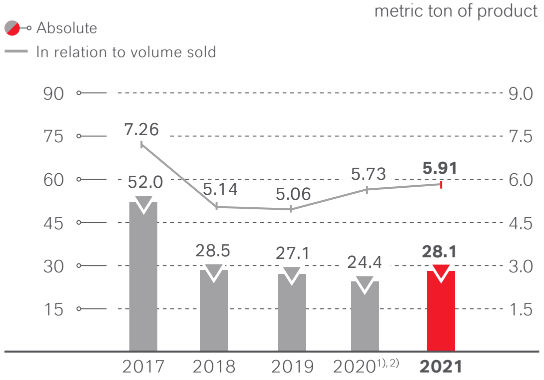
With this target, we have taken part in the Energy Efficiency Networks Initiative, established by the German federal government and leading industry associations, with several German sites since 2017. For example, our Mannheim site is currently participating in the ChePap 2 network, the Bitterfeld site in the Bitterfeld-Wolfen 2.0 network.

Energy Consumption (Balance Sheet)

in petajoules

in gigajoules per metric ton of product



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

Our absolute energy consumption increased significantly in 2021. This is primarily due to the increased production volume and the changes in the business portfolio. Despite the increased absolute energy consumption, the specific energy consumption was roughly level with the previous year.

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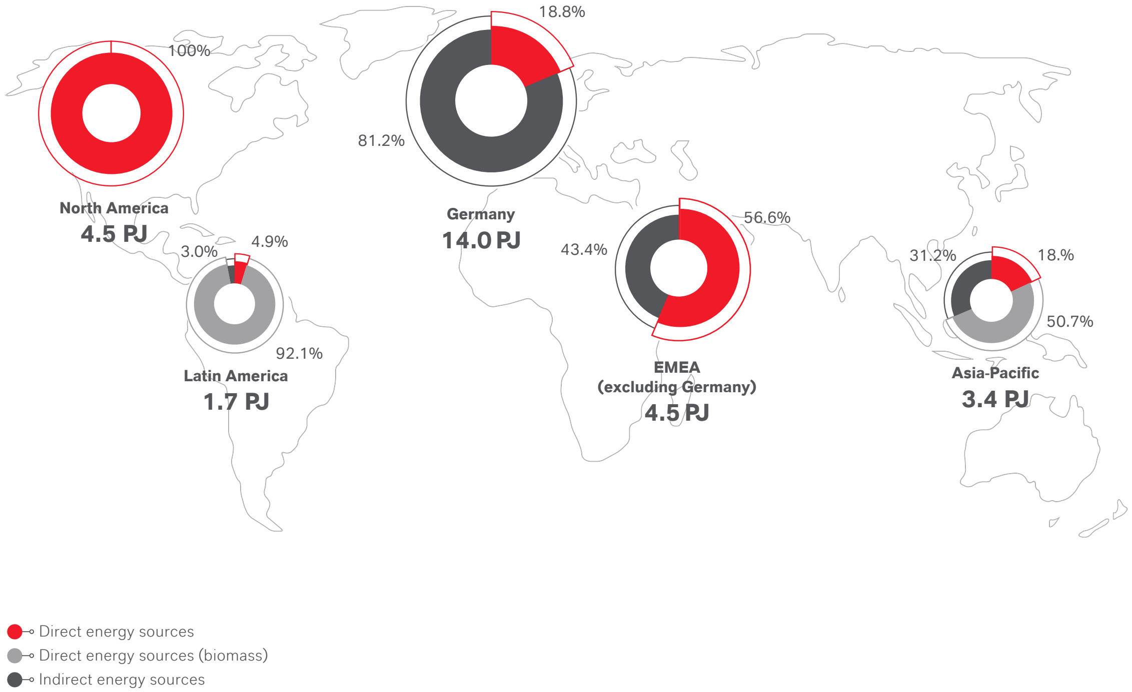
Direct and Indirect Energy Consumption by Region

in petajoules/%



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 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

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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.

Further information on our climate strategy can be found in the "Climate" Background Paper.

GOOD GOVERNANCE AND ENERGIZED EMPLOYEES

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Good 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.

We also ensure responsible business activities with our committee structure geared toward effective sustainability management and with our integrated management system that provides for the necessary global structures in all business processes.

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Compliance organization

For LANXESS, responsible corporate governance particularly implies compliance with legal and internal standards and ethical principles to which all employees must adhere. Our global compliance organization – comprising the Group Compliance Officer, the regional Compliance Officers, and a network of local Compliance Officers – supports all areas of the company in implementing appropriate measures to counter unlawful or unethical conduct within the LANXESS Group at an early stage and to prevent misconduct. The compliance organization is also available to all employees as a point of contact for any compliance-related issues. The direct reporting line from the Group Compliance Officer to the Board of Management guarantees that the Board of Management members receive regular information.

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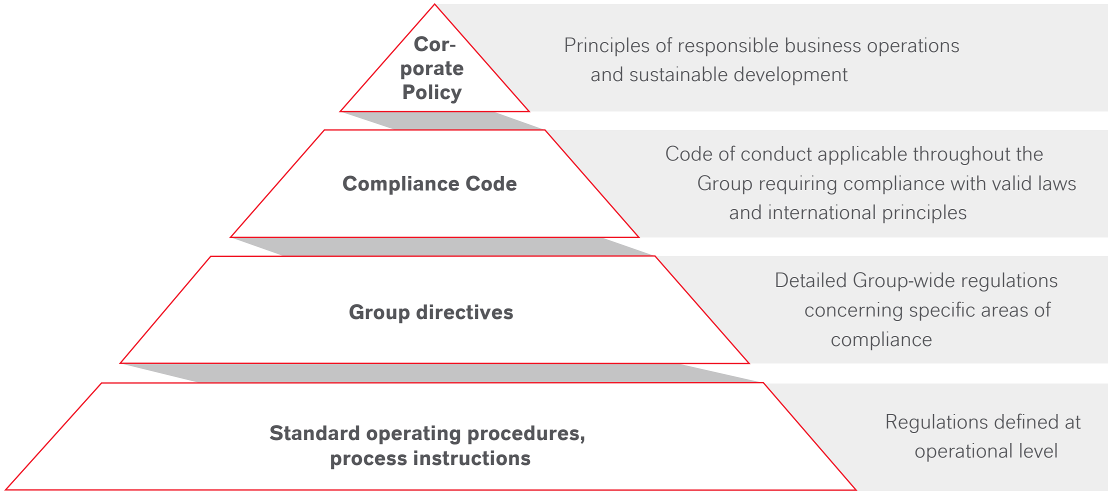
Clear Rules Provide Guidance



Internal guidelines and regulations

Our Corporate Policy lays out principles of responsible business operations and sustainable development and defines our general corporate philosophy and the expected conduct of all employees in relation to our stakeholders.

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 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.

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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.

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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."

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

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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.

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. In the event of suspected human rights violations, our employees and external third parties can report them in various ways. For example, the Compliance Helpdesk and the "SpeakUp" reporting system can be used to notify the compliance organization – also anonymously if they wish.

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We have no reports or knowledge of any systematic discrimination against LANXESS employees 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 Labour 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. To flesh out our requirements, we revised the content of the Code during the reporting year and added additional topics. In connection with this, the name was changed to "Business Partner Code of Conduct." We thus make it clear that we expect sustainable and ethical conduct not only from our suppliers.

In addition, we 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

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services are regularly assessed in the context of TfS audits. These supplier assessments also cover compliance with aspects of our Business Partner 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.

Thanks to our long-standing, proven mechanisms for compliance with human rights due diligence obligations – both in our business operations and in the supply chain – we believe we are well prepared for the regulatory developments formalizing the protection of human rights in many regions of the world. Our "People & Governance" sub-committee has taken on the task of closely examining the growing legal requirements in an interdisciplinary team of experts and coordinating the necessary measures.

Over
6,000
participations in compliance training sessions

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 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.

Donations – depending on the value – require approval from the Communications central function or from the Chairman of the Board of Management of LANXESS AG, in both cases 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 anti-corruption training aimed at exposed professional groups and countries. In the reporting year, we recorded more than 6,000 participations in compliance training sessions worldwide. If there are indications of compliance violations, our employees and external third parties can contact the compliance organization – anonymously if they wish. Our Group-wide "SpeakUp" reporting system allows all employees or external third parties to report potential violations in writing or by telephone in over 20 languages and guarantees secure and anonymous communication between the compliance organization and the individual making the report.

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 2021, 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 received no reports or indications of such cases.

We also communicate our clear expectations for the prevention of corruption to our suppliers and service providers in our Business Partner 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 Business Partner Code of Conduct or have established their own comparable standards. If suppliers or service providers do not comply with these principles, this may lead to the termination of the contractual relationship.

Employees

LANXESS aims to be a sustainable chemicals company with long-term success driven by the personal commitment of each individual employee and by high-performing, diverse teams. Our goal is to enable our employees to shape their professional lives actively and to create a safe, productive and motivating environment. This makes us attractive to applicants of all ages and skill levels and enables us to counter demographic change and the shortage of skilled workers while also promoting a diverse workforce in which everybody feels included.

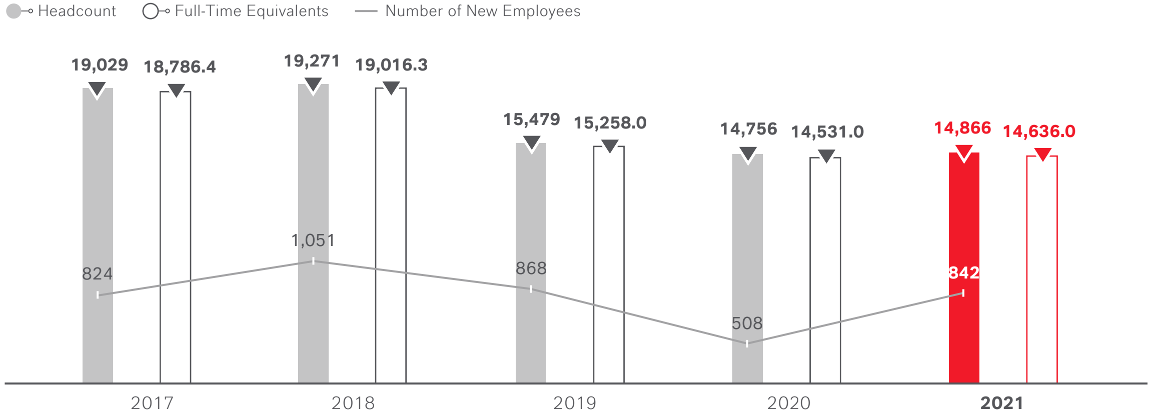
An HR strategy based on four pillars helps us to achieve our goal. We are continuously enhancing this in order to appropriately support our employees at all times in the diverse and sometimes complex change processes at LANXESS. In times of profound social and business transformation processes, change management is generally growing in importance. In particular, the increased M&A activities in the reporting year entail organizational, cultural and personal changes for many of our employees. A second major driver of change is and remains the consistent digitalization or digital optimization of our business processes, which center on the successive global implementation of a new SAP process and system landscape. For the associated challenges, we have developed various methods and training modules that provide transparency about the upcoming changes and encourage mutual exchange and reflection. One thing is certain: change will remain a constant for LANXESS in the years to come. We want not only to deal with it, but to shape it.

LANXESS HR Strategy

Enabling growth	Developing employees and managers	Making HR work more efficient	Acting as partners
Support for sustainable growth through long-term and strategic workforce planning as well as a global recruiting strategy and systemically supported recruiting activities.	Promotion of cross-functional and cross-divisional career development through extensive training and learning concepts and holistic talent management.	Creation of efficient and standardized global HR processes, supported by consistent digitalization.	Increased communication within and outside the HR department for more transparency and more targeted identification of the needs of the various Group functions and business units.

Information on life and work at LANXESS can also be found in our "Working at LANXESS" Background Paper.

Number of Employees

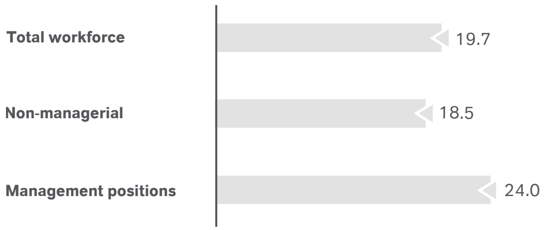


The figures shown for 2020 relate to continuing operations. For 2019, the discontinued operations of the Leather business unit are included. All figures relate to the core workforce. The figures for 2017 and 2018 include ARLANXEO.

Diversity and inclusion

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 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
%



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We continued to follow our strategic "Diversity & Inclusion" (D&I) concept for promoting diversity, equal opportunities and inclusion in 2021. We are working steadily to make all HR processes D&I-compliant. We take a holistic view of D&I, focusing on aspects such as gender, nationality, age, disability and sexual orientation. In the reporting year, we placed particular emphasis on raising awareness and direct exchange with our employees. For example, we initiated various formats on the topic of "unconscious

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bias" or virtual discussions about gender diversity and cultural diversity – one of our global priorities. Particularly with regard to the many new employees who have joined LANXESS through acquisitions in the reporting year, it is important to us that we all appreciate and use the further increase in diversity as a major advantage. This was also the central message of our first "Global Diversity & Inclusion Day," which we held in November to mark the International Day for Tolerance.

In addition, gender diversity remains an important focus topic – with the clear target of increasing the proportion of women in the company. We sent an important signal in the reporting year with our commitment to the Women's Empowerment Principles (WEP), a joint initiative by U.N. Women and U.N. Global Compact. The seven principles to empower women in the workplace provide clear guidelines for how employers can promote gender equality. These include equal pay for equal work, gender-specific measures for the promotion of women and zero tolerance for sexual harassment in the workplace.

A pilot project in Germany with four virtual events aimed to set up a network for women at LANXESS to make it easier for them to connect, communicate and inspire each other. The very first event reached around 100 participants, and the number of interested employees grew to more than 200 by the end of 2021. Several sub-groups (e.g. Women in STEM), mentoring pairs and a leadership team, which will organize the network itself from 2022, have already formed from among these participants. On the basis of this positive experience, we will also launch pilots for women's networks in all other regions in 2022.

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

Proportion of women	2017[1]	2018	2019	2020	2021	Goal	Target date
First level below the Board of Management	11.6%	13.8%	20.9%	16.7%	**18.2%**	15%	June 30, 2022
Second level below the Board of Management	23.9%	19.2%	25.1%	23.4%	**25.7%**	25%	June 30, 2022
Board of Management (number of women)	0	0	0	1	**1**	1	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 in 2020 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 2021, we exceeded the targets with a share of 18.2% women at the first level of management and 25.7% women at the second level of management. At the beginning of 2020, Dr. Stephanie Coßmann was appointed as a member of the Board of Management and

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as Labor Relations Director. We therefore achieved our target of at least one woman being represented on the Board of Management by mid-2022.

Beyond the legal obligations, we made a new voluntary commitment in the reporting year: We want the proportion of women in management positions to be at least 30% by the end of 2030. At the end of 2021, the proportion of women in management was 24.0%.

Ratio of Disabled Employees at German Companies

	2017	2018	2019	2020	2021
Ratio in %	5.9	5.7	5.9	6.2	**6.2**

Recruiting

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.

Our recruitment process is highly digitalized. The software platform covers all digital processes from onboarding to the signing of employment contracts. Highly specialized LANXESS recruitment teams work in the U.S., China, India and Europe. The software platform helps to make processes for 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 842 new employees joined the Group in the reporting year (1,314 including temporary employees). The new employees predominantly filled technical positions.

New Employees by Age Group, Gender and Region

	EMEA (excl. Germany)		Germany		North America		Latin America		Asia-Pacific		**Total**
Age group	**f**	**m**	**f**	**m**	**f**	**m**	**f**	**m**	**f**	**m**	
< 30	12	49	24	75	10	46	12	12	9	42	**291**
30–49	17	53	27	114	26	90	7	14	35	80	**463**
≥ 50	2	9	3	13	11	48	–	–	1	1	**88**
Total	**31**	**111**	**54**	**202**	**47**	**184**	**19**	**26**	**45**	**123**	**842**
Region total	**142**		**256**		**231**		**45**		**168**		
%											
Age group	**f**	**m**	**f**	**m**	**f**	**m**	**f**	**m**	**f**	**m**	
< 30	37.5	26.7	11.9	9.6	18.4	30.9	30.2	19.7	24.5	32.7	**17.4**
30–49	8.3	7.9	4.4	4.7	15.4	13.3	5.5	3.4	10.2	6.6	**6.8**
≥ 50	1.5	1.3	0.5	0.4	4.7	6.0	–	–	1.9	0.3	**1.5**
Total	**8.5**	**7.1**	**3.9**	**3.2**	**10.2**	**11.3**	**9.8**	**4.2**	**10.4**	**7.5**	**5.8**
Region total	**7.3**		**3.4**		**11.1**		**5.6**		**8.1**		

Disclosures apply to the core workforce not including conversion of temporary to permanent employees and acquisitions. Including temporary employees, the number of new employees increases to 1,314 (9.0%).

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 areas of activity for economics graduates. Our young staff have various opportunities to learn, be it on the job, through networking or targeted training. In 2021, we acquired 25 new talents (11 women, 14 men). This was the biggest intake of graduate trainees ever to start at LANXESS.

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Vocational training

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. In the reporting year, we celebrated a special milestone in this context: the thousandth apprentice was taken on as a permanent employee.

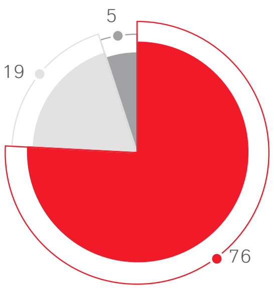
It is our aim to retain at least 80% of our apprentices after successful completion of their training. We reached this target again in the reporting year with a retention ratio of 83% (previous year: 85%).

165 apprentices on six technical, scientific and commercial career paths and four dual-study programs started their apprenticeships at LANXESS Deutschland GmbH on September 1, 2021. The proportion of female career starters was 6% in the reporting year (previous year: 10%). Taking the new intake into account, there are 627 apprentices at LANXESS Deutschland GmbH (as of December 31, 2021). The proportion of female apprentices across all years is around 8.5%. We invested around €23 million (previous year: €23 million) in the vocational training of young talent in 2021.

Training will remain a key pillar of our HR policy in the years ahead. We are importantly demonstrating this with a new, modern offering. From 2022, it will also be possible to complete an apprenticeship an industrial management assistant in part time at LANXESS. We are aiming this offering at people who cannot take on a full-time apprenticeship – e.g. because they have children or act as a relative's carer. The apprenticeship can be completed at a reduced 30 hours a week, without the duration of the apprenticeship increasing.

Apprentices by Career Path[1)]

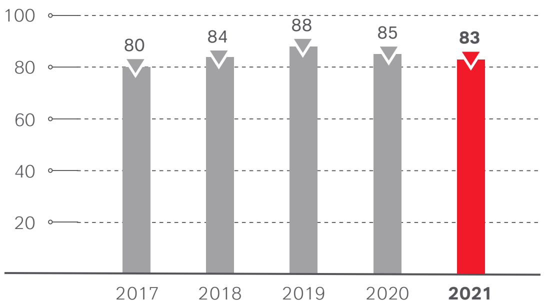
%



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

Apprentice ratio[1)]

7.5%

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

Outside Germany, we offer apprenticeship programs in several European countries, as well as Argentina, Brazil and India, for example, in order to cover our requirement for young talent in those countries. In addition to our regular apprenticeship activities, we cooperated with the IOCHPE Foundation in Brazil for the first time. Through this cooperation, we enabled ten young people from disadvantaged backgrounds to take part in a nine-month training course at our production site in Porto Feliz. 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. Within this framework, a total of 33 apprentices are working for us at the Nagda and Jhagadia sites in the 2021–2022 apprenticeship cycle.

14,866
LANXESS employees worldwide

Strategic Workforce Planning

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 and engineer. For this reason, 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. We offer attractive opportunities development in order to increase retention among the young talent. Last year, for example, we successfully established personnel conferences for the production and technology workforce. They serve the purpose of strengthening rotation and development in our operating areas in particular.

In order to make the immense practical knowledge of our older employees available to subsequent generations, we are currently successfully piloting a knowledge transfer program. This identifies important departing knowledge carriers at an early stage, systematically records their often implicit knowledge, and ensures its structured transfer to subsequent generations – in both analog and digital format. In addition, we are currently testing a digital, company-specific knowledge database that serves both existing and new employees as an intuitive reference work.

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.

Employees by Age Group, Gender and Region

	EMEA (excl. Germany)		Germany		North America		Latin America		Asia-Pacific		**Total**
Age group	**f**	**m**	**f**	**m**	**f**	**m**	**f**	**m**	**f**	**m**	
< 30	34	206	201	800	54	152	42	60	33	116	**1,697**
30–49	210	722	632	2,445	184	720	128	406	343	1,216	**7,006**
≥ 50	138	753	594	3,058	249	835	26	149	56	305	**6,163**
Total	**382**	**1,681**	**1,426**	**6,303**	**487**	**1,707**	**196**	**615**	**432**	**1,637**	**14,866**
Region total	**2,063**		**7,729**		**2,194**		**811**		**2,069**		**14,866**

After concentrating in particular on the development of the workforce at the plants in the U.S. and Canada in 2020, our focus in the reporting year was on the operating areas in Europe and Asia. A structural change in our staffing requirements is becoming apparent in the medium term, particularly in Germany. Simple, repetitive tasks in production will be rendered unnecessary by further automation and digitalization. In contrast, additional requirements are arising in technical areas, both for the implementation of our digitalization projects and for the management and maintenance of the process control systems. Against this backdrop, we have begun to include qualitative aspects such as future expertise in the strategic HR planning. We want to continue expanding on this in the years to come.

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Remuneration and 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. We regularly reassess the fixed annual salary of our non-pay-scale employees on the basis of these factors in our annual salary review. Salary increases for our pay-scale employees follow the applicable collective agreements, likewise regardless of gender. The remuneration ratio of women and men is reviewed regularly and analyzed including other factors.

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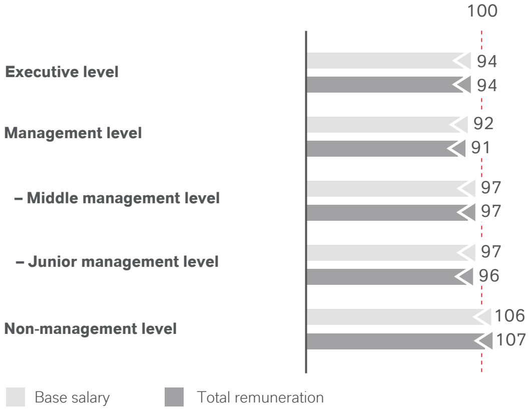
Remuneration Ratio of Women to Men
%



All disclosures are made exclusive of the acquired company Emerald Kalama Chemicals, as all the relevant information for these employees is not yet available.

The difference between the average remuneration for men and women at LANXESS is less than ± 6% for all individual levels. These salary differences are influenced by further, non-gender-specific variables – such as professional experience, salary differences due to geography or function, or differing work histories. When the wage gap is broken down by age group – as a proxy variable for professional experience – the difference between men and women is usually even smaller. The goal of our HR policy is to have no differences in pay on the basis of gender. Our Diversity & Inclusion measures also contribute to this (see page 42).

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, 86% (previous year: 88%) of LANXESS employees worldwide participate in our variable compensation systems. Due to acquisitions in fiscal year 2021 whose compensation structures are not yet fully integrated into the LANXESS compensation structures, the participation of eligible employees in our variable compensation systems has temporarily decreased slightly.

The central performance-based compensation component is the Annual Performance Payment (APP), which we provide above the pay scale and in most countries within the pay scale on top of fixed pay. This bonus payment is linked to our key controlling indicator, so requires 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 2021, we shared around €49 million of our profits for fiscal year 2020 with our employees worldwide. Because of the challenges of the coronavirus pandemic, the bonus payment was lower than in previous years.

With the Individual Performance Payment (IPP), managers can also reward employees' extraordinary individual achievements during the year in a prompt and unbureaucratic way. Around €12 million was awarded in fiscal year 2021, around €8.5 million of which in Germany. At present, around 82% of our employees worldwide are entitled to receive the IPP. In relation to this, they also receive a prompt assessment of their performance and their career prospects.

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) 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. In addition, there is a Share Ownership Guideline 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 2021.

After a two-year break, we also resumed the LANXESS stock program for our employees in Germany in the reporting year. All eligible participants had the opportunity to acquire a number of LANXESS shares according to their respective pay grade. The company subsidized each purchase share with 30% of the purchase price. Around 60% of the eligible employees made use of our offer.

Another core element of our offering is the company pension plan for plugging potential gaps in provision in old age. 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. In Germany, employees can voluntarily increase their pension and receive an additional grant from LANXESS. 73.5% 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 92%.

Working conditions and benefits

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 wellbeing 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. When designing these benefits, we often go further than the respective statutory framework. In addition, we always aim to account for individual needs and life situations 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, 2021, this was 94% (previous year: 93%) of our total workforce worldwide.

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

	EMEA (excl. Germany)		Germany		North America		Latin America		Asia-Pacific		**Total**
Contract	**f**	**m**	**f**	**m**	**f**	**m**	**f**	**m**	**f**	**m**	
Permanent contract	382	1,681	1,426	6,303	487	1,707	196	615	432	1,637	**14,866**
Full-time	323	1,541	963	5,095	480	1,707	196	615	426	1,637	**12,983**
Part-time	59	140	463	1,208	7				6		**1,883**
Temporary contract	25	21	142	730	6	4	18	30	13	36	**1,025**
Full-time	23	20	108	691	5	4	18	30	11	35	**945**
Part-time	2	1	34	39	1				2	1	**80**
Total	**407**	**1,702**	**1,568**	**7,033**	**493**	**1,711**	**214**	**645**	**445**	**1,673**	**15,891**

1) In fiscal year 2021, we employed a total of 128 temporary staff members (19 women and 109 men) at our German companies.

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In line with our office-based 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." A significant aspect of this flexibility for our office-based employees is the ability to work remotely. We laid the foundation for country-specific guidelines in this regard with a global statement on remote working adopted and released by the entire LANXESS leadership team in September 2021. With the statement, we want to recognize the lessons learned from the coronavirus pandemic and the increased remote working of some of our employees during this time. We have seen that, while many tasks can be carried out at home, in particular creative activities and team interactions in the office are indispensable for our joint success and the welfare of our employees. In our view, therefore, an average of four to eight days of remote working per month in addition to working in the office is compatible with our business interests – providing, of course, that the tasks are suitable for remote working. Guidelines to this effect were adopted in the U.S. and Great Britain, among other countries, by the end of the year. Pre-existing guidelines, such as in India, were also adapted on the basis of the global statement.

The "flexitime" model derived for Germany from the Xwork principles 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. Corresponding models with levels of employment of 90% and 85% are also possible. As of

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the start of 2021, flexitime is now available to all non-pay-scale employees. In 2021, there were 107 participants, of which 29 in senior management.

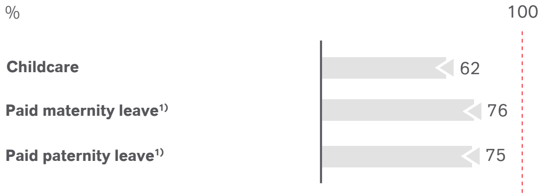
These and other measures count toward our goal of 95% of all countries in which we operate having derived and implemented specific guidelines and/or corresponding models for flexible working conditions from our global "Xwork" principles by the end of 2022. At the end of 2021, the coverage ratio was already 89% (previous year: 75%).

Options for Flexible Working Hours and Mobile Working Worldwide
%

Work/life balance has become even more important under the persistently difficult conditions of the coronavirus pandemic. In 2021, we therefore made our employees in Germany a number of new offers regarding childcare, such as additional locations for reserved places at daycare centers. A total of 8% of the workforce in Germany aged between 20 and 40 were on parental leave for a time. Of this figure, 60% were fathers. 99% of the employees who ended a parental leave period in 2021 returned to a job at LANXESS, 97% of which still worked in the company at the end of 2021.

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. In Brazil and the U.S., for example, we offer parental leave programs that go beyond the respective legal requirements and allow our employees to spend time with their children on full pay.

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.

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 127 employees in Germany since the LANXESS care model was introduced. In the reporting year, we informed the workforce about the topic with a new series of presentations. In addition, the supplementary long-term care insurance "CareFlex" was launched in Germany. We thus offer our pay-scale employees additional protection against the risks and strains that arise for the dependents and their families when care is required but are not covered by statutory long-term care insurance. The costs are borne entirely by LANXESS. From 2022, CareFlex will also be available to our managerial employees.

Commitment and loyalty

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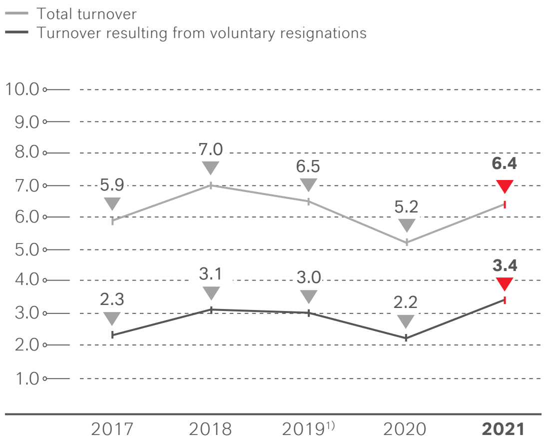
Committed and motivated employees are the key to strong company performance, successful change and ultimately long-term corporate success. Accordingly, we pay special attention to encouraging the commitment of our employees. Good management helps here, as do personal development prospects and company values with which our employees can identify. All these factors, among others, shape the LANXESS corporate culture, which we actively strengthen and develop with regard to the constant new challenges in our markets. In the future, internally trained culture coaches will make an important contribution here. Among other things, they will provide professional guidance for the diverse transformation processes in the Group, such as reorganizations, the digital transformation and integration projects. We also want to lend greater weight to the cultural framework, shared values, and thus the merger of the corporate cultures, e.g. through a corresponding analysis as an element of the due diligence process.

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. Among other things, we regularly conduct Group-wide surveys – most recently in 2020.

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.

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

%

	EMEA (excl. Germany)		Germany		North America		Latin America		Asia-Pacific		**Total**	
											%	Abs.
Age group	**f**	**m**	**f**	**m**	**f**	**m**	**f**	**m**	**f**	**m**		
< 30	12.5	4.9	0.5	0.9	9.2	11.4	2.5	–	10.9	16.3	**4.1**	**69**
30–49	2.4	1.3	0.5	0.7	4.1	3.8	0.8	0.5	1.2	2.2	**1.5**	**102**
≥ 50	0.8	0.3	0.2	–	0.4	1.9	–	–	–	–	**0.3**	**21**
Total	**2.7**	**1.3**	**0.4**	**0.4**	**2.8**	**3.6**	**1.0**	**0.3**	**1.8**	**2.9**	**1.3**	**192**
Region total	**1.5**		**0.4**		**3.4**		**0.5**		**2.7**			
Region total (absolute)	**30**		**31**		**71**		**4**		**56**			

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

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

%

	EMEA (excl. Germany)		Germany		North America		Latin America		Asia-Pacific		**Total**	
											%	Abs.
Age group	**f**	**m**	**f**	**m**	**f**	**m**	**f**	**m**	**f**	**m**		
< 30	15.6	6.5	3.0	3.3	16.6	17.5	5.0	1.6	21.8	21.0	**7.3**	**122**
30–49	4.4	4.2	2.3	2.1	7.1	7.2	2.4	1.2	7.0	4.9	**3.7**	**254**
≥ 50	2.3	2.1	2.0	1.1	3.8	3.9	11.1	0.7	5.7	1.0	**1.9**	**113**
Total	**4.6**	**3.5**	**2.3**	**1.7**	**6.5**	**6.5**	**4.1**	**1.1**	**8.1**	**5.5**	**3.4**	**489**
Region total	**3.7**		**1.8**		**6.5**		**1.9**		**6.0**			
Region total (absolute)	**72**		**141**		**136**		**15**		**125**			

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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 3.4% (previous year: 2.2%), meaning that we reached our target for this year. In Germany, the rate was 1.8% (previous year: 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 1.3% worldwide in the reporting year (previous year: 0.8%).

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. In 2021, for example, we took 53rd place out of 100,000 companies in Germany in the "Leading Employer" ranking by the Institute of Research & Data Aggregation, which puts us among the "top 1%" of German employers. In Brazil, LANXESS was recognized as the best employer in the chemical and petrochemical industry for the second time in a row, while our Indian subsidiary received the prestigious "Great Place to Work" certification.

Total Turnover by Age Group, Gender and Region

	EMEA (excl. Germany)		Germany		North America		Latin America		Asia-Pacific		**Total**
Age group	**f**	**m**	**f**	**m**	**f**	**m**	**f**	**m**	**f**	**m**	
< 30	5	14	6	29	9	31	3	5	9	30	**141**
30–49	14	32	14	55	13	54	6	13	42	88	**331**
≥ 50	13	51	33	192	26	92	4	17	5	26	**459**
Total	**32**	**97**	**53**	**276**	**48**	**177**	**13**	**35**	**56**	**144**	**931**
%											
Age group	**f**	**m**	**f**	**m**	**f**	**m**	**f**	**m**	**f**	**m**	
< 30	15.6	7.6	3.0	3.7	16.6	20.8	7.5	8.2	24.5	23.3	**8.4**
30–49	6.9	4.8	2.3	2.3	7.7	8.0	4.7	3.2	12.2	7.2	**4.8**
≥ 50	10.0	7.1	5.6	6.3	11.0	11.5	14.8	11.7	9.5	8.8	**7.6**
Total	**8.7**	**6.2**	**3.8**	**4.4**	**10.4**	**10.9**	**6.7**	**5.7**	**12.9**	**8.8**	**6.4**
Region total	**6.7**		**4.3**		**10.8**		**5.9**		**9.6**		

Employee development and talent management

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 our values, rethink issues, implement them quickly and devise solutions in a team.

In 2021, our priorities in Learning & Development lay in the virtualization of our existing offerings and in the introduction of further digital learning opportunities in order to ensure our employees' continued development even during the pandemic. After the successful pilot of the digital learning platform "LinkedIn Learning" in the previous year, we rolled out the offering worldwide in 2021. This means that our employees now benefit from more than 16,000 additional digital learning opportunities for their professional and interdisciplinary development and the strengthening of future skills.

Globally, more than 95% 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, our employees received at least 15 hours of training (previous year: 14 hours).

We also virtualized our leadership training and were thus able to provide it unchanged at times when physical meetings in larger groups were practically impossible. The aim of the programs is 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.

In the reporting year, we also worked hard on the issue of knowledge sharing and transfer. For example, we initiated different formats around the world in which employees could share their knowledge with interested colleagues. In addition, we have successfully advanced a project for knowledge transfer in production. Globally, several pilots were completed with expert debriefings and learning tandems, on the basis of which we are now planning the worldwide rollout for 2022.

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With our global, cross-divisional and cross-hierarchical "compass," "eXplorer" and "navigator" talent programs, we support particularly high-performing employees, retain them within the company and identify suitable successors for key positions at an early stage.

"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. "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 more frequent, shorter virtual meetings, which are supplemented by individual preparation and follow-up as well as experience-based learning in experimental project groups. The "navigator" program is aimed at managers with the potential to lead a business unit or Group function.

In the reporting year, our activities focused on the professionalization of the training formats virtualized in the previous year. While the 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 continuously optimized the teaching in light of the current challenges in order to strengthen personal communication and genuine interaction in the virtual framework.

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 102 participants in 2021, the proportions amounted to 25% female and 60% non-German participants. We have therefore exceeded our target regarding intercultural diversity, while missing the target for gender equality. Because the programs can last for up to 18 months, double counting cannot be ruled out. We are planning numerous measures to build on the good results of the previous year regarding gender equality in 2022. These include expanded offerings especially for women in the areas of training, coaching, mentoring and networking and various campaigns to raise awareness of gender equality. When it comes to nominating talent, we will also make sure to identify enough female candidates.

International deployments are another key component of our systematic HR development. In 2021, most of the planned assignments were begun and all expiring assignments were completed as planned despite the challenges as a result of coronavirus. At the end of 2021, 39 employees – i. e. around 1.1% of our specialist and managerial staff – were deployed outside their contractual country as expatriates.

It remains our 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, 87% of our leadership positions are currently held by local employees.

Occupational health and safety

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.

The coronavirus pandemic was also a focal point of our health protection work in 2021. In the middle of the year, for example, the coronavirus vaccination campaign for our employees at the Dormagen, Dortmund, Cologne, Langenfeld, Leverkusen, Uerdingen and Wietmarschen sites began at the Chemparks in the Lower Rhine region. We also organized a local vaccination offering close to our other German locations in the summer months.

Unconnected to the pandemic, we offered our employees free flu vaccinations and preventive liver and kidney screening with around 1,500 appointments at various German sites. We engaged in active health care by introducing a regular, free online back-fitness program. In addition, we initiated several themed weeks over the course of the year: While May focused on exercise, nutrition and wellbeing, the "Mental Health Week" in October aimed to educate about mental illness, highlight options for help and therapy, and stimulate discussion. In addition, our employees in Germany again received €200 credit for a wide range of health-related options on the digital platform "machtfit." More than 1,500 bookings for health units were registered by the reporting date in Germany.

We also offer our workforce wide-ranging measures to promote health and wellbeing at our international sites. In addition to the physical aspects, the topic of mental health is continuously growing in importance. Findings from neuroscience show that mindfulness-based stress reduction can protect against the effects of chronic stress and improve wellbeing as well as teamwork. Mindfulness is likewise of great importance for the safety culture. Since February 2021, we have therefore offered our employees worldwide the global "mindful@LXS program" as an online mindfulness program. In the future, our employees in Great Britain with mental health issues will receive advice and support from specially trained "Mental Health First Aiders" among their colleagues. In India, we continued the successful "Health and Wellbeing" program, including with seminars on "mental wellbeing and productivity" and "money management", coaching sessions on work-life balance and mindfulness exercises. We also provide active support for our employees with physical and mental challenges in China.

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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).

As ever, the work of the Xact team is focused on stabilizing and 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.

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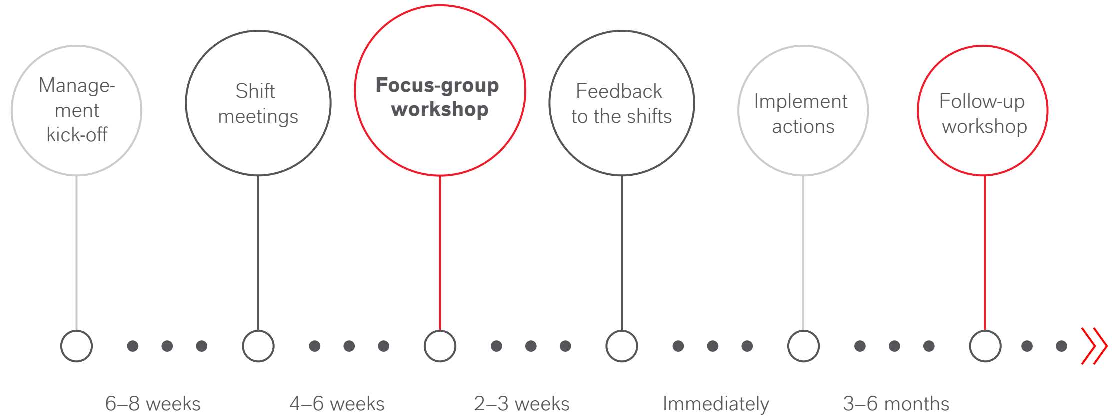
The six-stage process is centered on a full-day, focus-group workshop led by the Xact team. In this workshop, representatives of all hierarchy levels engage in an in-depth discussion on the safety culture in their own plant. In this way, we can identify the individual strengths and weaknesses of each 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 2021, 41 of the roughly 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 some 50 workshops originally planned worldwide for 2021 were implemented. In Germany, we were also able to partially resume the process as a face-to-face event under strict hygiene precautions. In 2022, 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. The greatest potential for improvement is 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, and communication/feedback culture. The Xact initiative has summarized these findings in a guidebook called “How Can Safety Culture Be Made Visible?”. It was introduced worldwide in early 2021 and distributed in six languages as a key element of our future communication.

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.

Our Safety Culture Development Process



Despite the strain of the pandemic, around 51% of our employees took part in the survey in 2021. In addition to questions about the content of the Xact initiative, focal points in the reporting year included leadership by example and the avoidability of accidents. 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 still far less affirmative than the global average in countries such as Germany. The majority of responses on the attitude to safety and lived safety culture at LANXESS were positive. Potential for improvement is seen, among other things, in leadership by example and in communication and feedback culture. The survey results with their more than 450 comments give us valuable ideas for the further development of the safety culture at LANXESS.

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.

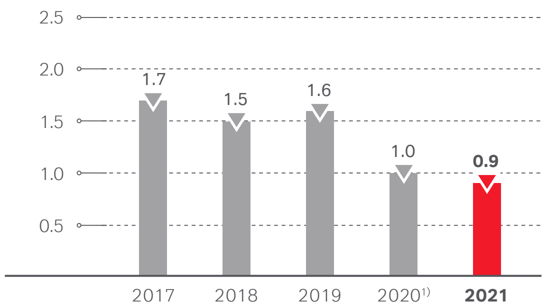
Indicators for the assessment of occupational safety at LANXESS are the recordable incident rate (RIR: number of incidents per 200,000 working hours that have to be reported according to the Occupational Safety and Health Administration [OSHA]) and the lost time injury frequency rate (LTIFR: accidents per million hours worked) for accidents with days lost. The LTIFR in 2021 was 0.9 and thus lower than the already strong level of the previous year and for the first time within our medium-term target of < 1.0.

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 0.7 in 2021, and thus below the previous year's level of 0.8. 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.

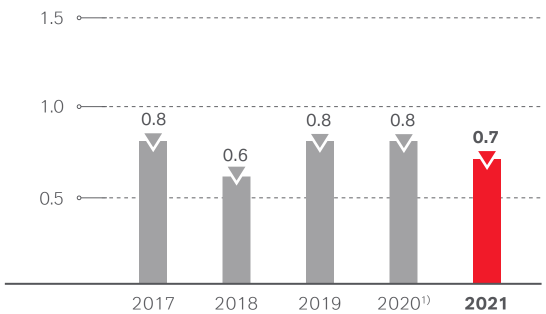
We regard the sharp fall in the LTIFR in recent years as evidence that this structured transfer of knowledge and the many measures to improve occupational safety at LANXESS are having a positive effect.

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



1) Continuing operations. Including the Leather business unit, the LTIFR was 1.1.

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



1) Continuing operations. Including the Leather business unit, the RIR was likewise 0.8.

CEO Safety Award

For us as a chemicals company, the safety of our employees, plants and processes is the utmost priority. The international CEO Safety Award, which was bestowed for the third time in the reporting year, recognizes particularly successful initiatives and contributions to occupational safety at LANXESS. An important criterion for the award is how easily the submitted contribution can be implemented and transferred to other sites. For example, we are not only anchoring occupational safety even deeper in the minds of all employees, but also illustrating how important it is to learn from each other at LANXESS.

A plant team from our Advanced Industrial Intermediates business unit in the U.S. (Baytown site) received the award for its comprehensive "Operational Diligence" training concept for production employees. The six- to 14-month program focuses on identifying flawed and thus unsafe processes. This is based on twelve key topics that cover both plant and occupational safety. For example, the employees define clear and up-to-date process descriptions in teams, examine risk assessments in practice for errors, and have several people check permits for correctness. Continuous feedback between employees and trainers as well as an annual performance assessment and regular tests are important elements of the program.

In addition, teams from the Inorganic Pigments business unit from Uerdingen and the Lubricant Additives business unit in Mannheim were virtually congratulated as finalists by CEO Matthias Zachert for the "The spot is marked safe, before it happens again" project and the "Internal load safety" project, respectively.

Employee co-determination

Dialog with chemicals social partners – works councils, 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 2020, 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. A key element of the agreement is the regular communication between the parties on the design of the digitalization process at LANXESS. In this context, the first joint interim evaluation was made in a face-to-face workshop in October 2021. The agenda included the progress and challenges of digitalization in the Group and the changes arising for our employees from the increased use of digital technologies.

Fair dealings with employee representatives and trade unions are also a top priority for us outside Europe. At all our sites, we comply with International Labour Organization (ILO) standards with respect to our employees' freedom of association. Where possible and in compliance with local laws and regulations, 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
%

SUSTAINABLE PRODUCTS

Product responsibility

We see the constant improvement of product safety, which is enshrined as a core aspect of our corporate policy and in the Group-wide management system, as part of our product responsibility. We have undertaken to avoid risks for humans and the environment across all phases of the product lifecycle through safe research, manufacturing, storage, logistics, use and disposal.

With regard to the safety of our products, our ambitions exceed the legal requirements in many areas. Examples of this include the creation of safety data sheets even for non-hazardous substances and our roadmap for a sustainable product portfolio. Our “Product Safety Management at LANXESS” guideline stipulates how product responsibility is to be exercised throughout the Group and ensures collaboration between all of the parties involved. The Production, Technology, Safety & Environment (PTSE) Group function ensures that laws and regulations are complied with, resulting obligations and preventive measures are derived and their effective implementation monitored.

We classify and label hazardous products (substances and mixtures) in packaged form in accordance with hazardous substances legislation before they are used or brought to market. We regularly adapt our electronic safety data system to take account of new features in GHS (Globally Harmonized System of Classification and Labeling of Chemicals) legislation in the different countries. We thus ensure that risks for humans and the environment are avoided in transport, storage, use and disposal.

Complying with global chemicals control regulations across the whole value chain is an essential prerequisite for the saleability of our chemicals and chemical products. We go to great effort to ensure comprehensive compliance both for our own products and together with our partners for their products, which are our raw materials, for example. Particularly in the case of consumer applications, it is extremely important to us that our products meet high national and international standards, certificates, and quality seals.

Materials that we produce in the EU or import into the EU in quantities of more than one metric ton per year are registered, listed and evaluated in accordance with the REACH (Registration, Evaluation, Authorisation and Restriction of Chemicals) Regulation. We conduct workshops for our REACH officers in the business units at least twice a year in order to present new developments, promote understanding of the importance of product responsibility and guarantee legal conduct. The REACH requirements have been continuously updated since 2007, so it is necessary to regularly review and revise the registration dossiers. In this context, we support the voluntary Action Plan of the European Chemical Industry Council CEFIC (Conseil Européen des Fédérations de l’Industrie Chimique) and have undertaken to review and – if necessary – update our REACH registration dossiers by 2026 at the latest.

The safe use of our products, along both our own and the downstream value chains, is another essential part of our product responsibility. Our business units help their customers to use our products safely and in an eco-friendly way by way of training and advice and shed light on the risks associated with use. In our electronic safety data system, we provide our customers with safety data sheets and extended safety data sheets for all substances handled regularly – including intermediates.

Portfolio development

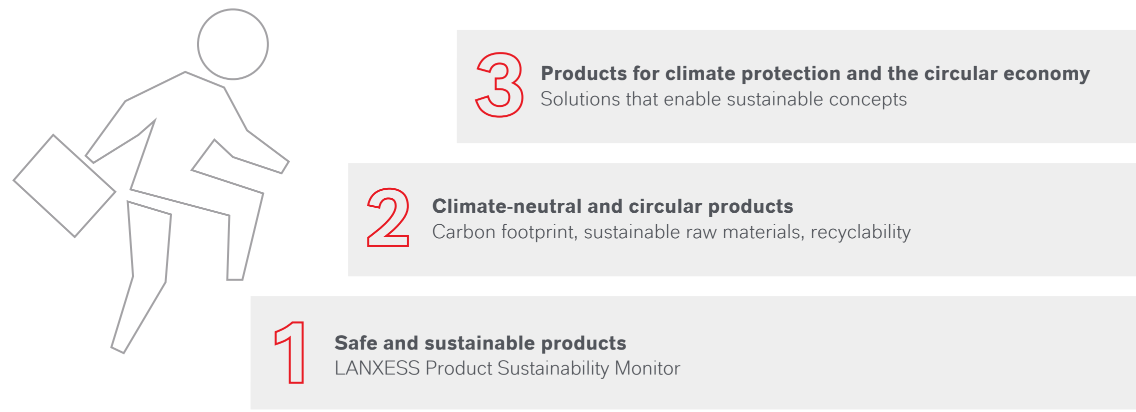
In line with societal trends and needs, we aim to constantly improve the sustainability performance of our product portfolio, to identify critical substances in products and to substitute them or develop safe alternatives.

For the management and long-term development of our product portfolio, we follow an approach with three perspectives. This is based on the LANXESS Product Sustainability Monitor. Using this analytical tool, we identify products that are produced in a particularly sustainable manner as well as products where we see potential for improvement, and have been increasing the sustainability performance of our portfolio for years.

The second significant perspective is the product carbon footprint (PCF) and the circular potential of our products. Here, it is important to understand and account for the upstream value chain as well as our own production. The aim is to continuously reduce our products' influence on the climate, to use sustainable raw materials and to ensure that our products can be recycled.

As a third perspective, we look at the benefit of our products in their application. A sustainable world needs not only sustainably manufactured products but also solutions for new concepts such as in the areas of climate protection or circular economy. For example, additives make a significant contribution to extending the useful life of products or enabling materials to be recycled.

LANXESS Product Portfolio



In the future, the EU taxonomy will be an additional, independent perspective. At present, for the chemical industry it concentrates chiefly on the identification of activities associated with particularly high carbon emissions, i.e. on high-volume basic chemicals and plastic products. In this respect, only a small portion of the LANXESS portfolio is relevant here.

Safe and sustainable products

Using the LANXESS Product Sustainability Monitor, we divide our portfolio into four categories:

- **Energizers:** Products in this category offer outstanding sustainability performance. The fulfill our highest sustainability requirements in most criteria and haven no intrinsic properties that give cause for concern. Energizers are manufactured with a very low to low environmental impact. These products contribute to at least one SDG and are experiencing increasing demand.
- **Performers:** Products that are sustainable according to the current state of the art. The fulfill the present sustainability requirements or exceed them in many categories. Performers are manufactured with a low to medium environmental impact and have a benefit to society.

- **Transitioners:** Products that do not yet fulfill all LANXESS sustainability requirements. We monitor these products and actively steer them by way of improvement measures, for example to reduce their environmental impact and make these products more sustainable.
- **Roadmap:** This category covers products with serious sustainability concerns, namely chemical end products with more than 0.1% by mass of substances with the properties of substances of very high concern (SVHC). We manage these products in our roadmap process, in which we examine in particular whether critical substances in the respective chemical end products could be replaced with safe and sustainable alternatives.

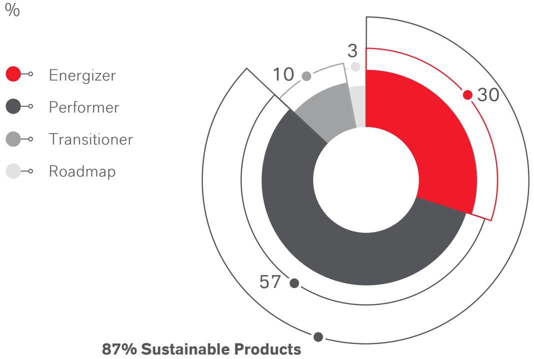
In 2021, we already generated 87% of our total sales with products that fulfill our sustainability requirements. Only 13% of our sales were attributable to products that did not (yet) completely fulfill our sustainability requirements. We generate only around 3% of our sales with roadmap products. By 2023, we want to develop a specific action plan for all these products. As of the 2021 reporting date, the degree of target attainment was already 40% – we are therefore on track to achieve our target.

Criteria of the LANXESS Product Sustainability Monitor

	Environmental	Social	Economical
Climate change	x	x	
Water use and water risk	x	x	
Waste efficiency	x		
Environmental risk	x		
Human health risk		x	
Support of the 2030 Agenda (product benefit)	x	x	
Demand trend			x
Profitability			x
Legislative and reputational risk			x

LANXESS Product Portfolio 2021

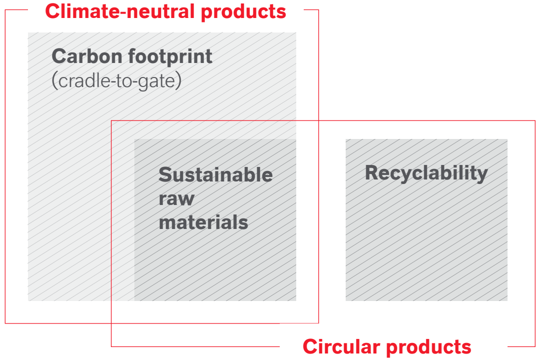
%



Climate-neutral and circular products

We want to help transform the entire value creation system into a resource-efficient and climate-neutral society. On the road to climate-neutral and circular products, we are focusing on three partially overlapping action areas.

Three Elements for Climate-Neutral and Circular Products



When selecting products, knowledge about the carbon footprint is becoming increasingly important – both for us and for our customers. Our aim is to continuously reduce the PCF and thus our products' negative impact on the climate. In a cradle-to-gate assessment, the PCF results from:

- Emissions from our own processes (Scope 1)
- Emissions from purchased energy (Scope 2)
- Emissions from purchased goods, upstream transport and waste generation (Scope 3)

As a company, we can directly influence our Scope 1 and Scope 2 emissions in particular. With our strategy for climate neutrality in 2040, we have set ourselves ambitious targets in this area (see "Climate Action and Energy Efficiency"). Much more important for the PCF than the Scope 1 and Scope 2 emissions are often the Scope 3 emissions of purchased goods, i.e. our raw materials. In chemical production, they often account for more than 50% of the PCF. We are therefore placing a strategic focus on the purchase of sustainable raw materials with a reduced carbon footprint. The transformation away from conventional, often fossil-based raw materials towards renewable resources not only leads to a reduction in greenhouse gas emissions, but also makes our value chains less dependent on certain limited resources (see "Circular and Sustainable Sourcing").

LANXESS products are sold almost exclusively to industrial customers. Only they or customers even further downstream use them to produce end products for a wide range of markets. For example, automotive suppliers use our high-performance plastics in components for lightweight automotive construction, which are ultimately built into vehicles by car manufacturers. Our chemical end products, which remain unchanged in the further value chain, are only processed into end products by our customers. With regard to completing cycles, this means that there are sometimes very long periods between production and the end of our products' lifecycles. As a first step, we are therefore focusing on what we as a company can control: We are working to ensure the "recyclability" of all our products so that they are suitable for environmentally friendly recycling. In order to understand which "recyclability" requirements to impose on our products, it is important to analyze the function of our molecules in their final use and in which cycles (biological or technical) they circulate.

Allocation of LANXESS Products to Cycles According to Their Use (Examples)

Materials	Additives	Active ingredients
Plastics or **intermediates** for the manufacture of plastics that can be used in diverse ways. They return to technical cycles and are essential for a functioning circular economy.	**Antioxidants** or **pigments** that are added to products and determine their physical characteristics. When used in paints, plastics or other materials, they are part of technical cycles. If they are contained in cosmetics or food, they are added to the biological cycle via wastewater.	**Fertilizers, pesticides, insect repellents, disinfectants, additions to animal feed or flavorings.** These substances are used in agriculture or food production. They are degraded naturally when used and enter the biological cycle.
Aim: Recyclable materials, suitable for return to technical cycles.	**Aim:** Additives that are suitable for their relevant cycles.	**Aim:** Degradable active ingredients that enter the biological cycle when used.

Technical cycle | **Biological cycle**

Products for climate protection and the circular economy

A full picture of our product portfolio is obtained only when assessing the benefit and the positive environmental impact that our products have when used. Here, we prioritize solutions that contribute to climate protection or enable a circular economy.

Products that support climate protection are suitable for reducing greenhouse gas emissions and thus stopping or slowing climate change (climate mitigation). A second important group are products that support adaptations to climate change – i.e. help to cope with the negative consequences resulting from changes in the climate that have already materialized or are expected in the future (climate adaptation).

The biggest drivers of climate change are the generation of electricity and heat. The change from fossil fuels to renewable energy requires a large number of new solutions, especially for wind power, photovoltaics and the necessary storage of energy in the form of batteries or hydrogen. The transport sector and especially road traffic are other significant causes of climate change. Lightweight automotive construction with modern plastics harbors potential to considerably reduce fuel consumption in vehicles with combustion engines. In recent years, electric mobility has also become established as an important path to a sustainable future in road transport. Industry and the building sector are in third place when it comes to the emission of greenhouse gases. Electrification and insulation play a key role here. We address all these topics with our product portfolio.

The effects of climate change are already plain to see in many regions of the world. Changing water cycles and thus new patterns of precipitation and evaporation are one consequence of climate change. In this respect, the circulation of process water and the purification of drinking water are becoming important elements of local water strategies. Our Liquid Purification Technologies business unit provides support here with years of experience, a broad product range and innovative solutions. Another consequence of climate change is the increasing threat of infectious diseases. Global warming is enabling certain pathogens to advance and survive not only in tropical but also in temperate zones. Other factors such as globalized passenger, livestock and goods transport help these diseases to spread faster and farther. For years, we have therefore continuously enhanced our range of disinfectants.

For a functioning circular economy, it is not only the use of alternative raw materials and environmentally friendly recycling at the end of the lifecycle that are important. Products are also required that help materials to be used for longer or enable materials to be reused at all. Particularly in the case of plastics, the product lifecycle can be significantly extended with appropriate additives. When renewable materials such as wood are used, material protection solutions also extend their useful life many times over. If it is no longer possible to continue using products and they reach the end of their lifecycle, it is important that they can be recycled in an environmentally friendly manner. Here, too, the right additives help to complete the cycle. Both the correct use of additives and material protection are among LANXESS's core areas of expertise.

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Reporting on the EU taxonomy

A central element in the European Union's Green Deal is the strategy for sustainable financing. It aims to channel financing flows into investments that support sustainable development in the future. In this context, a new classification system for economic activities – the EU taxonomy – is to help investors assess whether investments contribute to political targets and obligations such as the Paris Agreement on climate change at the same time as meeting specified environmental and social standards. To this end, the EU has defined six categories, or objectives:

1. Climate change mitigation
2. Climate change adaptation
3. Sustainable use of water
4. Transition to a circular economy
5. Pollution prevention and control
6. Protection and restoration of biodiversity and ecosystems

The allocation of an economic activity to one of these categories depends on the activity's influence on the respective environmental objective.

In order to assess an economic activity, a two-step analysis must be performed with regard to eligibility and alignment. To determine alignment, each activity must be assessed as to whether it makes a substantial contribution to any given objective of the EU taxonomy while doing no significant harm (DNSH) to any of the other objectives. In addition, minimum safeguards for occupational health and safety and human rights must be guaranteed for each activity.

Companies that fall within the scope of the EU taxonomy are subject to certain reporting obligations. We are exercising the option to use the exemptions for the first year of application – our fiscal year 2021 – and reporting exclusively on taxonomy-eligible activities in the context of the objectives "climate change mitigation" and "climate change adaptation." The parts of sales, capital expenditures and operational expenditures and explanations of the underlying calculation processes are disclosed on an aggregate basis, i.e. without differentiation according to the relevant economic activities. The disclosure obligations of the EU Taxonomy Regulation regarding alignment have to be met in full for the first time in the reporting for the fiscal year 2022.

Taxonomy-eligible activities at LANXESS

The Taxonomy Regulation covers products and activities from a range of economic sectors that are currently responsible for a total of around 93% of European greenhouse gas (GHG) emissions. All of these activities are described as "taxonomy-eligible." With regard to the "climate change mitigation" objective, the chemical industry is a "transformative industry" because, among other things, basic chemicals and plastics that are produced in very large quantities are labeled as transitional activities. This means that the activities make a relevant contribution to the EU's GHG emissions and thus have relevant reduction potential. LANXESS – as a specialty chemicals company – is not focused on such products. Under the EU Taxonomy Regulation, all other activities that do not materially contribute to GHG emissions in the EU and accordingly are not defined in the Climate Delegated Act are currently labeled as "taxonomy-non-eligible." Criteria for the demonstration of "enabling activities" – i.e. activities that in turn enable third parties to make their own material positive contribution to climate change mitigation – have not yet been defined for the chemical industry.

Taking materiality criteria into account, the following LANXESS activities can be classified as taxonomy-eligible economic activities:

1. LANXESS produces high-quality **plastics** for a broad range of applications – from the automotive and electrical/electronics industries to water treatment. All of these products correspond to activity 3.17 "Manufacture of plastics in primary form" defined in Annexes I and II of the relevant Delegated Regulation. We have bundled the large majority of our plastics activities in the Engineering Materials segment.

2. **Adipic acid** is a precursor that is in very high demand in the plastics industry, e.g. for polyamides or polyurethanes. At LANXESS, it is manufactured in the Advanced Intermediates segment. This product is allocated to activity 3.14 "Manufacture of organic basic chemicals" in the above Annexes. All other products described there are not manufactured by LANXESS.

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Fundamentals of reporting

In order to identify the taxonomy-eligible economic activities, we analyzed all economic activities/products at central level. The respective products were assigned to the product groups specified in the Taxonomy Regulation.

The data-gathering process likewise took place centrally on the basis of consolidated data and using centrally available, Group-wide information. In this way, double counting of sales, capital expenditures and operational expenditures can also be ruled out.

Reportable ratios

Sales

The ratio relating to the relative share of sales with taxonomy-eligible products is the ratio of two sales figures: The numerator is the sum of all sales that we have generated in the reporting year with taxonomy-eligible activities. The denominator is the value of the external sales as reported under “Sales” in the income statement of our consolidated financial statements in the Annual Report on page 150 pursuant to the relevant IAS/IFRS requirements as presented in the notes to the consolidated financial statements.

In the reporting year 2021, LANXESS generated 22% of its external sales with products allocable to taxonomy-eligible activities. The remaining 78% of sales relate to products that are not included in the taxonomy’s activity categories.

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Capital expenditures and operational expenditures

We report the proportion of expenditures and expenses incurred in connection with the operation and expansion of our plants in order to manufacture taxonomy-eligible products as taxonomy-eligible capital expenditures and operational expenditures. The relevant value chain begins with the manufacture of products that are taxonomy-eligible according to Annexes I and II of the relevant Delegated Regulation. Other expenditures and expenses in connection with the acquisition of products or for individual measures that result in the reduction of greenhouse gas emissions are immaterial.

In accordance with the current scope of the taxonomy, only individual, precisely defined plants or business units within the LANXESS Group are affected. Detailed analysis also shows that most plants of the affected business units are needed for the manufacture of taxonomy-eligible products for these business units to be considered as a whole.

Capital expenditures

Relevant capital expenditures comprise firstly our capital expenditures to maintain and upgrade our production plants for taxonomy-eligible products, and secondly payments for business acquisitions. The goodwill derived from this after the purchase price allocation and recognized in intangible assets is not part of the capital expenditures considered here.

In the reporting year 2021, the numerator is the share of additions from these investments and business

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acquisitions that relate to taxonomy-eligible activities. The denominator of the ratio is the sum of additions to property, plant and equipment and intangible assets from investments and acquisitions, adjusted for acquired goodwill, which can be found in the notes to the consolidated financial statements on pages 182 and 184. The recognition and measurement rules as presented in the notes to the consolidated financial statements apply accordingly.

In the reporting year, the share of taxonomy-eligible capital expenditures was 4%. Therefore, the share of taxonomy non-eligible activities in our capital expenditures is 96%. Due to our extensive M&A activities, we also report an additional ratio that we adjust for the influence of business acquisitions. In this analysis perspective, the taxonomy-eligible share increases to 9% and now reflects the capital expenditures attributable in 2021 to plants that manufacture the taxonomy-eligible products.

Operational expenditures

In accordance with the Taxonomy Regulation, the ratio’s denominator must cover direct non-capitalized costs that relate to research and development, building renovation measures, short-term leases, maintenance and repair. Any other direct expenditures relating to the day-to-day servicing of assets of property, plant and equipment by the company itself or third parties must also be included.

At LANXESS, operational expenditures comprise all non-capitalized costs incurred in the reporting period in connection with research and development and the maintenance of our plants and buildings. According to a Group directive, these also include direct expenditures relating to day-to-day servicing, through which we ensure the continued and effective functioning of such assets. Short-term leases or leases of low-value assets are not of material importance for LANXESS. (See consolidated financial statements).

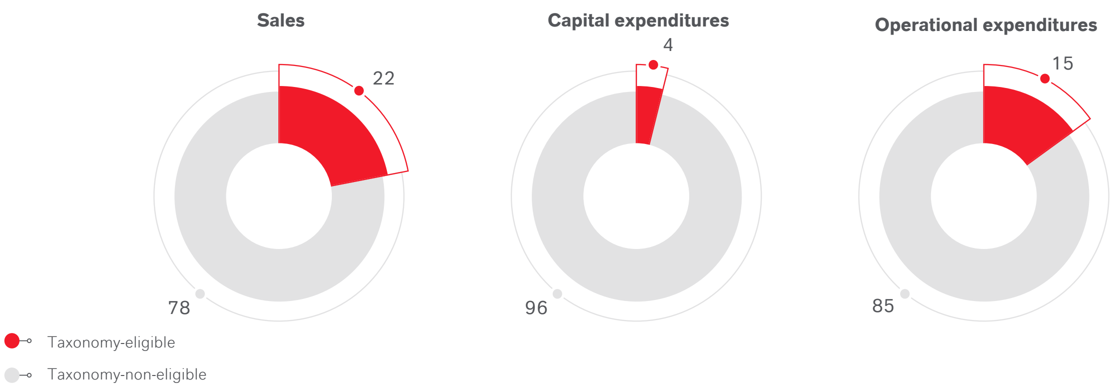
The operational expenditures in connection with research, development and patents include for example costs for our scientific departments and laboratories. These expenditures are reported in the Notes on page 210 in accordance with IAS 38.126 et seq. Maintenance includes all operating expenses for maintenance measures, overhauls of production plants, the implementation of legal requirements and plant downtimes in the relevant reporting period, which according to our accounting guidelines cannot be capitalized and are therefore not a component of capital expenditures. This also includes direct expenses for maintenance materials as well as external and internal maintenance services. Costs for building modernization that cannot be capitalized are immaterial and are not reported separately.

The ratio's numerator covers those expenses for the reporting year 2021 that relate to taxonomy-eligible activities. The denominator covers all non-capitalizable expenses for research, development and maintenance.

In the reporting year, the share of operational expenditures for taxonomy-eligible products amounted to 15% of the total operating expenditures. Therefore, the share of taxonomy non-eligible operating expenditures is 85%.

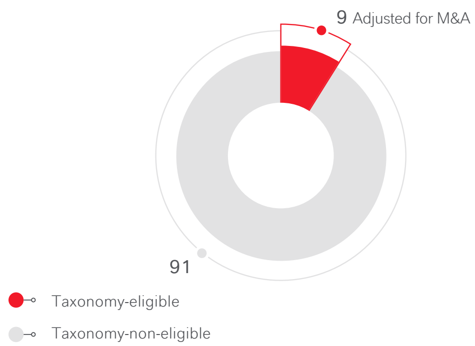
Key Data Pursuant to EU Taxonomy Regulation

%



Capital Expenditures Adjusted for M&A[1)]

%



1) Voluntary information.

Product innovation

In 2021, our portfolio strategy was again shaped primarily by specific product and application development. We put the needs and expectations of our customers at the center here and frequently pursue projects together with the customers concerned or other high-powered partners.

As the first product of our new "Scopeblue" series, we unveiled a variant of our high-performance plastic Durethan in which we replaced 92% of the raw materials with sustainable alternatives. One of the raw materials used in its production is cyclohexane from sustainable sources. The material is also strengthened by glass fibers comprising industrial glass waste instead of mineral raw materials. As these melt at lower temperatures than glass raw materials, this also saves energy and conserves resources. The alternative raw materials are chemically identical to their fossil equivalents. The end product therefore exhibits the same characteristics and can be processed just as easily using exactly the same production tools and facilities with no conversion work needed.

Meanwhile, a new variant of our composite Tepex is 100% based on the biological raw materials flax and polylactic acid. We are now able to produce it to a level of quality suitable for large-scale production. The extremely strong material is suitable for use in sports articles, in the production of automotive interior parts and in electronics for case components. Tepex can be recycled completely. After its use, the product can be shredded and easily processed into new plastic.

Reusing plastic waste as a raw material is an important element of the circular economy, but requires that the different plastics be separated according to type first. With the new black pigment Bayferrox 303 T from our Inorganic Pigments business unit, we can help to increase the recycling rate for plastic packaging, which is still far too low around the world. The innovative pigment for coloring black plastic reflects 20% of near-infrared radiation (NIR). This enables plastics to be identified efficiently and cost-effectively with the aid of NIR detectors like those used for sorting waste.

For us, innovation also means continuously enhancing the applicability of the products we have already established on the market. One example of this is the new type of Lewatit ion exchange resin, with which we open up new areas of application in the electronics industry and microsystems technology. Thanks to an improved polymer matrix in conjunction with a modified formula, we can now manufacture the product to the very highest degree of purity. In the future, Lewatit can therefore be used in the processing of ultra-pure water, which is necessary for semiconductor manufacture.

One of the most challenging applications for polyurethane casting systems is high-temperature applications. As polyurethane chemistries have advanced over the years, casting systems are being used more frequently in this high-performance segment. Our new Adiprene LF TR400 high-temperature prepolymer is much easier to process than comparable prepolymer systems for high-temperature applications. For example, it offers a manageable processing/pour life. The resulting cast elastomers perform better than comparable, established polyurethane high-temperature systems and do not change their properties under heat stress. A further strength is high resistance to heat aging at up to 150 °C.

In order to continue bringing product and application innovations successfully to market, we are enhancing our global network of research and development sites in a targeted manner. Since June 2021, our new APAC Application Development Center (AADC) in Shanghai has brought the research and development activities of the three business units Polymer Additives, Lubricant Additives and Urethane Systems together under one roof. We thus intend to better exploit the growth potential in the Chinese market, the largest chemicals market in the world.

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 consideration of customers' constantly changing needs in our product and process innovations. In addition, we aim to build on and consolidate our relationships with our customers.

The coronavirus pandemic continues to severely restrict our direct interaction with our customers. This is particularly true of the usually intensive support for the implementation of new procedures and process innovations by our process engineers, who were able to attend their customers in person only to a limited extent. Nevertheless in order to ensure regular communication, our business units have now established and professionalized a wide range of virtual formats. For example, High Performance Materials invites its customers to a monthly global webinar, TechXchange, where it provides information about products, target applications and new technologies. In the reporting year, Saltigo gained initial positive experience with LinkedIn Live Events regarding the insect repellent Saltidin®. The generally higher reach and attendance of virtual formats is proving an advantage over traditional points of contact such as trade fairs.

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. Various bodies and dialog forums, such as the Marketing & Sales Community that meets quarterly, also guarantee the regular exchange of experiences between our business units and Group functions.

Our business units regularly review their complaint management process to identify potential for improvement. In the reporting year, Liquid Purification Technologies successfully used an array of minor optimizations to accelerate the processing of complaints and to improve the quality of cause analysis and corrective measures. Among other things, a minimum threshold was defined, the transparency of larger complaints was increased by handing the internal complaint report to the customer, and new KPIs for quality measurement were introduced.

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 2021, we are continuing the roll-out of the new sales software introduced in the previous year. It 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. According to our business units' requirements, we also enabled the software to be linked with other tools, for example to view three-dimensional graphics of components made from our high-tech plastics.

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 terms of content, the survey aimed to evaluate LANXESS's performance overall (in comparison to the general competition) 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.

In the current 2022 survey, the customer retention index (CRI) score was 71 and thus at the same level as our competitors. The score particularly reflects the strained economic situation of the last two pandemic years, the general global supply shortages in procurement, the drastic restrictions in logistics, and the sharply increased raw material and energy prices.

The topic of "sustainability" was a particular focus of the latest customer satisfaction survey, in which customers gave us an excellent rating due among other things to our "Climate Neutral 2040" strategy.

Based on the latest results of the customer satisfaction analysis, we will implement targeted measures at LANXESS and in the business units in order to remain a reliable and value-enhancing partner for our customers and thus to keep successfully retaining them in the long term.

LANXESS ON THE CAPITAL MARKET

LANXESS on the Capital Market

The stock market year 2021 was characterized on the one hand by strong catch-up effects in nearly all customer industries and on the other hand by massive price increases for raw materials, energy and logistics. The performance of the LANXESS share was below average compared with the European industry.

Although the coronavirus pandemic continued to dominate global news in 2021, the international capital markets seemed unperturbed by high infection rates and strained supply chains for large parts of the year. Accordingly, the rally of the previous year continued, especially in the first half of the year. In the second half of the year, the massive rise in inflation in many places and associated interest rate fears became the focus of investors' attention and led to a more bearish mood on the stock markets. Over the year as a whole, the relevant German indices saw considerable growth: The DAX ended the year up 15.8% at 15,885 points; the MDAX moved up by 14.1% to 35,123 points. The international, sector-specific benchmark index for LANXESS, the MSCI World Chemicals Index, performed similarly and gained 15.6%.

After the LANXESS share had already shown a strong performance at the end of 2020 and regained its pre-pandemic level much earlier than the other countries of its peer group, it enjoyed a similarly solid start to the new stock market year. It marked its annual high at €67.38 (intraday Xetra) on March 10. At the beginning of the second quarter, however, the share diverged from the overall markets and initially entered into a sideways movement, before negative price influences such as significantly increased logistics prices as well as raw material and energy costs gained the upper hand from the third quarter. The LANXESS share marked its annual low at €50.46 on November 30. The closing price on December 30, 2021, was €54.50 – a price decline of 13% compared with the previous year.

LANXESS Stock at a Glance

		2018	2019	2020	2021
Capital stock/no. of shares[1]	€/no. of shares	91,522,936	87,447,852	87,447,852	**86,346,303**
Market capitalization	€ billion	3.68	5.23	5.49	**4.71**
High/low[1]	€	74.78/39.61	64.58/39.47	64.86/25.68	**67.38/50.46**
Closing price	€	40.20	59.82	62.76	**54.50**
Earnings per share adjusted for exceptional items and amortization of intangible assets[2]	€	4.48[3]	4.73[3]	3.50[3]	**4.83**[3]
Dividend per share	€	0.90	0.95	1.00	**1.05**[4]

1) As of end of year (intraday Xetra): December 31, 2018; December 31, 2019; December 31, 2020; December 31, 2021.
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 25, 2022.

STOCK REPURCHASE

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 commenced 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 first tranche of the stock repurchase program formally ended on March 10, 2021. As the same time as the announced acquisition of the Microbial Control business from IFF in August, the Board of Management decided not to continue the suspended stock repurchase program. The repurchased shares were canceled on September 22, 2021.

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 and 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 25, 2022, the Board of Management and the Supervisory Board will propose a dividend of €1.05 per share.

STOCKHOLDER STRUCTURE

The LANXESS stockholder structure predominantly consists of institutional investors pursuing a growth- or value-oriented investment strategy. As of the end of 2021, the percentage of such investors in the stockholder structure was unchanged at around 92%. The remaining roughly 8% of LANXESS stocks are held by private investors.

As in the past, the regional focus of our investors in 2021 was in the U.S., Germany and Great Britain. The percentage of U.S. stockholders most recently increased slightly to around 39% (previous year: 38%). As of the reporting date, the percentage of LANXESS stocks held in Germany was around 29% (previous year: 27%), while the holdings of institutional investors from Great Britain were almost unchanged at around 13% (previous year: 14%).

The share of investors from elsewhere in Europe decreased slightly year-on-year to around 14% (previous year: 15%). The share of investors in other regions likewise decreased slightly to around 4% (previous year: 6%).

An overview of the institutional investors that are required to report a holding of at least 3% of the outstanding LANXESS stocks to us can be found in the Investor Relations section of our website.

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. We took this opportunity in fiscal year 2021 and issued two bonds. In September, we successfully placed a benchmark bond with a coupon of 0.0% for the first time. The issue underscores the high level of confidence in LANXESS's bonds on the capital market.

With the sustainability-linked financing framework as a complement to our existing debt issuance program, we have also created a framework that allows us to link bonds to sustainability targets. With the bond issued in December 2021, sustainability criteria were taken into account in our long-term capital market financing for the first time.

There are five LANXESS bonds and one hybrid bond on the market at present.

Overview of LANXESS's Main Bonds

ISIN/WKN	Volume	Duration	Coupon
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%
XS2383886947	€500 million	September 8, 2021– September 8, 2027	0.000%
XS2415386726	€600 million	December 1, 2021– December 1, 2029	0.625%

LANXESS Hybrid Bond (Subordinated)[1]

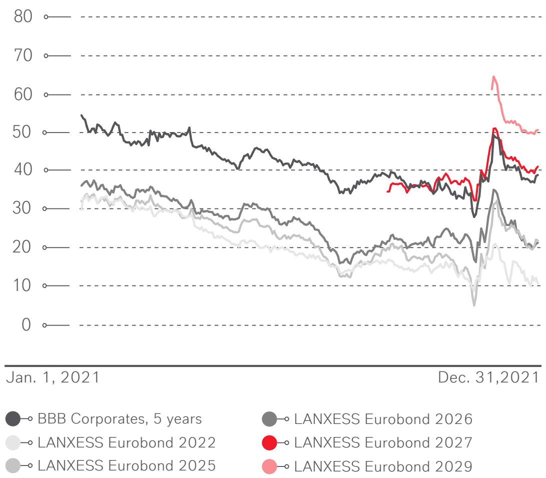
ISIN/WKN	Volume	Duration
XS1405763019	€500 million	December 6, 2016 – December 6, 2076

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

The risk premiums for corporate bonds continued to decrease throughout 2021 due to the central banks' persistently expansionary monetary policies and fiscal support from numerous governments. A historic low was reached in November, but this did not last for long as a result of the discovery of a new mutation of the COVID-19 virus. As of December 31, 2021, risk premiums were nevertheless at a low level. 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 an 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 reporting year, 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 various medium-sized markets, the accordingly lower cyclicality and the good geographical diversification. As part of this transformation, we successfully completed the second-largest acquisition in our company's history when we acquired the U.S. specialty chemicals manufacturer Emerald Kalama Chemicals. In addition, we announced the acquisition of the Microbial Control business from U.S. corporation International Flavors & Fragrances Inc. (IFF). The rating agencies commented generally positively on both transactions. 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.

Further information on the development of LANXESS ratings and rating outlook since 2017

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 7, 2021, 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:

"From the issuance of the last declaration of compliance on December 10, 2020, LANXESS AG has complied with the recommendations of the Government Commission on the German Corporate Governance Code ('Government Commission') as amended on December 16, 2019, which were published on March 20, 2020, by the Federal Ministry of Justice and Consumer Protection in the official portion of the Federal Gazette and will continue to comply with them with the following exception:

After the publication of the new version of the GCGC, on March 20, 2020, the Supervisory Board resolved upon a new compensation system for the Board of Management, which complies with the recommendations of the GCGC, which was approved by the Annual Stockholders' Meeting on May 19, 2021. 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. This has already happened in the case of the new employment contract concluded for Dr. Borkowsky in the context of his reappointment as a member of the Board of Management with effect from June 1, 2022."

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 a fundamental requirement for all corporate activities. For this reason, LANXESS has established a global 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 for 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 the workforce, 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 most important document in the Compliance Program is the Group-wide "LANXESS Code of Conduct." It defines binding principles of conduct and provides employees with information and guidance on compliance.

Additional preventive measures include, in particular, an extensive portfolio of compliance briefings and targeted compliance training. Compliance risk assessments are performed regularly to identify and evaluate company-specific compliance risk areas, as well as to develop additional measures and processes for reducing compliance risks. The main risk areas identified are assigned to individual Group functions as special 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, the global whistleblower platform "SpeakUp" enables 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 of all employees in relation to our stakeholders in a total of 13 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.

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 2021 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. Another self-assessment is planned in fiscal year 2022.

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, 2021, the Audit Committee comprised the following members: Pamela Knapp (Chairwoman), Hans van Bylen, Armando Dente, Dr. Hans-Dieter Gerriets, Lawrence A. Rosen and Iris Schmitz. 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, Ralf Sikorski and Iris Schmitz.

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

In accordance with German stock corporation law, the Supervisory Board of LANXESS AG must comprise at least 30% women and at least 30% men. In the context of separate fulfillment, the company's twelve-member Supervisory Board currently has five female members: Birgit Bierther, Dr. Heike Hanagarth, Pamela Knapp, Iris Schmitz and Manuela Strauch. This is a ratio of 42% women. New appointments in the future will also comply with the statutory requirements.

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 the management board and the next two management levels down, and to specify a deadline for meeting these targets. In fiscal year 2017, the Supervisory Board set a new target for female representation on the Board of Management. Accordingly, at least one woman is to be appointed to the Board of Management by June 30, 2022. In accordance with the Second Act on Equal Participation of Men and Women in Management Positions (FüPoG II), which enters into force on August 11, 2022, companies like LANXESS that are listed on the stock exchange and subject to equal co-determination and have a Board of Management with more than three members must also have at least one female and one male Board of Management member. With Dr. Stephanie Coßmann, the Board of Management has one female member.

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 18.2% in 2021, hence the target was exceeded again. At the second management level, the proportion of women came to 25.7%. 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 personal suitability, professional qualifications, integrity, leadership qualities, international experience, the 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. With Dr. Stephanie Coßmann, the Board of Management has one female member.

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, digitalization as ESG/sustainability. 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 fulfilment

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. 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 five female members: Birgit Bierther, Dr. Heike Hanagarth, Pamela Knapp, Iris Schmitz and Manuela Strauch This is a ratio of 42%. 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 2021 Annual Stockholders' Meeting on May 19, 2021, again 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).

REMUNERATION SYSTEM AND REMUNERATION REPORT

In fiscal year 2020, the Supervisory Board revised the compensation system for the members of the Board of Management on the basis of the Second Shareholder Rights Directive Implementation Act (ARUG II) and the new version of the GCGC. Taking particular account of LANXESS's sustainable and strategic alignment, significant changes were implemented in the new compensation system. In particular, both the short-term variable compensation and the long-term variable compensation are based on two measurable performance criteria that are aligned with the sustainable corporate strategy. In addition, the proportions of short-term and long-term variable compensation have been determined such that the long-term compensation components outweigh the short-term ones. The revised compensation system for the Board of Management was approved by the Annual Stockholders' Meeting of LANXESS AG on May 19, 2021 with a majority of 94.22% of the valid votes cast.

The compensation report in accordance with Section 162 AktG including the auditor's report can be found together with the compensation system on the company's website. The compensation report in accordance with Section 162 AktG is presented to the 2022 Annual Stockholders' Meeting for approval.

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, 2021, 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 2021 was audited by the auditor PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft (PwC). The condensed financial statements and interim management report included in the 2021 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.

Cologne, February and March 2021

LANXESS Aktiengesellschaft

The Board of Management   The Supervisory Board

Offices Held by Board of Management and Supervisory Board Members

OFFICES HELD BY BOARD OF MANAGEMENT MEMBERS

Offices Held by Serving Board of Management Members (as of December 31, 2021)

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. 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.
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. • Member of the Board of Directors of EPM Polymer Additives Holding Corp. (since August 3, 2021) • Member of the Board of Directors of Emerald Performance Materials, LLC (since August 3, 2021)

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)
- Grillo Werke AG, Duisburg[1] (resigned as of March 31, 2021)
- ALTANA AG, Wesel[1] (Chairman of the Supervisory Board)
- ARDEX GmbH, Witten (Chairman of the Advisory Board, resigned as of March 31, 2021)
- Cabot Corporation, Boston, Massachusetts, U.S.

Hans van Bylen
- 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]
- Ontex Group NV, Erembodegem (Aalst), Belgium (Chairman)
- Etex NV, Luchthaven Brussel Nationaal, Belgium
- SN Airholding NV, Brussels, Belgium

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]
- Glide Buy Out Partners BV, Utrecht, Netherlands (Member of the Advisory Board)
- Martur Fompak International/Automotive Seating Systems AS, Istanbul, Turkey (since May 1, 2021)
- NXT Boardroom GmbH, Munich (Member of the Advisory Board)

Serving Members

Pamela Knapp

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

Further offices:
- LANXESS Deutschland GmbH, Cologne[1)]
- Signify NV, Eindhoven, Netherlands
- Compagnie de Saint-Gobain S.A., Courbevoie, France (Member of the Board of Directors – Conseil d'Administration – and Chairman of the Audit Committee)
- Peugeot S.A., Rueil-Malmaison, France (Member of the Supervisory Board – Conseil de Surveillance – as well as the Nomination, Compensation and Audit Committee, resigned January 16, 2021)
- HKP Deutschland GmbH, Frankfurt am Main (Member of the Advisory Board)

Lawrence A. Rosen

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

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

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)]

Ralf Sikorski (Vice Chairman)

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

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

Serving Members

Birgit Bierther

- Chairwoman of the LANXESS Works Council at the Cologne site

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

Armando Dente

- District manager at IGBCE, Cologne-Bonn district

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

Iris Schmitz (since October 1, 2021)

- Chairwoman of the LANXESS Central Works Council
- Chairwoman of the LANXESS Works Council at the Leverkusen site

Further offices:
- LANXESS Deutschland GmbH, Cologne[1)] (since October 1, 2021)
- Saltigo GmbH, Leverkusen[1)]

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)]

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, 2021).

Report of the Supervisory Board

DEAR STOCKHOLDERS,

Fiscal year 2021 was shaped by numerous challenges coinciding. While many of our customer markets recovered over the course of the year, in some cases significantly, and increased demand led sales to grow by a double-digit percentage, prices for our raw materials increased massively at the same time. In addition, the impact of the coronavirus pandemic continued to cause business restrictions and resulted in wide-scale disruption to global supply chains. Insufficient transport capacity and associated longer storage periods meant significant increases in freight costs. Particularly in the second half of the year, an unprecedented increase in energy prices began. Numerous extraordinary effects such as weather-related downtimes, supplier failures, and the terrible accident at CURRENTA also made a negative impact. In this adverse environment, LANXESS managed to increase its earnings by 17% to over a billion euros.

In the past fiscal year, LANXESS systematically continued on its chosen path to strategic advancement. On the one hand, the disposal of the Leather business unit was completed with the sale of the chrome ore mine in South Africa and of the organic leather business. On the other hand, the Consumer Protection segment was strengthened in particular by the acquisition of Emerald Kalama Chemical, a transaction in the billions. This set the course for a significantly higher proportion of specialty chemicals in the portfolio. In addition, LANXESS entered the high-growth battery chemicals market via a cooperation with Tinci, the Chinese manufacturer of lithium-ion battery materials.

As in previous years, sustainability and especially environmental protection remained focus areas for LANXESS. Additional reductions in emissions, e.g. through the nitrous oxide reduction facility in Antwerp, brought LANXESS closer to its goal of climate neutrality. The year also saw the purchase of initial quantities of sustainable raw materials, the setting of a new, ambitious target for women in management, and the successful issue of a first bond linked to sustainability targets. In addition, the new compensation system for the Board of Management announced in the previous year was approved by the Annual Stockholders' Meeting. As of January 2021, compensation is now tied to the achievement of two sustainability targets. Our efforts have again been rewarded with upgrades in various external sustainability ratings.

For fiscal year 2022, we expect a continuingly strained environment with political uncertainties and high raw material, energy and logistics costs. We are nevertheless confident that we will master these challenges and make LANXESS an even more resilient and profitable company.

During the reporting year, the Supervisory Board once again 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 six 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 development of raw material, energy and logistics costs, the performance of LANXESS stock, restrictions in logistics chains, investment and acquisition plans, and sustainability issues. The Supervisory Board addressed the following important issues:

At an extraordinary meeting of the Supervisory Board on February 11, 2021, the Board of Management gave us a detailed presentation on the project to acquire the U.S.-based Emerald Kalama Chemical. The Supervisory Board conducted a thorough discussion of the opportunities and risks of the acquisition. As a result, we resolved to approve the acquisition of Emerald Kalama Chemical as proposed by the Board of Management.

The focus of the Supervisory Board's financial statements meeting held on March 10, 2021, was the review of the annual financial statements and consolidated financial statements for fiscal year 2020 and the proposal for use of the distributable profit. We discussed and approved the non-financial Group report 2020, which shows the sustainability aspects pursued by the company. In addition, the Supervisory Board resolved upon the motions for resolution by the Annual Stockholders' Meeting, which due to the pandemic situation is to be held in virtual format again, including the description of the compensation system for the Board of Management. 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 2020 on the basis of the identified target attainment.

At the meeting on May 11, 2021, the Board of Management informed us about the status of the preparations for the upcoming virtual Annual Stockholder's Meeting. The Board of Management also gave us a full report on environmental protection and occupational and plant safety, which was subsequently discussed by the full Supervisory Board. In addition, it informed us about the goals and core issues of the sustainability management pursued at LANXESS and about the organizational measures such as the establishment of the Sustainability Committee. The company also gave us a comprehensive over of the compliance management system. The focus was on the information security management system. The Board of Management reported on the measures initiated to strengthen information security at LANXESS and provided a preview of the measures planned for the current year and beyond.

At the meeting on August 10, 2021, we and the Board of Management again dealt with a strategically significant M&A project at the company. As a result of the extensive discussions, we approved the acquisition of the Microbial Control business from International Flavors & Fragrances Inc. In connection with a Board of Management personnel decision, we furthermore resolved to reappoint Dr. Anno Borkowsky as a member of the Board of Management of LANXESS AG with effect from June 1, 2022. The Board of Management also reported on the impact of the explosion of Currenta's incinerator plant and potential effects on LANXESS.

At the meeting on November 3, 2021, we took an in-depth look at the economic performance of the company's plastics business, which is bundled in the High Performance Materials (HPM) business unit. To secure and further strengthen the HPM business, whose attractive compounds market segment is undergoing strategic realignment and continuing consolidation, we argued in support of the internal legal independence of the HPM business proposed by the Board of Management. The Board of Management also gave us a report on financial policy and financial management at LANXESS. We elected the new member of the Supervisory Board, Iris Schmitz, as a member of the Audit Committee and a member of the Mediation Committee. Finally, the Supervisory Board resolved to amend the wording of the articles of association with regard to the Board of Management's decision to reduce the company's capital stock by withdrawing the treasury shares repurchased in 2020.

At its meeting on December 7, 2021, the Supervisory Board reviewed in full and approved the corporate planning for 2022 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. After reviewing compliance with the recommendations and suggestions of the German Corporate Governance Code (GCGC), we resolved to issue a declaration of compliance. The Supervisory Board also dealt in detail with the development of the compensation of the Board of Management members. On the basis of an external review of appropriateness, we came to a decision on the adjustment of the Board of Management members' annual base salary. The Supervisory Board also defined the conditions for the Board of Management's variable compensation components and target total compensation for fiscal year 2022. Lastly, we conducted a thorough discussion of the conditions of a new Long-Term Stock Performance Plan for the years 2022–2025, whose launch we subsequently approved.

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 in person in August and November, otherwise virtually. 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 2021

Supervisory Board members	Supervisory Board		Presidial Committee		Audit Committee		Nominations Committee		Total	
	Attendance	%	Attendance	%	Attendance	%	Attendance	%	Attendance	%
Dr. Matthias L. Wolfgruber, Chairman	6/6	100	4/4	100			3/3	100	13/13	100
Ralf Sikorski, Vice Chairman	6/6	100	4/4	100					10/10	100
Birgit Bierther	6/6	100	4/4	100					10/10	100
Werner Czaplik (until Sep. 30, 2021)	4/4	100			3/3	100			7/7	100
Armando Dente	6/6	100			4/4	100			10/10	100
Dr. Hans-Dieter Gerriets	6/6	100			4/4	100			10/10	100
Dr. Heike Hanagarth	6/6	100							6/6	100
Pamela Knapp	6/6	100			4/4	100			10/10	100
Lawrence A. Rosen	6/6	100			4/4	100	3/3	100	13/13	100
Iris Schmitz (from Oct. 1, 2021)	2/2	100				100			2/2	100
Manuela Strauch	6/6	100	4/4	100					10/10	100
Hans van Bylen	6/6	100	4/4	100	4/4	100			14/14	100
Theo H. Walthie	6/6	100	4/4	100			3/3	100	13/13	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 four times during the reporting year to prepare the meetings of the Supervisory Board and the decisions to be reached by the full Supervisory Board at its meetings concerning human resources measures in the company's Board of Management.

The 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 2020, the quarterly statements issued during fiscal year 2021, and the condensed consolidated financial statements and interim management report included in the 2021 half-year financial report. 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 2020. Utilization of production capacity was another regular topic. 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 2021 financial statements. The Committee also found out about the Group's liquidity management, strategies to hedge currency risks, and the recent audit of OTC derivatives contracts pursuant to Section 32 of the German Securities Trading Act. Lastly, information security at LANXESS was discussed in detail, as well as the processes for accounting, risk assessment, and the monitoring of environmental provisions. The external auditor reported on the auditing activities at two of the four Audit Committee meetings.

The Nomination Committee met three times in fiscal year 2021. 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 also dealt intensively with the company's corporate governance 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 2021 were audited by PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, the auditor appointed by the Annual Stockholders' Meeting on May 19, 2021, 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 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, 2022. 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, 2022. 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

The composition of the Supervisory Board changed in fiscal year 2021. On September 30, 2021, the long-standing Supervisory Board member Werner Czaplik resigned from the Board as an employee representative due to his retirement. By order of Cologne District Court of September 8, 2021, Iris Schmitz was appointed as an employee representative on the Supervisory Board of LANXESS AG with effect as of October 1, 2021.

The Supervisory Board thanks the members of the Board of Management, all of the Group's employees around the world and the employee representatives for their extraordinary commitment and outstanding work in fiscal year 2021.

Cologne, March 10, 2022
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.

LANXESS AG directly or indirectly holds 100% of the shares in the following major companies:

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	Specialty Additives/ Engineering Materials
LANXESS India Private Limited, Thane, India	Production and sales	Advanced Intermediates/ Specialty Additives/ Consumer Protection/ Engineering Materials
Emerald Kalama Chemical B.V., Rotterdam, Netherlands	Production and sales	Consumer Protection
LANXESS Sales Netherlands B.V., Venlo, Netherlands	Sales organization	Specialty Additives
LANXESS S.r.l., Milan, Italy	Production and sales	Advanced Intermediates/ Specialty Additives/ Consumer Protection/ Engineering Materials
Emerald Kalama Chemical LLC, Cuyahoga Falls, U.S.	Production and sales	Consumer Protection
LANXESS (Wuxi) High Performance Composite Materials Company Limited, Wuxi, China	Production and sales	Engineering Materials

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

As of January 1, 2021, the business with antioxidants and reaction accelerators was organizationally reassigned from the Advanced Intermediates segment's Advanced Industrial Intermediates business unit to the Specialty Additives segment's Rhein Chemie business unit. The previous year's figures in the segment reporting have been restated accordingly. At the same time, the business with colorants and colorant additives was organizationally transferred within the Specialty Additives segment from the Rhein Chemie business unit to the Polymer Additives business unit.

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 organic leather chemicals business was disposed of on June 1, 2021. The sale of the chrome ore mine was completed on September 15, 2021. The Leather business unit had been recognized as discontinued operations since December 2019.

As of January 1, 2021, LANXESS completed the sale of the reverse osmosis membranes business from the Liquid Purification Technologies business unit to SUEZ S.A., Paris, France. LANXESS has thus repositioned its water treatment technology business in order to focus on the ion exchange resins business.

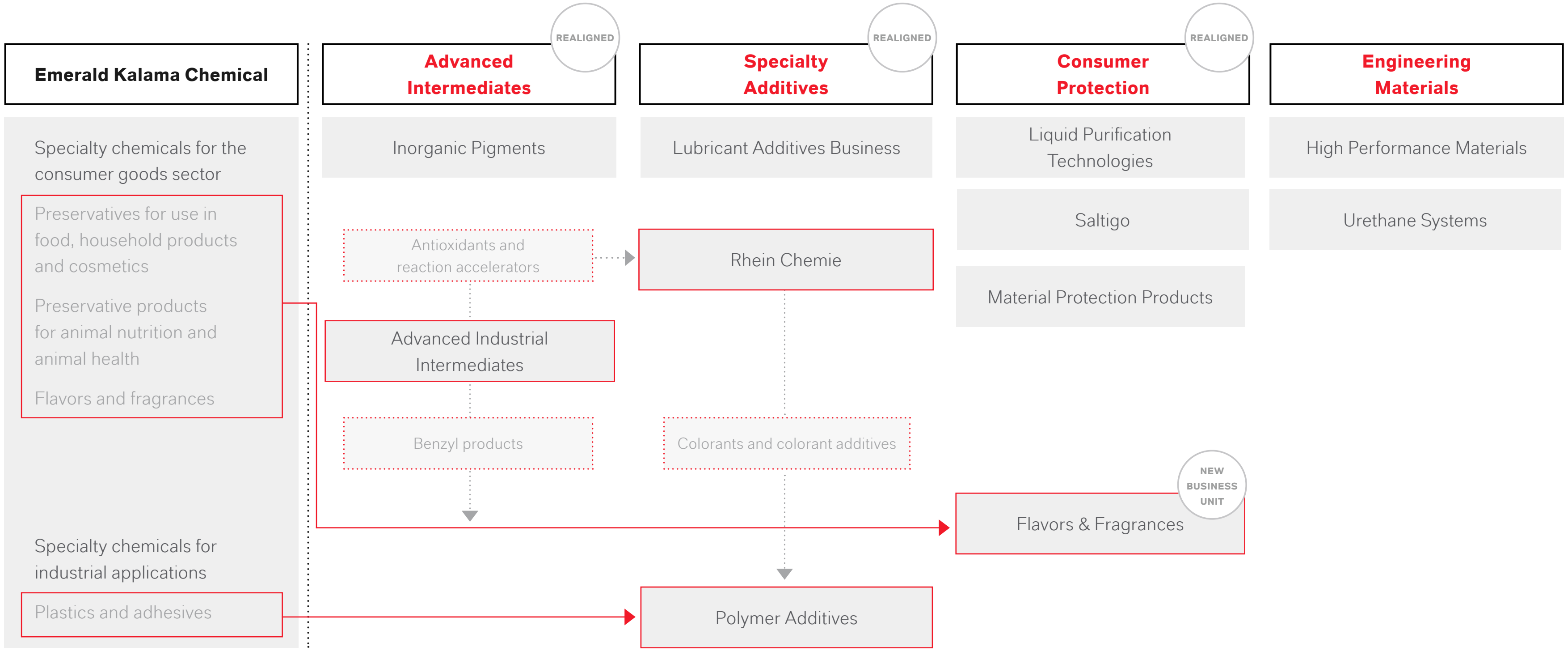
On March 1, 2021, LANXESS completed the acquisition of the French company INTACE S.A.S., which at that time was based in Paris, France. This manufacturer of special fungicides for the packaging and paper industry will enhance LANXESS's position as one of the world's leading producers of biocides and antimicrobial active ingredients. The business was integrated into the Material Protection Products business unit of the Consumer Protection segment. The company generated sales in the mid-single-digit millions in euros in the previous year.

On April 1, 2021, LANXESS completed the acquisition of the French Theseo Group, a leading manufacturer of disinfection and hygiene solutions in Europe and Latin America headquartered in Laval, France. With this acquisition, LANXESS has expanded its portfolio with products for pest control, animal nutrition and animal health and now offers an extended range of disinfection and hygiene solutions. The business with around 100 employees at its sites in Laval, France; Wietmarschen, Germany; Hull, Great Britain; and Descalvado, Brazil, was integrated into the Material Protection Products business unit of the Consumer Protection segment. In 2020, the acquired group generated sales in the lower double-digit millions in euros.

On August 3, 2021, LANXESS acquired 100% of the shares in Emerald Kalama Chemical from U.S. private equity firm American Securities LLC. As one of the world's leading manufacturers of specialty chemicals, the U.S. company generated around three-quarters of its sales from consumer goods. These include preservatives for use in food, household products and cosmetics, flavors and fragrances as well as preservative products for animal nutrition and animal health. LANXESS brought this business into the Flavors & Fragrances business unit, which was newly founded in the reporting year and is part of the Consumer Protection segment. In addition, the product portfolio is expanded by specialty chemicals for industrial applications, such as for the plastics and adhesives industries. These products were integrated into the Polymer Additives business unit of the Specialty Additives segment. In addition, the benzyl products of the Advanced Industrial Intermediates business unit were added to the new Flavors & Fragrances business unit and the previous year's figures in the segment reporting restated accordingly. The acquisition of Emerald Kalama Chemical is a targeted enhancement of LANXESS's position in the global business with antimicrobial active ingredients and preservatives, especially for consumer protection products and animal health. LANXESS paid the purchase price of €920 million out of existing liquidity. LANXESS took on around 470 employees worldwide as well as production sites in Kalama, U.S.; Rotterdam, Netherlands; and Widnes, Great Britain. In 2020, the acquired company generated sales of around US$425 million and EBITDA pre exceptionals of roughly US$90 million.

As a result of the described changes, the new segment structure is as follows:

New Segment Structure



On August 23, 2021, LANXESS signed an agreement with the U.S. corporation International Flavors & Fragrances Inc. (IFF) to acquire its Microbial Control business. IFF Microbial Control is one of the leading providers of antimicrobial active ingredients and formulations for material protection, preservatives and disinfectants. The products are used in numerous applications, especially in personal care and household products, in industrial water treatment, and in paints and coatings. IFF Microbial Control has around 270 employees and runs two production plants of its own in St. Charles, Louisiana, and Institute, West

Virginia, U.S. The business also has a large network of partners including active ingredient manufacturers and formulators. Once the acquisition is completed, the business is to be integrated into the Material Protection Products business unit of the Consumer Protection segment. The enterprise value of the IFF Microbial Control business amounts to around US$1.3 billion. The transaction is expected to be completed in the second quarter of the current fiscal year.

Due to the recent acquisitions, the Board of Management of LANXESS AG has decided to re-prioritize its capital allocation and not to continue the stock repurchase program, which has been suspended since the start of the coronavirus pandemic. 1,101,549 shares worth €37 million were acquired in March and April 2020, and were canceled on September 22, 2021.

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
	Porto Feliz, Brazil
	Liyang, Ningbo, China
	Bergkamen, Brunsbüttel, Dormagen, Krefeld-Uerdingen, Leverkusen, Germany
	Branston, Great Britain
	Vilassar de Mar, Spain
	Baytown, Burgettstown, Mapleton, U.S.
Applications	Agrochemicals
	Automotive
	Construction
	Aromas and flavors
	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
	Antwerp, Belgium
	Porto Feliz, Brazil
	Nantong, Qingdao, China
	Brunsbüttel, Krefeld-Uerdingen, Leverkusen, Mannheim, Germany
	Epierre, France
	Deeside, Trafford Park, Great Britain
	Jhagadia, India
	Latina, Italy
	Toyohashi, Japan
	Elmira, West Hill, Canada
	Altamira, Mexico
	Lipetsk, Russia
	Kaohsiung, Taiwan
	Bushy Park, Chardon, Charleston, East Hanover, El Dorado, Fords, Greensboro, Little Rock, U.S.
Applications	Phosphorous-based or brominated flame retardants
	Lubricants and lubricant additives
	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
	Flavors & Fragrances
	Liquid Purification Technologies
	Saltigo
Sites	Descalvado, Jarinu, Brazil
	Changzhou, China
	Bitterfeld, Dormagen, Krefeld-Uerdingen, Leverkusen, Wietmarschen, Germany
	Laval, France
	Sudbury, Hull, Widnes, Great Britain
	Jhagadia, Nagda, India
	Rotterdam, Netherlands
	Singapore, Singapore
	Kalama, Memphis, Pittsburgh, U.S.
Applications	Agrochemicals
	Disinfection, preservation and material protection products
	Flavors and fragrances
	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, Changzhou, 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 the compass with which we continuously realign our strategy. Even in phases of economic turmoil, we continue to build on integrated value chains, competitive and sustainable products and sites, and our strengths in specialty chemicals markets in which we occupy a leading position with our businesses.

We set two clear priorities in our portfolio strategy: Firstly, we will consistently drive the expansion of our business with applications close to consumers. Secondly, we will strengthen our presence as one of the leading providers in mid-sized, partially regulated and thus protected markets for specialty products. Especially in times of crisis, attractive opportunities for value-generating acquisitions arise. We took several of these opportunities in the reporting year and thus significantly expanded our most profitable Consumer Protection segment. In contrast, we divested businesses that no longer had long-term future prospects at LANXESS. For details, please see "Business organization and material changes in the Group portfolio" in this management report.

We continually drive our organic growth by investing in expanding capacity and making additions to our 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.

Sustainability management realigned

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: In 2040, we intend to be climate neutral by neutralizing the low emissions still remaining at that date via appropriate offsetting measures. On the way to this target, we want to reduce our CO_2e emissions to 2,600 thousand metric tons by 2025 through various projects and measures, compared to around 3,200 thousand metric tons in 2018.

The reduction of water consumption and wastewater discharge and the active protection of resources at water risk locations are likewise major goals for us.

In addition, we have embedded our sustainability ambitions more firmly within the company by adjusting our incentive systems and management structures. Since the beginning of 2021, there has been a new compensation system for the Board of Management and the first management level below the Board of Management. Roughly one-third of the variable compensation is now linked to the extent to which LANXESS achieves its sustainability targets. More specifically, the company's performance with regard to the reduction of greenhouse gas emissions and occupational health and safety is factored into the evaluation system. In addition, the Board of Management members now make joint decisions on key sustainability issues in the newly created Sustainability Committee. These include climate protection and energy, occupational health and safety, environmental protection, products and circular value chains, the workforce, corporate culture and transparent reporting on sustainability performance.

Our commitment to sustainability and long-term value creation is also underscored by the consideration of ESG criteria in the shaping of our corporate financing. For example, we have a sustainable syndicated credit facility of €1 billion, for which 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 November 2021, we also successfully placed our first sustainability-linked bond of €600 million on the European capital market. The interest rate is linked to the achievement of our climate targets.

VALUE MANAGEMENT AND CONTROL SYSTEM

Value Management and Control System

		2017	2018	2019	2020	2021
EBITDA pre exceptionals[1]	€ million	925	986	1,019	862	1,010
EBITDA margin pre exceptionals[1]	%	14.2	14.4	15.0	14.1	13.4
Capital employed[2]	€ million	7,463	5,204	5,588	5,272	7,606
ROCE	%	9.3	11.4	10.0	7.5	6.6
Days of sales in inventory (DSI)	Days	64.7	68.6	65.7	64.1	70.6
Days of sales outstanding (DSO)	Days	50.7	46.0	42.3	44.6	45.4
Net financial liabilities	€ million	2,252	1,923	2,522	1,012	2,345
Net financial liabilities after deduction of short-term money market investments and securities	€ million	2,252	1,381	1,742	1,012	2,245
Net financial debt ratio		1.7x	1.4x	1.7x	1.2x	2.2x
Investment ratio[1]	%	6.1	7.0	7.5	7.5	6.3

1) Figures 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.

In addition to these performance indicators, non-financial performance indicators relating to our sustainability targets also play an increasingly important role for us. These performance indicators are also taken into account in the variable compensation of the Board of Management and the first management level below the Board of Management. Specifically, we examine the level of CO_2e emissions from our own processes and purchased energy (Scope 1 and Scope 2) and the lost time injury frequency rate (LTIFR) for accidents with days lost. The LTIFR is the ratio of the number of occupational accidents with calendar days lost to the number of hours worked, expressed as multiples of a million hours. It reflects the high importance of employee and site safety for LANXESS. In fiscal year 2021, CO_2e emissions amounted to 2,591 thousand metric tons and we achieved an LTIFR of 0.9.

$$\text{LTIFR} = \frac{\text{Number of occupational accidents with calendar days lost}}{\text{Number of hours worked}} \times 1{,}000{,}000 \text{ Hours}$$

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 twice 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 and energy 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 that 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 2021 reporting year, ROCE was 6.6% and thus on a par with our weighted average cost of capital (WACC) after adjustment for comparability. It was negatively impacted by the fact that the contribution to EBIT pre exceptionals from the acquisitions is not included in the calculation until the respective acquisition date, whereas the capital employed of the acquired businesses is taken into account in full. In the previous year, ROCE was 7.5%. The capital employed of the reporting year was adjusted for an amount of €591 million. This resulted from investments in shares of money market funds that can be sold at any time and from time deposits. The capital employed of fiscal year 2020 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.

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 2021, DSI was at 70.6 days (previous year: 64.1 days) and DSO at 45.4 days (previous year: 44.6 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. As of the end of the reporting year, they amounted to €2,345 million. The near-cash assets included in this item amounted to €491 million. In addition, there were further short-term money market investments in the form of time deposits of €100 million. After deducting these time deposits, net financial liabilities thus amounted to €2,245 million. There were no short-term money market investments in the previous year. The comparative figure for net financial liabilities as of December 31, 2020, came to €1,012 million. The increase in the reporting year mainly resulted firstly from higher bond liabilities and secondly from outflows, including for acquisitions, investments, the dividend and interest, which led to a decline in total cash, cash equivalents and near-cash assets. Another reason was the higher amount of capital tied up in net working capital as a result of significant increases in raw material prices. 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, the net financial debt ratio rose to 2.2 as of December 31, 2021, after 1.2 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 2020, they decreased by €328 million to €877 million. Including this additional component of debt, adjusted for related deferred tax assets of €239 million (previous year: €339 million) and reduced by the receivables relating to pension obligations recognized under other non-current assets of €12 million (previous year: €13 million), the total net debt ratio in relation to EBITDA pre exceptionals was 2.8, compared with 2.2 at the previous year's reporting date.

Net Financial Liabilities

€ million	2017	2018	2019	2020	2021
Non-current financial liabilities	2,242	2,686	2,777	2,265	2,829
Current financial liabilities	633	59	66	566	675
Less:					
Liabilities for accrued interest	(35)	(25)	(25)	(25)	(25)
Cash and cash equivalents	(538)	(797)	(296)	(271)	(643)
Near-cash assets	(50)	0	0	(1,523)	(491)
Net financial liabilities	2,252	1,923	2,522	1,012	2,345
after deduction of short-term money market investments and securities	0	(542)	(780)	0	(100)
Net financial liabilities after deduction of short-term money market investments and securities	**2,252**	**1,381**	**1,742**	**1,012**	**2,245**

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 of the coronavirus pandemic, there were restrictions on the availability of logistics capacity with effects on our business development in the reporting period.

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 2021 included BASF, BP, Covestro, Evonik, ExxonMobil, INEOS, LyondellBasell, OQ Chemicals, Sasol and Shell.

Among the most important strategic raw materials for our production operations in fiscal year 2021 were ammonia, aniline, benzene, 1,4-Butanediol, chlorine and caustic soda, cyclohexane, polyamides, sulfur and toluene. In total, strategic raw materials accounted for a procurement volume of approximately €2.4 billion in fiscal year 2021 (previous year: approximately €1.4 billion). This equates to around 69% of our total procurement spend for raw materials and goods in 2021, which amounted to approximately €3.5 billion (previous year: €2.4 billion). The higher procurement volume was largely due to increased raw material prices. Our total procurement spend in 2021 was around €5.8 billion (previous year: around €4.2 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, Brunsbüttel and Bergkamen, Germany; Antwerp, Belgium; Trafford Park, Great Britain; Latina, Italy; Rotterdam, Netherlands; Baytown, El Dorado, Kalama 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 58 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 63 of our own production sites in 19 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

%	2021
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 2021, our top ten customers accounted for about 18% (previous year: 20%) of total sales. None of our customers accounted for more than 10% of Group sales. 48 customers (previous year: 33) 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 in Naugatuck and Kalama, U.S. We also run a center for engineering plastics in Hong Kong and operate the modern Asian Application Development Center (AADC) at the Shanghai Chemical Industry Park (SCIP) in China. At our research and development sites, we test materials such as innovative flame retardants, new and optimized ion exchange resins and engineering plastics for lightweight automotive engineering applications, and develop new formulations for material protection, among other things.

Cost trend and employees

Research and development expenses in 2021 totaled €115 million, or 1.5% of sales (previous year: €108 million or 1.8%). The High Performance Materials, Material Protection Products, Polymer Additives and Saltigo business units together accounted for the largest share of these expenses. Urethane Systems, Material Protection Products, Liquid Purification Technologies and Saltigo 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

	2017	2018	2019	2020	2021
Research and development expenses (€ million)	103	109	114	108	115
% of sales	1.6	1.6	1.7	1.8	1.5

Figures from 2018 not including the Leather business unit.

At the end of 2021, 543 people – against 517 in the previous year – were employed in our research and development laboratories worldwide.

Number of Employees in Research and Development

	2017	2018	2019	2020	2021
Year end	521	496	516	517	543
% of Group employees	3.4	3.5	3.6	3.6	3.7

Figures 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 2021 was 223 compared to 209 in the previous year, 142 (previous year: 134) of which aimed to develop new products and applications or improve existing ones. The remaining 81 projects (previous year: 75) 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 2021, we submitted 54 priority applications worldwide. As of December 31, 2021, the full patent portfolio included approximately 670 patent families covering around 5,260 property rights.

Employees

As of December 31, 2021, the LANXESS Group had a total of 14,866 employees, against 14,756 at the closing date of the previous year. In the previous year, 447 employees were allocated to discontinued operations. In continuing operations, the number of employees rose from 14,309 in the previous year to 14,866 in the reporting year, chiefly due to the business acquisitions implemented in the reporting period.

In the EMEA region (excluding Germany), there were 2,063 employees in the LANXESS Group as of December 31, 2021, after 1,787 employees allocated to continuing operations in the previous year. The increase in the EMEA region (excluding Germany) was mainly attributable to the acquisition of Emerald Kalama Chemical and the Theseo Group. In Germany, headcount rose from 7,627 to 7,729. The number of employees also increased in the North America and Latin America regions, chiefly due to acquisitions. In the North America region, the number of employees rose to 2,194 after 1,979 in the previous year, while in Latin America the workforce grew to 811 employees after 797 in the previous year. At the reporting date, we employed 2,069 people in the Asia-Pacific region after 2,119 in the previous year.

Personnel expenses in fiscal year 2021 totaled €1,468 million (previous year: €1,307 million). Wages and salaries, at €1,165 million (previous year: €1,031 million), accounted for the greater part of this figure. Social security contributions amounted to €197 million (previous year: €172 million), while pension plan expenses were €94 million (previous year: €93 million) and social assistance benefits €12 million (previous year: €11 million).

ECONOMIC REPORT

LEGAL ENVIRONMENT

There were no changes in the legal environment in fiscal year 2021 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 2021 was still characterized by the ongoing effects of the coronavirus pandemic. Supply chain disruptions, higher raw material costs and inflation rates, and rapidly rising energy prices significantly impacted the global 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. Overall, however, the economy recovered year-on-year in 2021, although it did so more slowly than expected and did not yet reach the pre-pandemic level.

All regions posted an upturn. The weakest development was recorded by Germany at just 2.5%, while the Asia-Pacific region and Latin America saw the highest increases in gross domestic product at 6.0%.

GDP and Chemical Production in 2021

Change vs. prior year in real terms (%)	Gross domestic product	Chemical production
USMCA (formerly NAFTA)	5.5	1.0
Latin America	6.0	5.0
EMEA (incl. Germany)	5.0	6.5
Germany	2.5	6.0
Asia-Pacific	6.0	8.0
World	**5.5**	**6.5**

Source for 2021 growth rates: IHS Markit.

One euro was worth US$1.13 at the end of 2021. The value of the U.S. currency thus increased by 8.1% from the closing price of US$1.23 at the end of 2020. However, the U.S. dollar was slightly weaker on average over the year at US$1.18, against US$1.14 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 rose sharply. There were particularly significant increases in energy, freight and logistics costs.

Global chemical production grew by 6.5% in fiscal year 2021, mainly driven by the Asia-Pacific (+8.0%) and Europe (+6.5%) regions.

Development of Major Customer Industries

Global automobile production was up 5.5% year-on-year in the reporting year. This was chiefly attributable to the U.S. market, which developed positively with growth of 9.0%, whereas EMEA (including Germany) posted only an increase of 3.5% and Germany even saw a decline of 4.0%. The Latin American automotive industry grew by 16%, but had little impact on the global trend as it is less significant than other regions.

Agrochemicals saw growth of 4.0%, driven in particular by positive development in the Latin America and Asia-Pacific regions. The USMCA economic area and Germany posted declines again.

The global construction industry increased by 3.5%. This development was concentrated in the regions of Latin America, EMEA (including Germany) and Asia-Pacific. However, Germany recorded a weaker development with growth of 1.5%.

Despite strong catch-up effects in the automotive sector, the development of major customer industries fell short of expectations in some cases. However, thanks to the balanced portfolio, this had only a minor influence on business as a whole.

Development of Major Customer Industries in 2021

Change vs. prior year in real terms (%)	Automotive	Agrochemicals	Construction
USMCA (formerly NAFTA)	7.5	(2.5)	0.5
Latin America	16.0	6.0	11.0
EMEA (incl. Germany)	3.5	3.0	4.5
Germany	(4.0)	(4.5)	1.5
Asia-Pacific	5.0	5.0	3.5
World	**5.5**	**4.0**	**3.5**

Source for 2021 growth rates: IHS Markit.

KEY EVENTS INFLUENCING THE COMPANY'S BUSINESS

The generally positive business development was influenced by strong demand from the automotive sector and from the construction, transport and manufacturing industries. The effects of the coronavirus pandemic, especially bottlenecks in deliveries from China and the currently difficult global logistics situation, as well as the continuing sharp rise in energy prices, had a negative impact on our earnings development. Regardless of this, we benefited from our more balanced product portfolio with a positive business development in all segments and the contributions from the successful acquisitions of Emerald Kalama Chemical, INTACE S.A.S. and the Theseo Group. The higher procurement prices for raw materials were passed on to customers via higher selling prices. Thanks to our holdings of cash and cash equivalents and liquidity reserves in the form of undrawn credit lines, we had a very good liquidity and financial position as of December 31, 2021.

COMPARISON OF FORECAST AND ACTUAL BUSINESS

Comparison of Forecast and Actual Business 2021

	Forecast for 2021 in Annual Report 2020	Actual 2021
Business development: Group		
EBITDA pre exceptionals	• Significantly above the previous year's level • Due to the coronavirus pandemic, the development is highly uncertain • The strategic realignment has made LANXESS much more resilient, so we will also benefit from our more balanced portfolio in 2021	• €1,010 million (previous year: €862 million)
Business development: segments		
Advanced Intermediates	• Business development at or slightly above the previous year's level • Recovery of the broadly diversified end markets for chemical intermediates • Stabilization of the inorganic pigments business thanks to growth in the construction industry	• EBITDA pre exceptionals slightly up on the previous year's level: €333 million (previous year: €309 million) • Shift in business with antioxidants and reaction accelerators and with benzyl products to other segments
Specialty Additives	• Development well above the previous year • Stronger demand from the automotive industry, especially for the rubber-based additives business and for the lubricants business • Demand from the oil and gas industry to pick up slightly	• EBITDA pre exceptionals well up on the previous year's level: €323 million (previous year: €278 million) • Addition of business with antioxidants and reaction accelerators from the Advanced Intermediates segment
Consumer Protection	• Business development slightly above the previous year's very strong level • Continued high level of demand for our disinfectants • Good utilization of capacity in the agrochemicals business	• EBITDA pre exceptionals slightly up on the previous year: €275 million (previous year: €266 million) • Portfolio effects from several acquisitions and addition of benzyl products to the new Flavors & Fragrances business unit
Engineering Materials	• Earnings up significantly year-on-year • Demand from the automotive industry expected to improve substantially in 2021	• EBITDA pre exceptionals well up on the previous year: €241 million (previous year: €151 million)
Reconciliation	• Slightly weaker earnings compared to the previous year • General inflation of the cost base • Residual costs following the sale of all operations of the Leather business unit • Recurring expenses after the temporary savings in 2020 in connection with the coronavirus pandemic • Positive effect on earnings performance from our hedging transactions	• EBITDA pre exceptionals considerably worse than in the previous year: minus €162 million (previous year: minus €142 million)
Capital expenditures		
Cash outflows for capital expenditures	• Around €450 million to €500 million	• €479 million

Prior-year figures restated.

In the combined management report for fiscal year 2020, we expected EBITDA pre exceptionals to be well above the previous year's level (€862 million) in 2021. During fiscal year 2021, we specified our guidance and most recently anticipated EBITDA pre exceptionals at the lower end of the range of €1,000 million to €1,050 million The actual earnings from continuing operations amounted to €1,010 million.

We had expected LANXESS AG's net income according to German commercial law in the reporting year to be substantially higher than in the previous year. Largely due to significantly increased energy and freight costs at the subsidiaries of the tax group, the net loss came to €92 million after €67 million in the prior-year period.

BUSINESS PERFORMANCE OF THE LANXESS GROUP

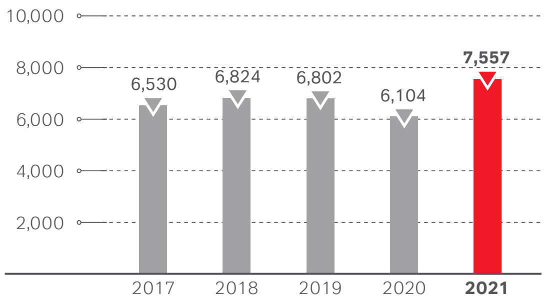
- Successful integration of Emerald Kalama Chemical
- Agreement signed to acquire IFF Microbial Control
- Sales and earnings in all segments up year-on-year
- Group sales up significantly to €7,557 million from previous year's €6,104 million
- EBITDA pre exceptionals of €1,010 million, up significantly from the previous year's figure of €862 million
- High energy and freight costs adversely affect EBITDA margin pre excetionals
- EBITDA margin pre excetionals of 13.4% after 14.1% in the previous year
- Earnings per share from continuing operations pre exceptionals and amortization of intangible assets increased from €3.50 to €4.83

Sales

The LANXESS Group's sales of €7,557 million in the reporting period were €1,453 million, or 23.8%, higher than in the previous year, which was significantly affected by the coronavirus pandemic. In the previous year, the sales amounted to €6,104 million. The sales development in the reporting year was influenced above all by significantly higher selling prices driven by raw material prices and the continued revival in demand. The contributions from the U.S. company Emerald Kalama Chemical acquired on August 3, 2021, from the French company INTACE S.A.S. acquired on March 1, 2021, and from the French Theseo Group acquired on April 1, 2021, also had a positive effect. The sale of the reverse osmosis membranes business from the Liquid Purification Technologies business unit had a slightly negative effect. Shifts in exchange rates, especially due to a weaker U.S. dollar, led to a slight sales decline.

Adjusted for currency and portfolio effects, the LANXESS Group recorded a 22.2% increase in operational sales in fiscal year 2021.

Group Sales
€ million

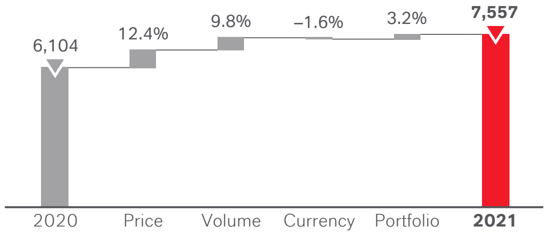


Figures not including ARLANXEO and from 2018 not including the Leather business unit.

Key Financial Data

€ million	2020	2021	Change %
Sales	6,104	7,557	23.8
Gross profit	1,556	1,845	18.6
EBITDA pre exceptionals	862	1,010	17.2
EBITDA margin pre exceptionals	14.1%	13.4%	–
EBITDA	757	863	14.0
Operating result (EBIT) pre exceptionals	396	500	26.3
Operating result (EBIT)	253	350	38.3
EBIT margin	4.1%	4.6%	–
Financial result	821	(47)	< (100)
Income before income taxes	1,074	303	(71.8)
Net income from continuing operations	908	218	(76.0)
Net income from discontinued operations	(23)	49	> 100
Net income	885	267	(69.8)
Earnings per share (€)	10.22	3.09	(69.8)
Earnings per share from continuing operations adjusted for exceptional items and amortization of intangible assets (€)	3.50	4.83	38.0

Effects on Sales
€ million/%



Sales by Segment

€ million	2020	2021	Change %	Proportion of Group sales %
Advanced Intermediates	1,629	1,949	19.6	25.8
Specialty Additives	1,965	2,295	16.8	30.4
Consumer Protection	1,243	1,515	21.9	20.0
Engineering Materials	1,190	1,708	43.5	22.6
Reconciliation	77	90	16.9	1.2
	6,104	**7,557**	**23.8**	**100.0**

Prior-year figures restated.

Order Book Status

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

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

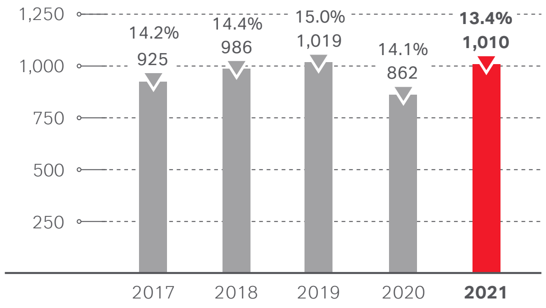
Gross Profit

The cost of sales increased by 25.6%, to €5,712 million. In the previous year, it amounted to €4,548 million. The increase resulted primarily from significantly higher procurement prices for raw materials and energy in the existing business as well as higher sales volumes. In addition, the integration of the companies Emerald Kalama Chemical and INTACE S.A.S., which were acquired in 2021, and of the Theseo Group likewise acquired in 2021 resulted in a portfolio-driven increase. In contrast, shifts in exchange rates and the sale of the reverse osmosis membranes business had a positive effect. Capacity utilization of 79% was 5 percentage points above the previous year. Gross profit was €1,845 million, up by €289 million or 18.6% against the previous year. In particular, increased selling prices due to increased raw material prices as well as higher volumes had a positive influence on earnings development. In addition, the portfolio effects resulted in a positive earnings contribution. The positive earnings development was weakened by the sharp increase in energy prices. The gross margin of 24.4% was slightly below the previous year's figure of 25.5%.

EBITDA Pre Exceptionals and Operating Result (EBIT)

EBITDA and EBITDA Margin Pre Exceptionals

€ million/%



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

In a recovering economic environment, the operating result before depreciation, amortization, write-downs and reversals (EBITDA) pre exceptionals increased by €148 million, or 17.2%, to €1,010 million in fiscal year 2021, after €862 million in the previous year. The generally positive earnings development at Group level resulted from the generally positive business development of all segments, but this was weakened by a sharp rise in energy and freight costs. A positive impact was made in particular by the strong demand from the automotive, construction, transport and manufacturing industries, which especially benefited the Engineering Materials and Specialty Additives segments. These segments, as well as the Advanced Intermediates segment, posted an earnings increase compared with the previous year, which was weaker due to the effects of the coronavirus pandemic. The significantly increased raw material prices were passed on to the market via a successful increase of selling prices. Our Consumer Protection segment, whose businesses were less affected by the pandemic, also achieved an earnings improvement after correspondingly strong earnings in the previous year. The contributions from the U.S. company Emerald Kalama Chemical acquired in August and the other businesses acquired over the year and the sale of the reverse osmosis membranes business from the Liquid Purification Technologies business unit also had a particularly positive effect on earnings. The change in exchange rates mostly had a slightly negative effect in the segments. Please see the table below and "Segment Information" for details on the individual segments.

EBITDA Pre Exceptionals by Segment

€ million	2020	2021	Change %
Advanced Intermediates	309	333	7.8
Specialty Additives	278	323	16.2
Consumer Protection	266	275	3.4
Engineering Materials	151	241	59.6
Reconciliation	(142)	(162)	(14.1)
	862	**1,010**	**17.2**

Prior-year figures restated.

Primarily due to significantly higher freight costs and volume effects, selling expenses rose by 23.0% to €951 million. Research and development costs amounted to €115 million, compared to €108 million in the previous year, while general administration expenses amounted to €304 million, compared to €267 million in the previous year, partly due to portfolio effects. Shifts in exchange rates reduced costs in all functional cost areas. The Group EBITDA margin pre exceptionals came in at 13.4%, against 14.1% in the previous year.

The operating result (EBIT) of the Group totaled €350 million compared with €253 million in the previous year. Depreciation, amortization and write-downs increased by €9 million to €513 million, compared with €504 million in the previous year, and included write-downs of €11 million, of which €3 million constituted exceptional items. Write-downs for the previous year amounted to €40 million, of which €38 million were exceptional items, relating to the sale of the reverse osmosis membranes business on January 1, 2021, and the intended adjustment of our production network. As in the previous year, no reversals of write-downs were recognized.

Other operating result, which is the balance between other operating income and expenses, amounted to minus €125 million compared with minus €155 million in the previous year. Adjusted for exceptional items, it came to €25 million, which was €37 million higher than in the previous year.

There were net negative exceptional items of €150 million in the reporting year. They resulted from negative exceptional items of €151 million and positive exceptional items of €1 million. The exceptional items impacted EBITDA by €147 million and were primarily attributable to expenses in connection with M&A and integration activities relating to the completed and agreed acquisitions as well as strategic IT projects and digitalization projects. In the previous year, net negative exceptional items of €143 million resulted from negative exceptional items of €154 million and positive exceptional items of €11 million. The exceptional items impacted EBITDA by €105 million and primarily related to expenses in connection with the strategic realignment of the LANXESS Group, 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 the adjustments to our production network. 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 EBIT

€ million	2020	2021	Change %
EBITDA pre exceptionals	**862**	**1,010**	**17.2**
Depreciation and amortization	(504)	(513)	(1.8)
Exceptional items in EBITDA	(105)	(147)	(40.0)
Operating result (EBIT)	**253**	**350**	**38.3**

Financial Result

The financial result amounted to minus €47 million in fiscal year 2021. In the previous year, the financial result amounted to €821 million, primarily as a result of the sale of the 40% interest in the chemical park operator Currenta GmbH & Co. OHG, Leverkusen, Germany, at the end of April 2020. The net interest result was minus €51 million, compared with minus €56 million in the previous year. The other financial result was €4 million. In the previous year, the other financial result of €877 million resulted primarily from the income in connection with the sale of the interest in Currenta GmbH & Co. OHG.

Income Before Income Taxes

Income before income taxes came to €303 million. In the previous year, income before income taxes was primarily influenced by the sale of the interest in Currenta GmbH & Co. OHG and amounted to €1,074 million.

Income Taxes

In fiscal year 2021, tax expense amounted to €84 million compared with much higher tax expense of €165 million in the previous year due to the sale of the interest in Currenta GmbH & Co. OHG. The effective tax rate was 27.7%, compared with 15.4% for the previous year. The previous year's 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 €267 million, of which €218 million was attributable to continuing operations. In the previous year, €908 million of the net income of €885 million was allocable to continuing operations. Due in particular to the extraordinary proceeds from the sale of the interest in Currenta GmbH & Co. OHG recognized in the previous year, net income was considerably lower than the previous year's figure in the reporting year. Net income from discontinued operations amounted to minus €49 million in the reporting year and included the gain on the sale of the organic leather chemicals business during the year. In the previous year, net income of minus €23 million was attributable to discontinued operations. Almost no earnings were attributable to non-controlling interests in fiscal year 2021. In the previous year, net income included earnings attributable to non-controlling interests of €17 million, which related almost exclusively to discontinued operations.

Reconciliation of EBIT to Net Income

€ million	2020	2021	Change %
Operating result (EBIT)	**253**	**350**	**38.3**
Net interest expense	(56)	(51)	8.9
Other financial income and expense	877	4	(99.5)
Financial result	**821**	**(47)**	**< (100)**
Income before income taxes	**1,074**	**303**	**(71.8)**
Income taxes	(165)	(84)	49.1
Income after income taxes from continuing operations	**909[1)]**	**219[1)]**	**(75.9)**
Income after income taxes from discontinued operations	**(7)**	**48[2)]**	**> 100**
Income after income taxes	**902**	**267**	**(70.4)**
Income attributable to non-controlling interests	17	0	(100.0)
Net income from continuing operations	**908**	**218**	**(76.0)**
Net income from discontinued operations	**(23)**	**49**	**> 100**
Net income	**885**	**267**	**(69.8)**

1) Including income attributable to non-controlling interests of €1 million.
2) Including income attributable to non-controlling interests of minus €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 €3.09, well below the €10.22 recorded in the previous year. Earnings per share from continuing operations were €2.52 against €10.49 in the previous year. Due in particular to the omission of the extraordinary gain on the disposal of the interest in Currenta GmbH & Co. OHG recognized in the previous year, both the earnings per share and the earnings per share from continuing operations fell well short of the prior-year figure. Earnings per share from discontinued operations were minus €0.57 against minus €0.27 in the previous year.

Due to the acquisitions in fiscal year 2021, the Board of Management of LANXESS AG has decided to re-prioritize its capital allocation and not to continue the stock repurchase program, which has been suspended since the coronavirus pandemic. 1,101,549 shares worth €37 million were acquired in this context in March and April of the previous year, and were canceled on September 22, 2021.

Earnings per Share

	2020	2021
Net income (€ million)	**885**	**267**
from continuing operations (€ million)	908	218
from discontinued operations (€ million)	(23)	49
Weighted average number of shares outstanding	86,587,838	86,346,303
Earnings per share (€)	**10.22**	**3.09**
from continuing operations (€)	10.49	2.52
from discontinued operations (€)	(0.27)	0.57

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 €4.83 against €3.50 in the previous year.

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

€ million	2020	2021
Net income from continuing operations	**908**	**218**
Exceptional items[1]	143	150
Amortization of intangible assets/reversals of impairment charges[1]	88	110
Income in connection with the sale of Currenta GmbH & Co. OHG[1]	(890)	0
Income taxes[1]	54	(61)
Net income from continuing operations adjusted for exceptional items and amortization of intangible assets	**303**	**417**
Weighted average number of shares outstanding	86,587,838	86,346,303
Earnings per share from continuing operations adjusted for exceptional items and amortization of intangible assets (€)	**3.50**	**4.83**

1) Excluding items attributable to non-controlling interests.

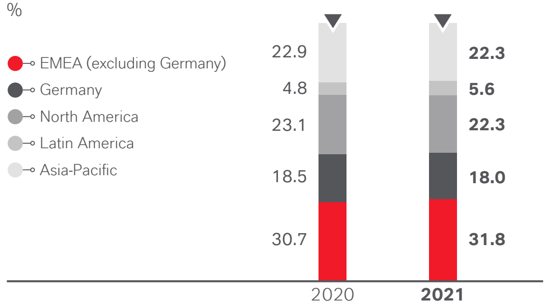
BUSINESS TRENDS BY REGION

Sales by Market

	2020		2021		Change
	€ million	%	€ million	%	%
EMEA (excluding Germany)	1,876	30.7	2,404	31.8	28.1
Germany	1,128	18.5	1,360	18.0	20.6
North America	1,408	23.1	1,688	22.3	19.9
Latin America	295	4.8	420	5.6	42.4
Asia-Pacific	1,397	22.9	1,685	22.3	20.6
	6,104	**100.0**	**7,557**	**100.0**	**23.8**

Sales by Market

%



In the reporting period, there were material portfolio effects from the purchase of the U.S. specialty chemicals manufacturer Emerald Kalama Chemical on August 3, 2021, which affected the Consumer Protection and Specialty Additives segments. In addition, the acquisitions of the French company INTACE S.A.S. as of March 1 and the French Theseo Group as of April 1 of the reporting year influenced the sales development of the Consumer Protection segment. Effects of the sale of the reverse osmosis membranes business completed on January 1, 2021, were also included in this segment. The above matters affected all regions, but especially EMEA (excluding Germany), North America, Asia/Pacific and Latin America.

EMEA (excluding Germany)

Sales in the EMEA region (excluding Germany) increased by €528 million, or 28.1%, to €2,404 million. After adjustment for minor currency effects and opposing portfolio effects, sales increased by 24.8%. The Engineering Materials segment increased its sales by a mid-double-digit percentage and made the largest contribution to the business development in the region. The Advanced Intermediates and Specialty Additives segments also made significant contributions and achieved low double-digit rates of sales growth. In addition, the Consumer Protection segment expanded its business by a high single-digit percentage. The positive development in the region resulted primarily from the business performance in Italy, France, Switzerland and the Netherlands.

Germany

In Germany, the Group generated sales of €1,360 million, up by €232 million, or 20.6%, on the previous year. After adjustment for portfolio effects, sales increased by 19.7%. The Engineering Materials segment increased its sales by a mid-double-digit percentage and made a significant contribution to the region's business development. The Advanced Intermediates and Specialty Additives segments also contributed positively to the development and posted low double-digit rates of sales growth. The Consumer Protection segment generated sales at the previous year's level.

North America

Sales in this region came to €1,688 million, up by €280 million, or 19.9%, on the previous year. After adjustment for opposing currency and portfolio effects, the sales growth amounted to 19.0%. The Specialty Additives and Advanced Intermediates segments made a significant contribution to this growth. The Engineering Materials and Consumer Protection segments also saw positive business development. All segments recorded growth rates of low double-digit percentages.

Latin America

In the Latin America region, sales increased by €125 million, or 42.4%, to €420 million. After adjustment for opposing currency and portfolio effects, the increase was 39.3%. The Engineering Materials and Specialty Additives segments made a significant contribution to this business expansion with growth rates of mid-double-digit percentages. The Consumer Protection and Advanced Intermediates segments also made positive contributions with low double-digit growth rates. The business expansion in the region was mainly driven by development in Mexico, Brazil and, to a lesser extent, Argentina.

Asia-Pacific

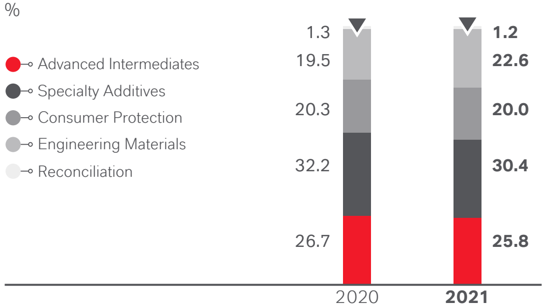
Sales in the Asia-Pacific region increased by €288 million, or 20.6%, to €1,685 million. After adjustment for nearly identical, opposing currency and portfolio effects, the increase was 20.7%. This business performance was driven in particular by the Specialty Additives and Engineering Materials segments with low double-digit growth rates. The Advanced Intermediates and Consumer Protection segments contributed to the business development in the region with similar growth rates. The significant positive impetus in the region came from China, India, Japan and the Republic of Korea.

SEGMENT INFORMATION

› Advanced Intermediates: Good demand but high energy costs negatively affect earnings
› Specialty Additives: Rising demand after a previous year impacted by the coronavirus pandemic
› Consumer Protection: Successful integration of the companies acquired in 2021
› Engineering Materials: Increase in sales and earnings due to strong demand from the automotive industry

Sales by Segment

%



Prior-year figures restated.

Advanced Intermediates

Overview of Key Data

	2020		2021		
	€ million	Margin %	€ million	Margin %	Change %
Sales	1,629		1,949		19.6
EBITDA pre exceptionals	309	19.0	333	17.1	7.8
EBITDA	311	19.1	327	16.8	5.1
Operating result (EBIT) pre exceptionals	204	12.5	218	11.2	6.9
Operating result (EBIT)	203	12.5	212	10.9	4.4
Cash outflows for capital expenditures	112		119		6.3
Depreciation and amortization	108		115		6.5
Employees (as of Dec. 31)	3,025		3,021		(0.1)

Prior-year figures restated in accordance with the organizational reassignment of the businesses with antioxidants and reaction accelerators and with benzyl products from the Advanced Intermediates segment's Advanced Industrial Intermediates business unit to the Specialty Additives segment and to the Consumer Protection segment, respectively, in 2021.

Our Advanced Intermediates segment recorded sales of €1,949 million in fiscal year 2021, up 19.6% on the figure for the previous year. Both business units of the segment saw positive sales development compared with a previous year influenced by the coronavirus pandemic. In particular, selling prices in both business units were above the previous year's level because much higher raw material prices were passed on. Overall, there was a positive price effect on sales of 14.1% at segment level. At segment level, the good demand in both business units also resulted in volume-driven sales growth of 6.9%. Shifts in exchange rates had a slightly negative effect on both business units and reduced sales by 1.4% in total. Sales in all regions were above the level of the previous year.

EBITDA pre exceptionals in the Advanced Intermediates segment increased by €24 million, or 7.8%, to €333 million, compared with the previous year's figure of €309 million. The significantly increased raw material prices were passed on to the market. In addition, both of the segment's business units benefited from higher volumes, which resulted in an improvement in earnings. The good situation in the construction industry in particular resulted in a positive earnings contribution in the Inorganic Pigments business unit. The Advanced Industrial Intermediates business unit saw good earnings development compared with weaker demand in the previous year as a result of the coronavirus pandemic. In contrast, the very high energy costs and high freight costs had a particularly negative impact on earnings and the earnings margin. Shifts in exchange rates also reduced earnings in both business units. The EBITDA margin pre exceptionals was 17.1%, against 19.0% in the previous year.

In fiscal year 2021, net negative exceptional items amounted to €6 million, resulting from negative exceptional items of €7 million, which fully impacted EBITDA, and positive exceptional items of €1 million, which fully impacted EBITDA. The negative exceptional items related to the adjustment of the LANXESS Group's production network. In the previous year, net negative exceptional items of €1 million were incurred in the operating result, 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. Please see "Notes on EBIT and EBITDA (Pre Exceptionals)" for details.

Specialty Additives

Overview of Key Data

	2020		2021		
	€ million	Margin %	€ million	Margin %	Change %
Sales	1,965		2,295		16.8
EBITDA pre exceptionals	278	14.1	323	14.1	16.2
EBITDA	261	13.3	306	13.3	17.2
Operating result (EBIT) pre exceptionals	101	5.1	152	6.6	50.5
Operating result (EBIT)	69	3.5	134	5.8	94.2
Cash outflows for capital expenditures	120		139		15.8
Depreciation and amortization	192		172		(10.4)
Employees (as of Dec. 31)	3,083		3,030		(1.7)

Prior-year figures restated.

Our Specialty Additives segment posted sales of €2,295 million in fiscal year 2021, up by 16.8% on the previous year's figure of €1,965 million. Higher selling prices due to passing on the sharp rise in raw material prices and improved demand compared with the previous year, which was significantly impacted by the coronavirus pandemic, resulted in positive sales development in all business units of the segment. Higher selling prices increased sales by 9.0% at segment level. Due to good demand from the construction, oil and gas industries and an incipient recovery in the aviation industry, higher volumes increased sales by 8.7%. In addition, a positive sales contribution of 1.7% was made by the specialty chemicals business, integrated into the Polymer Additives business unit, of the U.S. company Emerald Kalama Chemical, which was acquired at the beginning of August. The change in exchange rates decreased sales by 2.6%. Sales in all regions were above the level of the previous year.

EBITDA pre exceptionals for the Specialty Additives segment was €323 million, up €45 million, or 16.2%, from the prior-year level. The strong earnings development resulted primarily from the good demand from the construction, oil and gas industries and the incipient recovery in the aviation industry as well as the associated rise in sales volumes in all business units of the segment. All business units primarily passed the significantly increased raw material prices on to the market. In contrast, earnings were burdened by increased energy and freight costs. Earnings were likewise reduced by adverse exchange rate effects. The contribution from Emerald Kalama Chemical's specialty chemicals business, acquired at the beginning of August 2021, had a slightly positive effect on earnings. As in the previous year, the EBITDA margin pre exceptionals amounted to 14.1%.

In fiscal year 2021, negative exceptional items totaled €18 million, €17 million of which impacted EBITDA. The exceptional items primarily related to the strategic realignment of the LANXESS Group. The previous year's exceptional items amounted to €32 million, of which €17 million impacted EBITDA, and mainly related to measures to realize remaining synergies in connection with the integration of Chemtura and the intended adjustment of our production network. Please see "Notes on EBIT and EBITDA (Pre Exceptionals)" for details.

Consumer Protection

Overview of Key Data

	2020		2021		
	€ million	Margin %	€ million	Margin %	Change %
Sales	1,243		1,515		21.9
EBITDA pre exceptionals	266	21.4	275	18.2	3.4
EBITDA	266	21.4	262	17.3	(1.5)
Operating result (EBIT) pre exceptionals	177	14.2	168	11.1	(5.1)
Operating result (EBIT)	160	12.9	155	10.2	(3.1)
Cash outflows for capital expenditures	76		100		31.6
Depreciation and amortization	106		107		0.9
Employees (as of Dec. 31)	2,754		3,266		18.6

Prior-year figures restated.

Since the beginning of August, the newly founded Flavors & Fragrances business unit has been part of the Consumer Protection segment. The business with specialty chemicals for the consumer goods sector of U.S. company Emerald Kalama Chemical acquired on August 3, 2021, was integrated into the business unit. As of October 1, 2021, the benzyl products of the Advanced Industrial Intermediates business unit were also added to the Advanced Intermediates segment's new business unit. The previous year's figures have been restated accordingly.

In our Consumer Protection segment, sales amounted to €1,515 million in fiscal year 2021, up €272 million, or 21.9%, on the prior-year figure of €1,243 million. This was especially due to sales in the new Flavors & Fragrances business unit. In addition, the Material Protection Products business unit achieved higher sales due to the integration of the French company INTACE S.A.S. acquired at the beginning of March 2021 and the French Theseo Group acquired on April 1, 2021, whereas the Liquid Purification Technologies business unit saw a decline in sales as a result of the sale of the reverse osmosis membranes business. Overall, there was a positive portfolio effect of 13.1% at segment level. All the segment's business units posted both higher sales volumes and higher selling prices. At segment level, the former resulted in sales growth of 6.4%. The higher selling prices increased the segment's sales by 3.2% in total. The negative development of exchange rates in all business units reduced sales at segment level by 0.8%. Sales in all regions were above the level of the previous year.

EBITDA pre exceptionals in the Consumer Protection segment increased by €9 million, or 3.4%, to €275 million, compared with the previous year's figure of €266 million. The acquisition of U.S. company Emerald Kalama Chemical made a particularly positive earnings contribution. The sale of the reverse osmosis membranes business, the contribution of the French company INTACE S.A.S. acquired at the beginning of March 2021 and the integration of the French Theseo Group acquired on April 1, 2021, also had a positive effect. The positive earnings development also resulted from good demand and the associated rise in sales volumes in all business units of the segment. Increased raw material prices were largely passed on to the market via higher selling prices. Increased energy and freight costs, lower waste management capacity following an incident at chemical park operator Currenta GmbH & Co. OHG in Leverkusen, Germany, and the change in exchange rates had a negative impact on earnings development. The EBITDA margin pre exceptionals decreased from 21.4% to 18.2%.

The segment recorded negative exceptional items of €13 million in the reporting year, which impacted EBITDA and related to the strategic realignment of the specialty chemicals business and the associated integration of Emerald Kalama Chemical. In the previous year, the segment recorded negative exceptional items of €17 million. These 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. Please see "Notes on EBIT and EBITDA (Pre Exceptionals)" for details.

Engineering Materials

Overview of Key Data

	2020		2021		
	€ million	Margin %	€ million	Margin %	Change %
Sales	1,190		1,708		43.5
EBITDA pre exceptionals	151	12.7	241	14.1	59.6
EBITDA	150	12.6	240	14.1	60.0
Operating result (EBIT) pre exceptionals	84	7.1	169	9.9	> 100
Operating result (EBIT)	83	7.0	168	9.8	> 100
Cash outflows for capital expenditures	86		66		(23.3)
Depreciation and amortization	67		72		7.5
Employees (as of Dec. 31)	2,191		2,264		3.3

In fiscal year 2021, sales in our Engineering Materials segment increased significantly by 43.5% compared with the previous year, which was influenced by the effects of the coronavirus pandemic, to €1,708 million. Both selling prices and sales volumes of the two business units exceeded the previous year. 26.1% of the significant sales increase resulted from increased prices and 18.8% from higher volumes. Particularly in the High Performance Materials business unit, this was driven by a significant recovery in demand from the automotive industry. The change in exchange rates had a slightly negative influence on both business units and decreased the segment's sales by 1.4%. Sales in all regions were above the level of the previous year.

The Engineering Materials segment's EBITDA pre exceptionals rose by €90 million, or 59.6%, to €241 million. The earnings development resulted primarily from the good demand from the automotive industry and the associated rise in sales volumes in the High Performance Materials business unit. Sharply increased procurement prices for raw materials were passed on to the market. Higher energy and freight costs had a negative effect on earnings. Shifts in exchange rates likewise had a slightly negative impact on earnings. The segment's EBITDA margin pre exceptionals increased from 12.7% in the previous year to 14.1%.

As in the previous year, the segment recorded negative exceptional items of €1 million in fiscal year 2021, which impacted EBITDA. Please see "Notes on EBIT and EBITDA (Pre Exceptionals)" for details.

Reconciliation

Overview of Key Data

€ million	2020	2021	Change %
Sales	77	90	16.9
EBITDA pre exceptionals	(142)	(162)	(14.1)
EBITDA	(231)	(272)	(17.7)
Operating result (EBIT) pre exceptionals	(170)	(207)	(21.8)
Operating result (EBIT)	(262)	(319)	(21.8)
Cash outflows for capital expenditures	62	55	(11.3)
Depreciation and amortization	31	47	51.6
Employees (as of Dec. 31)	3,256	3,285	0.9

EBITDA pre exceptionals for the reconciliation came to minus €162 million, compared with minus €142 million in the previous year. In the reporting year, negative exceptional items of €112 million were incurred, €110 million of which impacted EBITDA. The exceptional items resulted primarily from expenses in connection with M&A activities, mainly due to the acquisitions of Emerald Kalama Chemical, INTACE S.A.S. and the Theseo Group as well as the agreed acquisition of the Microbial Control business from IFF, strategic IT projects and digitalization projects. In the previous year, net negative exceptional items of €92 million 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. 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 2020	EBIT 2021	EBITDA 2020	EBITDA 2021
EBIT/EBITDA pre exceptionals	**396**	**500**	**862**	**1,010**
Advanced Intermediates	**(1)**	**(6)**	**2**	**(6)**
Strategic realignment	(2)	0	1	0
Adjustment of the production network[1]	1	(6)	1	(6)
Specialty Additives	**(32)**	**(18)**	**(17)**	**(17)**
Strategic realignment[2]	(19)	(16)	(17)	(15)
Adjustment of the production network	(13)	(2)	0	(2)
Consumer Protection	**(17)**	**(13)**	**0**	**(13)**
Strategic realignment[3]	(17)	(13)	0	(13)
Engineering Materials	**(1)**	**(1)**	**(1)**	**(1)**
Strategic realignment	(1)	(1)	(1)	(1)
Reconciliation	**(92)**	**(112)**	**(89)**	**(110)**
Strategic realignment	(7)	0	(7)	0
Adjustment of the production network	(10)	0	(10)	0
Strategic IT projects (SAP S/4HANA and other IT applications)	(29)	(31)	(28)	(31)
M&A costs, digitalization and other	(46)	(81)	(44)	(79)
Total exceptional items	**(143)**	**(150)**	**(105)**	**(147)**
EBIT/EBITDA	**253**	**350**	**757**	**863**

1) The exceptional items mainly related to the end to production at the site in Mapleton, U.S.
2) The exceptional items mainly related to the integration of Chemtura.
3) The exceptional items mainly related to integration activities in connection with the acquisition of Emerald Kalama Chemical on August 3, 2021.

STATEMENT OF FINANCIAL POSITION AND FINANCIAL CONDITION

Assets and Liabilities

› Total assets significantly influenced by the acquisition of Emerald Kalama Chemical
› Increase in net financial liabilities after deduction of short-term money market investments and securities from €1,012 million to €2,245 million, mainly due to acquisition of Emerald Kalama Chemical
› Increase in equity ratio from 33.8% to 35.8%

Structure of the Statement of Financial Position

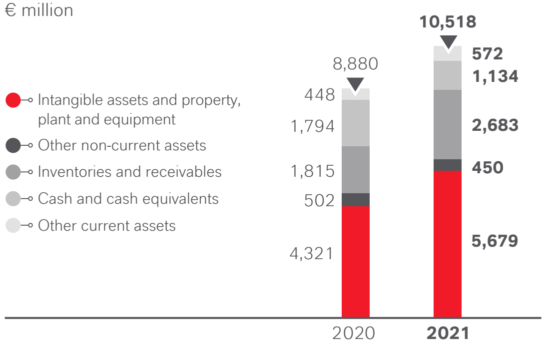
	Dec. 31, 2020		Dec. 31, 2021		
	€ million	%	€ million	%	Change %
ASSETS					
Non-current assets	4,823	54.3	6,129	58.3	27.1
Current assets	4,057	45.7	4,389	41.7	8.2
Total assets	**8,880**	**100.0**	**10,518**	**100.0**	**18.4**
EQUITY AND LIABILITIES					
Equity (including non-controlling interests)	2,999	33.8	3,762	35.8	25.4
Non-current liabilities	4,059	45.7	4,377	41.6	7.8
Current liabilities	1,822	20.5	2,379	22.6	30.6
Total equity and liabilities	**8,880**	**100.0**	**10,518**	**100.0**	**18.4**

Structure of the Statement of Financial Position

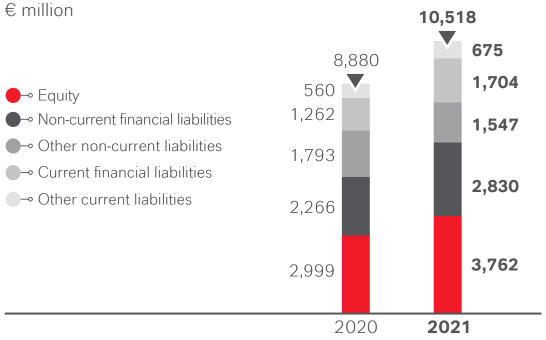
As of December 31, 2021, the LANXESS Group's total assets stood at €10,518 million, €1,638 million or 18.4% higher than at the end of the previous year. This development was attributable in particular to the acquisition of Emerald Kalama Chemical. The disposal of the assets and liabilities allocated to the discontinued operations of the Leather business unit had the opposite effect.

Non-current assets increased by €1,306 million to €6,129 million. Intangible assets and property, plant and equipment increased from €4,321 million to €5,679 million. Intangible assets increased from €1,647 million to €2,531 million, particularly due to the goodwill resulting from the acquisition of Emerald Kalama Chemical in August. For further information, please refer to "Companies consolidated" in the notes to the consolidated financial statements as of December 31, 2021. Cash outflows for purchases of property, plant and equipment and intangible assets amounted to €479 million and depreciation and amortization to €513 million, up on the prior-year figures of €456 million and €504 million, respectively. Other non-current financial assets increased by €21 million from €41 million to €62 million. This includes outstanding conditional purchase price payments of €20 million in connection with the sale of the organic leather chemicals business. While deferred tax assets declined by €134 million from the previous year's figure of €326 million to €192 million, other non-current assets increased by €8 million from €48 million to €56 million. The ratio of non-current assets to total assets increased from 54.3% to 58.3%.

Structure of the Statement of Financial Position – Assets
€ million



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



Current assets increased by €332 million, or 8.2%, compared with December 31, 2020, to €4,389 million. The €305 million or 40.9% decline in trade receivables to €1,050 million resulted primarily from significantly higher procurement prices for raw materials, which were passed on to the market by increasing selling prices, as well as from higher sales volumes. In addition, there was a portfolio-driven increase due to the integration of the businesses acquired in the reporting year. At 45.4, days of sales outstanding (DSO) were above the previous year's figure of 44.6 days. Inventories were up by €563 million, or 52.6%, to €1,633 million. The change in inventories was driven by the rise in raw material prices, the volume increase and portfolio effects. The volume increase is due among other things to delays in logistics. At 70.6, days of sales in inventory (DSI) were above the previous year's figure of 64.1 days. In addition, current assets increased due to the acquisition of Emerald Kalama Chemical. The disposal of the assets that were held for sale or resulted from discontinued operations had a slightly opposite effect. The increase in cash and cash equivalents from €271 million to €643 million results mainly from the placement of two Eurobonds of €500 million and €600 million. The repayment of a €500 million bond, originally maturing in October 2021, in July 2021 had the opposite effect. Near-cash assets declined from €1,523 million to €491 million as a result of the sale of shares of money market funds that can be sold at any time. The ratio of current assets to total assets was 41.7%, compared with 45.7% as of December 31, 2020.

Equity increased by €763 million, or 25.4%, to €3,762 million compared with December 31, 2020. The increase resulted in particular from the exchange differences on translation of operations outside the eurozone recognized in other comprehensive income, from the valuation of pensions and from net income. The dividend payment of €86 million had an opposite effect in 2021. The ratio of equity to the Group's total assets was 35.8% as of December 31, 2021, compared with 33.8% in the previous year.

Non-current liabilities increased by €318 million to €4,377 million. Provisions for pensions and other post-employment benefits decreased by €328 million to €877 million. This decline resulted in particular from the increased discount rates for pension obligations.

Other non-current provisions amounted to €360 million, coming close to the previous year's figure of €349 million. Other non-current financial liabilities increased mainly because of the issue of two bonds of €500 million maturing in 2027 and €600 million maturing in 2029. The placement of the bonds serves to finance the purchase price for the acquisition of the Microbial Control business from U.S. corporation International Flavors & Fragrances Inc. (IFF). The reclassification of two bonds of €100 million and €500 million maturing in 2022 to current financial liabilities had the opposite effect. The ratio of non-current liabilities to total assets was 41.6%, compared with 45.7% as of December 31, 2020.

Current liabilities came to €2,379 million, up by €557 million, or 30.6%, compared with December 31, 2020. The above-mentioned reclassification of two bonds from non-current to current financial liabilities and the repayment of a bond of €500 million resulted in an increase in other current financial liabilities from €566 million to €675 million. In addition, other current provisions increased by €160 million to €492 million. Trade payables increased by a total of €327 million to €1,008 million, primarily due to the increase in raw material prices and energy costs. The ratio of current liabilities to total assets was 22.6% as of December 31, 2021, after 20.5% at the end of 2020.

At €2,345 million at the end of 2021, net financial liabilities were up from €1,012 million as of December 31, 2020. Adjusted for term deposits of €100 million, the comparative figure as of December 31, 2021, was €2,245 million. The Group's key ratios developed as follows:

Ratios

%		2017	2018	2019	2020	2021
Equity ratio	Equity[1] / Total assets	32.8	31.9	30.4	33.8	35.8
Non-current asset ratio	Non-current assets / Total assets	62.0	55.1	58.3	54.3	58.3
Asset coverage I	Equity[1] / Non-current assets	52.9	57.9	52.3	62.2	61.4
Asset coverage II	Equity[1] and non-current liabilities / Non-current assets	123.2	149.8	142.4	146.3	132.8
Funding structure	Current liabilities / Total liabilities	35.1	25.7	24.5	31.0	35.2

1) Equity includes non-controlling interests.

Capital Expenditures

In 2021, our capital expenditures for property, plant and equipment and intangible assets amounted to €602 million, against €537 million in the previous year. Cash outflows made up €479 million of this total (previous year: €456 million). In the same period, depreciation and amortization totaled €513 million (previous year: €504 million) and included write-downs of €11 million (previous year: €40 million). In the previous year, the write-downs primarily related to the sale of the reverse osmosis membranes business from the Liquid Purification Technologies business unit to SUEZ S.A., Paris, France. In the current year and in the previous year, there were no reversals of write-downs.

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

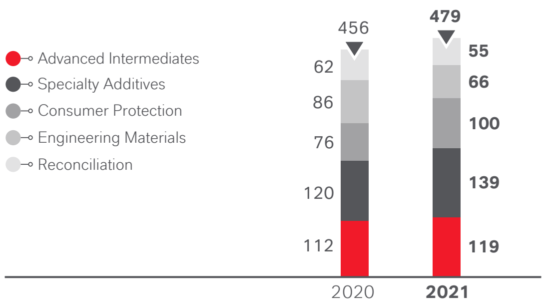
› Expansion and maintenance of existing facilities, construction of new facilities
› Measures to increase plant availability
› Projects to improve plant safety, enhance quality and comply with environmental protection requirements

Around one-third of the capital expenditures in 2021 went toward expansion or efficiency improvement measures, while the rest went to maintain existing facilities.

In regional terms, 60% of our capital expenditures in the reporting period were made in Germany, 18% in North America, 14% in the EMEA region (excluding Germany), 6% in Asia-Pacific and 2% 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 Advanced Industrial Intermediates, Saltigo, High Performance Materials and Inorganic Pigments business units. Capital expenditures in EMEA (excluding Germany) were partly attributable to investments to modernize facilities at the site in Antwerp, Belgium. 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. In the future, the research and development activities of the Polymer Additives, Lubricant Additives and Urethane Systems business units will be brought together at the new development center, which opened in June 2021.

Cash Outflows for Capital Expenditures by Segment

€ million



Prior-year figures restated.

Capital expenditures in the Advanced Intermediates segment amounted to €135 million (previous year: €134 million). At €119 million (previous year: €112 million), cash outflows were higher than the depreciation and amortization of €115 million (previous year: €108 million). The capital expenditures related among other things to the expansion of the aromatics network's production capacity in the Advanced Industrial Intermediates business unit at the site in Leverkusen, Germany. The capital expenditures also included cash outflows in connection with the expansion of production capacity for 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 €164 million were made in the Specialty Additives segment (previous year: €147 million). Cash outflows made up €139 million of this total (previous year: €120 million). By contrast, depreciation and amortization stood at €172 million (previous year: €192 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 €107 million (previous year: €83 million), €100 million (previous year: €76 million) of which were cash outflows. By contrast, depreciation and amortization stood at €107 million (previous year: €106 million). For example, the cash flows related to several capital expenditures of the Saltigo business unit in connection with contract manufacturing. In addition, the Material Protection Products business unit is expanding production capacity for Oxone monopersulfate at the site in Memphis, U.S., by around 50%. LANXESS uses Oxone monopersulfate as the main active ingredient in many of its Virkon and Rely+On disinfection products. The capacity expansion is expected to be completed in the first half of 2023.

In the Engineering Materials segment, capital expenditures totaled €72 million (previous year: €94 million), €66 million (previous year: €86 million) of which were cash outflows. Depreciation and amortization came to €72 million (previous year: €67 million). Some of the capital expenditures in this segment went toward a second compounding facility for the high-tech plastics of the Durethan and Pocan brands in the High Performance Materials business unit at the site in Changzhou, China. The facility is expected to commence operations in the first quarter of 2023 and increase production capacity by 30,000 metric tons per year. In addition, the High Performance Materials business unit is investing in new production capacity for high-performance plastics of the Durethan and Pocan brands at the site in Krefeld-Uerdingen, Germany. On February 10, 2021, LANXESS opened a facility for the reduction of nitrous oxide at its site in Antwerp, Belgium. The total investment for the construction of the High Performance Materials business unit's facility came to a sum in the low double-digit millions in euros. A second facility will commence operations in 2023. In total, both facilities are expected to eliminate around 450,000 metric tons of CO_2 equivalents per year.

Financial Position

- Operating cash flow negatively influenced by the change in net working capital
- Cash flow from investing activities influenced by the acquisition of Emerald Kalama Chemical and other transactions
- Liquidity position remains 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	2020	2021	Change
Income before income taxes	1,074	303	(771)
Depreciation and amortization/ reversals of impairment charges	504	513	9
Other items	(1,090)	36	1,126
Net cash provided by operating activities – continuing operations before change in net working capital	**488**	**852**	**364**
Change in net working capital	106	(413)	(519)
Net cash provided by operating activities – continuing operations	**594**	**439**	**(155)**
Net cash used in investing activities – continuing operations	**(350)**	**(431)**	**(81)**
Net cash (used in) provided by financing activities – continuing operations	**(246)**	**389**	**635**
Change in cash and cash equivalents from continuing operations	(2)	397	399
Change in cash and cash equivalents from discontinued operations	(13)	(33)	(20)
Cash and cash equivalents as of December 31	**271**	**643**	**372**
of which continuing operations	271	643	372
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, increased by €364 million to €852 million in fiscal year 2021. Income before income taxes declined from €1,074 million to €303 million. It was adjusted for the financial result, which in the previous year primarily resulted from the sale of the 40% interest in Currenta GmbH & Co. OHG, Leverkusen, Germany. The other items in the reporting year included tax payments and effects from currency hedging of intercompany loans as well as from variable compensation and restructuring measures. The depreciation and amortization of €513 million were up €9 million on the previous year's figure of €504 million.

The change in net working capital against December 31, 2020, resulted in a cash outflow of €413 million after a cash inflow of €106 million in the previous year. The outflow in the reporting period resulted in particular from the increase in inventories due to higher raw material prices and the increase in trade receivables in connection with price- and volume-driven business development. An increase in trade payables had the opposite effect. The net cash provided by operating activities totaled €439 million, down on the previous year's figure of €594 million.

Investing activities resulted in a cash outflow of €431 million in fiscal year 2021, compared with €350 million in the prior-year period. The cash outflow of the current year resulted primarily from the payments for the acquisitions of the U.S. specialty chemicals manufacturer Emerald Kalama Chemical, the French company INTACE S.A.S. and the French Theseo Group. In addition, there were cash outflows for financial assets or other assets held for investment purposes, primarily for investments in shares of money market funds that can be sold at any time. In contrast, the cash inflow resulted primarily 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 organic leather chemicals business. Cash outflows for purchases of intangible assets and property, plant and equipment amounted to €479 million, up on the prior-year figure of €456 million. Interest and dividends received totaled €8 million, down €147 million from the previous year's figure of €155 million. The previous year was primarily influenced by a profit participation in Currenta GmbH & Co. OHG, Leverkusen, Germany.

There was cash inflow from financing activities of €389 million, against cash outflow of €246 million the year before. One significant effect in the reporting year was the placement of two new Eurobonds with a nominal total volume of €1,100 million. The bonds were issued to promptly secure financing for the purchase price for the acquisition of the Microbial Control business from U.S. corporation International Flavors & Fragrances Inc. (IFF). The repayment of a €500 million bond, originally maturing in October 2021, in July 2021 had the opposite effect. The interest payments and other financial disbursements amounted to €63 million, compared with €79 million in the previous year. The dividend payment made to LANXESS stockholders amounted to €86 million in the reporting year, after €82 million in the previous year.

The net increase in cash and cash equivalents from continuing operations in fiscal year 2021 was €397 million, against a decrease of €2 million in the previous year. After taking into account currency-related and other changes of €8 million, cash and cash equivalents at the closing date amounted to €643 million, against €271 million at the previous year's closing date. On December 31, 2021, the Group continued to have a 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 – decreased by €178 million to minus €40 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 2021, 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 various medium-sized markets. As part of this transformation, the second-largest acquisition in the company's history was successfully completed with the acquisition of the U.S. specialty chemicals manufacturer Emerald Kalama Chemical. In addition, the acquisition of the Microbial Control business from U.S. corporation IFF was agreed. The rating agencies commented generally positively on both transactions. 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 2017

	2017	2018	2019	2020	2021
Standard & Poor's	BBB–/stable Jul. 31, 2017	BBB/stable Oct. 16, 2018	BBB/stable Sep. 5, 2019	BBB/stable Jul. 29, 2020	BBB/stable Jul. 22, 2021
Moody's Investors Service	Baa3/stable Oct. 20, 2017	Baa2/stable Aug. 23, 2018	Baa2/stable Aug. 26, 2019	Baa2/stable Aug. 31, 2020	Baa2/stable Jul. 28, 2021
Scope Ratings		BBB+/stable Aug. 15, 2018	BBB+/stable Jul. 23, 2019	BBB+/stable Mar. 12, 2020	BBB+/stable Aug. 4, 2021

Financing Analysis

In fiscal year 2021, LANXESS retained a balanced financing structure and a solid liquidity position. The next maturities are a private placement in April 2022 and a bond in November 2022. The existing debt issuance program allows the very flexible placement of bonds on the capital market. As of December 31, 2021, around €2.8 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 €566 million in the previous year to €675 million as of December 31, 2021.

On December 31, 2021, 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, increased from €2,806 million in 2020 to €3,479 million as of December 31, 2021. The change resulted primarily from the issue of two bonds of €500 million and €600 million to promptly secure financing for the purchase price for the acquisition of the Microbial Control business from U.S. corporation IFF. The bonds mature in 2027, or 2029 in the case of the €600 million bond. The repayment of a €500 million bond had the opposite effect.

Net financial liabilities – defined as total financial liabilities net of cash, cash equivalents, accrued interest and near-cash assets – amounted to €2,345 million at the end of the reporting year, up from €1,012 million as of December 31, 2020. Cash and cash equivalents amounted to €643 million on December 31, 2021 (previous year: €271 million). As of December 31, 2021, near-cash assets of €491 million were held, which were invested in shares of money market funds that can be sold at any time. Term deposits of €100 million (previous year: €0 million) were also held. Net financial liabilities after deduction of term deposits amounted to €2,245 million at the end of 2021, against €1,012 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 was 1.7% at year-end 2021, down from the previous year's figure of 2.0%.

The following overview shows LANXESS's financing structure as of December 31, 2021, 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.

Financing Structure

Instrument	Amount € million	Term	Interest rate %	Financial covenant
Eurobond 2012/2022 (€500 million)	499	November 2022	2.625	No
Eurobond 2018/2025 (€500 million)	496	May 2025	1.125	No
Eurobond 2016/2026 (€500 million)	496	October 2026	1.000	No
Eurobond 2021/2027 (€500 million)	495	Septem-ber 2027	0.000	No
Eurobond 2021/2029 (€600 million)	592	Decem-ber 2029	0.625	No
Hybrid bond 2016/2076 (€500 million)	490	Decem-ber 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	5	n/a		No
Finance lease	205	n/a		No
Total financial liabilities	**3,479**			
Cash and cash equivalents	643	≤ 3 months		
Near-cash assets	491	≤ 3 months		
Total liquidity	**1,134**			
Net financial liabilities	**2,345**			
after deduction of short-term money market investments and securities	(100)			
Net financial liabilities after deduction of short-term money market investments and securities	**2,245**			

Liquidity Analysis

More than 80% of our cash and cash equivalents of €643 million are held in Group companies in countries with no restrictions on foreign exchange and capital transfers. The remaining nearly 20% 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 €491 million, which comprise 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.

Thanks to our good liquidity position, our solvency was assured at all times in fiscal year 2021.

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 2025. 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.

The credit facility remained undrawn in 2021. It is designed as an operating line of credit and to provide funds for capital investment and complies with the market requirements of the European syndicated loan market for investment-grade companies with a BBB rating. None of our major loan agreements contains a financial covenant. In total, we had undrawn credit facilities of €1.0 billion as of December 31, 2021.

The total of liquid assets and undrawn credit lines gives us available liquidity of around €2.1 billion. In addition, LANXESS can utilize revocable loan commitments for short-term money market borrowings in the mid-three-digit millions in euros.

MANAGEMENT'S SUMMARY OF BUSINESS DEVELOPMENT AND THE FISCAL YEAR

The LANXESS Group's sales of €7,557 million in the reporting period were 23.8% higher than the previous year's figure of €6,104 million, which was significantly affected by the coronavirus pandemic. The sales development in all segments was influenced by significantly higher selling prices driven by raw material prices and the continued revival in demand. In addition, there was a positive portfolio effect for the Consumer Protection segment from the company Emerald Kalama Chemical acquired on August 3, 2021. Shifts in exchange rates had a negative influence on sales development in all segments.

In a recovering economic environment, EBITDA pre exceptionals increased by €148 million from €862 million to €1,010 million in fiscal year 2021. Especially due to strong demand from the automotive, construction, transport and manufacturing industries, EBITDA pre exceptionals was above the previous year's level in all segments. However, this generally positive business development was weakened by a sharp rise in energy and freight costs.

Especially due to the extraordinary gain on the disposal of the interest in Currenta GmbH & Co. OHG, Leverkusen, Germany, recognized in the previous year, net income and earnings per share in fiscal year 2021 declined considerably year-on-year from €885 million to €267 million and from €10.22 to €3.09, respectively. Net income from continuing operations amounted to €218 million after €908 million; earnings per share from discontinued operations came to €2.52 after €10.49 in the previous year.

We upheld our conservative accounting and financing policy in 2021 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 33.8% to 35.8%. Total assets increased from €8,880 million to €10,518 million.

Near-cash assets declined to €491 million as a result of the sale of shares of money market funds that can be sold at any time. 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 statement of financial position shows that our liquidity position remains solid.

After deduction of short-term money market investments and securities, our net financial liabilities amounted to €2,245 million, higher than the previous year's figure of €1,012 million. The increase in the reporting year resulted primarily from increased bond liabilities on the one hand and cash outflows on the other hand, including for acquisitions, capital expenditures, the dividend and interest, which led to a decline in the sum of cash, cash equivalents and near-cash assets. In fiscal year 2021, 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 the reporting year, we benefited from our strengths and portfolio activities in the speciality chemicals markets 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 competitive, more sustainable portfolio.

KEY BUSINESS DATA – MULTI-PERIOD OVERVIEW

Indicators

€ million	2017	2018	2019	2020	2021
Earnings performance					
Sales[1]	6,530	6,824	6,802	6,104	7,557
EBITDA pre exceptionals[1]	925	986	1,019	862	1,010
EBITDA margin pre exceptionals[1]	14.2%	14.4%	15.0%	14.1%	13.4%
EBITDA[1]	709	906	910	757	863
EBIT pre exceptionals[1]	558	581	557	396	500
EBIT[1]	299	491	407	253	350
EBIT margin[1]	4.6%	7.2%	6.0%	4.1%	4.6%
Net income	87	431	205	885	267
Weighted average number of shares outstanding	91,522,936	91,522,936	88,334,641	86,587,838	86,346,303
Earnings per share (€)	0.95	4.71	2.32	10.22	3.09
Financial position					
Cash flow from operating activities[1]	568	441	634	594	439
Depreciation and amortization/reversals of impairment charges[1]	410	415	503	504	513
Cash outflows for capital expenditures[1]	397	482	508	456	479
Net financial liabilities	2,252	1,923	2,522	1,012	2,345
Net financial liabilities after deduction of short-term money market investments and securities	2,252	1,381	1,742	1,012	2,245
Assets and liabilities					
Total assets	10,411[1]	8,687	8,695	8,880	10,518
Non-current assets	6,454[1]	4,786	5,065	4,823	6,129
Current assets	3,957	3,901	3,630	4,057	4,389
Net working capital	1,948	1,455	1,308	1,134	1,675
Equity (including non-controlling interests)	3,413	2,773	2,647	2,999	3,762
Provisions for pensions and other post-employment benefits	1,490	1,083	1,178	1,205	877
Indicators					
ROCE	9.3%	11.4%[2]	10.0%[2]	7.5%[2]	6.6%[2]
Equity ratio	32.8%	31.9%	30.4%	33.8%	35.8%
Non-current asset ratio	62.0%	55.1%	58.3%	54.3%	58.3%
Asset coverage I	52.9%	57.9%	52.3%	62.2%	61.4%
Net working capital/sales	20.2%	20.2%	19.2%	18.6%	22.2%
Employees (as of Dec. 31)	19,029	15,441	14,304	14,309	14,866

1) Figures 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	2020	2021	Change %
Sales	**5**	**5**	**0.0**
Cost of sales	(5)	(5)	0.0
Gross profit	**0**	**0**	**–**
General administration expenses	(43)	(50)	(16.3)
Other operating income	11	2	(81.8)
Other operating expenses	(3)	0	100.0
Operating result	**(35)**	**(48)**	**(37.1)**
Income from investments in affiliated companies	90	(98)	< (100)
Income from loans held as financial assets	8	8	0.0
Net interest expense	(7)	20	> 100
Write-downs on securities classified as current assets	(5)	(4)	20.0
Miscellaneous financial expense and income	(20)	(8)	60.0
Financial result	**66**	**(82)**	**< (100)**
Income taxes	(98)	38	> 100
Income after income taxes	**(67)**	**(92)**	**(37.3)**
Net loss for the year	**(67)**	**(92)**	**(37.3)**
Carryforward to new account	197	44	(77.7)
Withdrawal from retained earnings	36	151	> 100
Offsetting against the difference from the acquisition of own shares	(36)	(1)	97.2
Income from the capital reduction	0	1	–
Allocation to capital reserves	0	(1)	–
Distributable profit	**130**	**102**	**–21.5**

The earnings of LANXESS AG are largely determined by profit or loss transfers from LANXESS subsidiaries, 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.

General administration expenses increased year-on-year by €7 million, or 16.3%, to €50 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 €48 million, €13 million below 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 €66 million to minus €82 million. The change resulted mainly from the loss absorption of LANXESS Deutschland GmbH, whose earnings were lower than the previous year's level primarily as a result of significantly higher energy and freight costs. In addition, the balance of income and losses from investments in affiliated companies in the previous year was positively influenced by the sale of the interest in Currenta GmbH & Co. OHG, Leverkusen, Germany. The financial result was positively influenced by the €27 million improvement in the net interest position to €20 million.

Income taxes resulted in income of €38 million. These comprised tax expenses of €2 million for the reporting period and tax income of €40 million for previous years.

Net loss for fiscal year 2021 was €92 million after €67 million in the previous year.

As of December 31, 2021, the company reported a distributable profit of €102 million taking into account the profit carryforward of €44 million and the withdrawal from retained earnings of €151 million. In the previous year, a distributable profit of €130 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, 2020		Dec. 31, 2021		Change
	€ million	%	€ million	%	%
ASSETS					
Financial assets	997	15.6	997	13.9	0.0
Non-current assets	**997**	**15.6**	**997**	**13.9**	**0.0**
Receivables from affiliated companies	3,613	56.4	4,932	68.7	36.5
Other assets	105	1.6	138	1.9	31.4
Liquid assets and securities	1,666	26.0	1,085	15.1	(34.9)
Current assets	**5,384**	**84.0**	**6,155**	**85.7**	**14.3**
Prepaid expenses	**23**	**0.4**	**32**	**0.4**	**39.1**
Total assets	**6,404**	**100.0**	**7,184**	**100.0**	**12.2**
EQUITY AND LIABILITIES					
Equity	**2,009**	**31.4**	**1,831**	**25.5**	**(8.9)**
Provisions	**133**	**2.1**	**139**	**1.9**	**4.5**
Bonds	2,700	42.2	3,300	45.9	22.2
Liabilities to banks	25	0.4	25	0.3	0.0
Payables to affiliated companies	1,534	23.9	1,885	26.2	22.9
Liabilities	3	0.0	4	0.1	33.3
Payables	**4,262**	**66.5**	**5,214**	**72.6**	**22.3**
Total equity and liabilities	**6,404**	**100.0**	**7,184**	**100.0**	**12.2**

In view of its function as a strategic holding company, the statement of financial position of LANXESS AG is dominated by financial assets and liabilities and by receivables from, and payables to, subsidiaries.

LANXESS AG had total assets of €7,184 million as of December 31, 2021, which was €780 million, or 12.2%, above the prior-year figure. Non-current assets were unchanged at €997 million. They 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 decreased from 15.6% to 13.9%. Current assets increased by €771 million, or 14.3%, to €6,155 million and accounted for 85.7% of total assets, compared with 84.0% in the previous year.

Receivables from subsidiaries accounted for 68.7% of total assets and related principally to short-term loans and financial transactions. Other receivables largely consisted of tax claims and accounted for 1.9% of total assets compared with 1.6% in the previous year. The share of bank balances and securities in total assets decreased from 26.0% to 15.1%.

Equity decreased by €178 million to €1,831 million, largely due to the dividend payment for 2020 and the net loss of €92 million. The equity ratio was 25.5%, after 31.4% at the end of 2020.

The provisions increased by €6 million to €139 million and related in particular to commitments to employees, statutory and contractual obligations, and income taxes. Liabilities increased by €952 million to €5,214 million. This was mainly due to the increase in bonds by €600 million to €3,300 million and the year-on-year increase in payables to affiliated companies of €351 million to €1,885 million.

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 €86,346,303 as of December 31, 2021, and is composed of 86,346,303 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. In fiscal year 2021, we received no reports of direct and indirect equity investments in the capital of LANXESS AG exceeding 10% of total voting rights. On February 2, 2022, Capital Group Companies, Inc. notified us that it had exceeded a total of 10% of the voting rights in the capital of LANXESS AG via direct and indirect investments.

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

   As of the end of fiscal year 2021, the company held 1,101,549 own shares. 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 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 as part of the first tranche, equating to 1.26% of LANXESS AG's outstanding capital stock.

No shares were repurchased under the second tranche, which was increased by the funds from the first tranche that were not used for a repurchase to a total of €463 million on March 11, 2021. By announcement of August 25, 2021, the entire stock repurchase program was terminated.

In total, LANXESS AG repurchased 1,101,549 shares at a weighted average price of €33.32. This equated to 1.26% of the company's capital stock of €87,447,852 at that time. The purchase price (not including incidental expenses) of the repurchased shares amounted to €37 million. Making use of the above authorization to withdraw treasury shares and reduce the capital stock, the company's Board of Management resolved on September 22, 2021, to reduce LANXESS AG's capital stock by €1,101,549 from €87,447,852 to €86,346,303 by withdrawing all 1,101,549 repurchased no-par bearer shares with a notional share in the capital stock of €1.00 each. The reduction of the capital stock took place by way of a simplified capital reduction in accordance with Section 71, Paragraph 1, No. 8, Sentence 6 AktG without a further resolution by the Annual Stockholders' Meeting.

At the end of fiscal year 2021, therefore, 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.

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 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. 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 that 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 €500 million (maturity 2026) issued by LANXESS AG in fiscal year 2016 under the debt issuance program, bonds with a volume of €500 million (maturity 2025) issued by LANXESS AG in fiscal year 2018 and the bonds with a volume of (i) €500 million (maturity 2027) and (ii) €600 million (maturity 2029) issued by LANXESS AG in fiscal year 2021 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 that may result in deviations from our predictions.

ECONOMIC OUTLOOK

Fiscal year 2021 was still characterized by the effects of the coronavirus pandemic. Supply chain disruptions, sharp increases in energy prices and rising inflation rates curbed global economic growth. There were also uncertainties arising from the continuing trade tensions between the U.S. and China.

In 2022, we anticipate a further recovery of the global economy, resulting primarily from the expected development of the coronavirus pandemic into an endemic. However, we expect that the global supply chain bottlenecks will continue into the second half of 2022 at least and prices for energy and raw materials will keep rising.

Overall, we expect a slower recovery for the Americas. The consequences of the Brexit deal and increasing regulation will probably also 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. One major uncertainty factor for the global economy is the further development of the Ukraine conflict.

We anticipate a moderate recovery of 4.5% in the *world economy* in 2022, which will be quite evenly spread over all regions, but with a slight focus in Asia-Pacific. We still see China as one of the main drivers here. For EMEA (including Germany), we expect economic growth of 4.0%.

We expect growth of 4.5% in the global *chemical industry*. For agrochemicals, growth of 3.5% is anticipated in 2022. We expect the global sales of the automotive industry, which rose by 5.5% in 2021 after plummeting by 11.0% in 2020, to increase by 6% this year. A further recovery of 3.0% is also expected for the construction industry in 2022, although the development will vary between regions.

Expected Growth in 2022

Change vs. prior year in real terms (%)[1]	Gross domestic product	Chemical production
Americas	4.0	3.5
EMEA (incl. Germany)	4.0	3.5
Asia-Pacific	5.0	4.5
World	**4.5**	**4.5**

1) Rounded to the nearest 0.5%.
Source: IHS Markit.

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

Expected Development of Major Customer Industries in 2022

Change vs. prior year in real terms (%)[1]	Auto-motive	Agro-chemicals	Con-struction
Americas	13.0	3.0	(1.5)
EMEA (incl. Germany)	8.5	2.5	3.5
Asia-Pacific	2.0	4.0	4.5
World	**6.0**	**3.5**	**3.0**

1) Rounded to the nearest 0.5%.
Source: IHS Markit.

FUTURE PERSPECTIVES

Expected Development of the LANXESS Group

We expect earnings to increase significantly in 2022. In addition to the positive contribution from the acquisition of Emerald Kalama Chemical, we anticipate a sustained good development in global demand in our key customer industries. We continue to regard the immense increase in energy costs, particularly in Europe, as a negative factor, as well as the disruptions to global supply chains due to the coronavirus pandemic and the associated high logistics costs. These negative effects may be further intensified by the conflict in Ukraine, the development of which is currently unclear.

The forecasts presented below do not include the effects of future M&A activities. The earnings forecast relates to the forecast EBITDA pre exceptionals of the LANXESS Group.

Earnings performance

For our Advanced Intermediates segment, we anticipate earnings at the previous year's level in 2022. While we generally anticipate a good development in demand on the broadly diversified end markets for chemical intermediates and in the inorganic pigments business thanks to growth in the construction industry, we still expect the high level of energy and logistics costs to have a negative impact.

For our Specialty Additives segment, we expect business in 2022 to significantly exceed the previous year's level. Supported by global incentive programs, we anticipate growth in demand in the construction industry and a recovery in international air traffic, which should have a positive impact on demand for our flame retardants and specialty lubricants. Due to the continuing disruptions to global supply chains and significant logistics constraints, we anticipate negative effects from high logistics costs in 2022, too.

Our Consumer Protection segment is also expected to perform well above the previous year's level in 2022. In addition to the positive portfolio effect from the contribution of Emerald Kalama Chemical, we anticipate a continued high level of demand for disinfectants and a good development in business with agrochemicals. In the Consumer Protection segment, we likewise anticipate negative effects due to high energy and logistics costs in the forecast period.

For our Engineering Materials segment, which already developed very positively in the reporting year, we expect earnings in 2022 to be well above the previous year's level. Demand from the automotive industry should improve further in the forecast period as a result of overcoming the supply bottlenecks for semiconductors. High energy and logistics costs are expected to have a negative impact here, too, in 2022.

In the Reconciliation segment, we expect earnings to be considerably lower than in the previous year. In addition to general inflation of the cost base, we anticipate recurring costs for travel and trade fairs as well as higher negative effects from portfolio changes in the forecast period.

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 2022 will be significantly higher than in the previous year. EBITDA pre exceptionals amounted to €1,010 million in fiscal year 2021.

Liquidity situation

LANXESS will continue to pursue a forward-looking and conservative financial policy in the current year. With around €2.1 billion in cash and undrawn credit lines as of the end of 2021, 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 2022. Up to the reporting date, orders totaling €143 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. In fiscal year 2022, a bond and a private placement with a nominal amount totaling €600 million are due to mature. We will look at the forecast liquidity position and the capital market environment in order to decide how to refinance the maturing instruments. 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.

Environment and occupational health and safety

In fiscal year 2022, we expect CO_2e emissions to be on a par with the previous year, in which emissions amounted to 2,591 thousand metric tons.

In fiscal year 2021, the lost time injury frequency rate (LTIFR: accidents per million hours worked) for accidents with days lost was 0.9. We expect the LTIFR to be at a similarly good level in fiscal year 2022.

Expected Earnings Position of LANXESS AG

In fiscal year 2022, we expect the annual financial statements of LANXESS AG to show a substantially improved net result against the previous year. The net loss in the reporting period was significantly influenced by the loss from investments due to considerably higher energy and freight costs. In addition to the administration expenses the company incurs in performing its tasks as a strategic management holding company, net income is essentially dependent on 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 25, 2022, the Board of Management and Supervisory Board will propose a dividend of €1.05 per share for fiscal year 2021.

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 2022 with the aim of achieving a more stable and less cyclical business profile. Another important milestone on this path will be the acquisition and integration of IFF Microbial Control. LANXESS will continuously work on optimizing its production platform and, as announced, keep pursuing 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 conflict in Ukraine and the further course of the coronavirus pandemic are particularly large uncertainty factors 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 the business units and Group functions, as well as the country managers. 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 the 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 Risk Committee has two subcommittees – the Financial Risk Committee and the Information Security Committee – that deal with specific risk areas in order to enable a fast and flexible response to changing situations and their impacts. Accordingly, 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). On the Information Security Committee, headed by the Chief Information Security Officer (CISO) and made up of representatives from IT and Operational Technology Security as well as from Data Security, protection concepts are defined across all areas on the basis of risks.

The duty to report opportunities and risks to the Corporate Controlling Group function is based on the anticipated impact on Group net income or EBITDA pre exceptionals. All opportunities and risks must be reported if their anticipated impact is more than €1 million following the implementation of 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, Group net income or cash flow.

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, Group net income or cash flow.

The overall risk position is determined by aggregating all opportunities and risks. To assess the risk-bearing capacity, we compare this with the liquidity reserve as risk coverage potential. In addition, we analyze potential risks to the company's continued existence due to over-indebtedness. This is done by comparing the overall risk position with Group equity.

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

The Board of Management has established a central Compliance function for the LANXESS Group, which is exercised by the Group Compliance Officer. In particular, the Group Compliance Officer is responsible for professional support for the global compliance organization, which consists of regional Compliance Officers and a network of local Compliance Officers for the individual countries. Further tasks include performing compliance risk analyses, including providing advice and support to the areas of the company originally responsible for compliance, and monitoring and continuously improving the compliance management system (CMS). This system is a key component of the overarching risk management system at LANXESS and comprises all specific organizational measures and regulations that serve to reduce compliance risks. By way of the CMS, individual misconduct is intended to be prevented at an early stage (prevention) or identified in time (identification) and met with appropriate sanctions (reaction). The Group Compliance Officer reports to the Board of Management on the compliance situation in the LANXESS Group on a regular basis, or immediately in the event that the Group Compliance Officer becomes aware of significant compliance issues requiring immediate reporting.

(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, deals 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 information 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. In order to avoid supply bottlenecks, we have met large parts of the company's raw material needs by way of 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. The growing pressure on global supply chains and the resulting logistical bottlenecks represent an increasing risk. 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 the increasing digitalization in HR as a significant opportunity. In the future, we will be able to provide more targeted support for our corporate strategy here and respond to HR trends more quickly and effectively by launching state-of-the-art products and solutions. Global, user-friendly systems and standardized, digitalized and transparent processes improve quality, service and customer orientation and ultimately increase our competitiveness. We expect that the digitalization and standardization of processes will also reduce the employees' workload, which may positively influence their motivation and health and thus ultimately also increase productivity and reduce personnel expenses. 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. In order to make the immense practical knowledge of our older employees available to subsequent generations, we are also currently successfully piloting a knowledge transfer program. This identifies important departing knowledge carriers at an early stage, systematically records their often implicit knowledge, and ensures its structured transfer to subsequent generations – in both analog and digital format. In addition, we are currently testing a digital, company-specific knowledge database that serves both existing and new employees as an intuitive reference work.

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. 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 and increased employee engagement. This latter factor can also have a positive impact on employee loyalty and thus also on the voluntary turnover rate. Investment in D&I therefore also enables us to counter the above risks.

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.

In addition, lower waste management capacity, for example due to the incident at the tank farm of Currenta GmbH & Co. OHG in Leverkusen, Germany, may also limit our production capacity. Among other measures, we are currently countering this with increased use of the European waste management market, a targeted adjustment in the timing of our maintenance shutdowns, and deliberate decisions between in-house production or external procurement of intermediates in order to secure production capacity for our end products.

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 partly 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 some cases 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 risks for the company and are managed via the activation of appropriate contingency plans and countermeasures. The 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 information 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 handling of information assets, and particularly the operation and use of IT systems, entails risks. For example, networks or systems may fail, or data and information may be misused, falsified 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 of this may lead to serious business interruptions, reputational damage or the violation of laws such as the General Data Protection Regulation (GDPR).

For this reason, we invest in measures to safeguard information assets. Various security and monitoring tools and access restriction and authorization systems are used to support 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 and constantly improve the measures, LANXESS has established a Chief Information Security Officer (CISO) function. This is responsible for the implemented information security management system (ISMS), in which both measures for IT security and production IT are discussed and defined.

The central ISMS committee is the Information Security Committee (ISC), where the necessary decisions on implementing measures are made across all areas on the basis of risks. The data protection organization is also represented on the ISC, with the aim of ensuring the implementation of the necessary technical and organizational measures.

In addition to this central committee, a separate security organization has also been established in each of the two areas of IT and Operation Technology, which participate in defining the protection concepts on the ISC. The various business units and Group functions have each appointed information security coordinators who coordinate the implementation of the measures in their units.

As a result of the restructuring of IT that was planned in 2021 and took place at the beginning of 2022, IT security has gained further significance.

Guidelines on handling information assets securely and defining security-relevant processes have been implemented and communicated within the company. These are based on the requirements of the internationally recognized standard ISO/IEC 27001.

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.

Our major IT service providers must demonstrate a high security level by way of certification in accordance with this standard or equivalent standards and are regularly monitored through defined service level agreements with regard to security-relevant activities. To protect against cyber risks, LANXESS has also concluded a cyber insurance policy.

Sales market

Our company is inherently exposed to general ***economic developments*** and to political, geopolitical, climate-related 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.

One currently important factor that we are actively monitoring, but which is associated with further uncertainties, is global logistics. The combination of the coronavirus pandemic, the resulting increase in e-commerce and the associated shift in container requirements with factors such as more frequent hurricanes and typhoons, regular congestion at major ports and personnel shortages in the transportation segment will likely keep us busy again in 2022.

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 systematically monitoring the market and the competition and continuously adjusting our product portfolio accordingly, sharpening its focus and aligning our offering with innovative, sustainable 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 the following.

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 2022. 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 2022 and 2023 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. We have already entered into hedging transactions for subsequent years to mitigate the effects of interest rate fluctuations.

Raw materials/energy

In the course of its business operations, the LANXESS Group is exposed to changes in the market prices for energy and raw materials. As a rule, these changes are passed on to customers. Where certain market-price risks for energy and raw materials cannot be passed on to customers in their entirety, they may be hedged on a case-by-case basis by forward commodity contracts in order to reduce the volatility of cash flows. LANXESS had only a small number of forward commodity contracts as of the reporting date.

Liquidity and refinancing

We ensure our access to the capital markets and our solvency through a conservative financing policy and a target capital structure that is largely based on the ratio systems used by leading rating agencies. Our conservative financing policy takes into account the risk of a change to our rating and the associated effects on financial risk management, even though LANXESS has no direct influence on the assessments by independent rating agencies.

Our main liquidity reserve is a €1 billion syndicated credit facility, signed in December 2019, which remained undrawn on the reporting date. In May 2021, the original term of the credit facility was extended by one year until December 2025. It also has another one-year extension option. 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 €643 million in the form of cash and cash equivalents. In addition to cash and cash equivalents, LANXESS holds near-cash assets of €491 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 a 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 the area of antitrust law, for example, regular training is provided and an e-learning course has been established as preventive measures. There is also an antitrust law standard that defines principles of conduct for matters relevant to antitrust law. In this way, our employees are informed of the risk and awareness is raised accordingly. All employees can contact the Compliance department of the Legal & Compliance (LEX) Group function if they have any compliance-related 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.

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 from the procurement markets group was considered to be of medium to high significance. Based on the scenarios applied or the assumed probability of occurrence, this category could produce a positive or negative deviation of up to 9% from our projected EBITDA pre exceptionals, which is our key controlling parameter. The Advanced Intermediates and Specialty Additives segments are the main influences here.

Summary of overall opportunities and risks

Global economic growth in fiscal year 2021 was still characterized by the effects of the coronavirus pandemic. Supply bottlenecks, sharp increases in energy and raw material prices and rising inflation rates left their mark on the chemical industry, too, and will also play a role in the short- and medium-term development. 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 – 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 sustainable 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 sustainable and competitive 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. Especially in times of crisis, attractive opportunities for value-generating acquisitions arise. We took several of these opportunities in fiscal year 2021 and thus significantly expanded our most profitable segment, Consumer Protection. With these acquisitions, we are strengthening our business with specialty chemicals both for the consumer goods sector and for industrial applications, and are 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 effects of the coronavirus pandemic on global supply chains and the associated logistical bottlenecks represent factors of uncertainty.

In light of our present financing structures, our sound liquidity position and the headroom created by the portfolio strategy, particularly due to the expansion of our business with consumer applications and our presence as one of the leading providers of specialty products, we are confident of managing any risks that may arise in the future.

Based on an overall evaluation of risk management information, the Board of Management at the present time cannot identify any developments, 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, 2020	Dec. 31, 2021
ASSETS			
Intangible assets	(1)	1,647	2,531
Property, plant and equipment	(2)	2,674	3,148
Investments in other affiliated companies	(3)	2	56
Non-current derivative assets	(4)	4	28
Other non-current financial assets	(5)	41	62
Non-current income tax receivables	(6)	81	56
Deferred taxes	(29)	326	192
Other non-current assets	(7)	48	56
Non-current assets		**4,823**	**6,129**
Inventories	(8)	1,070	1,633
Trade receivables	(9)	745	1,050
Cash and cash equivalents		271	643
Near-cash assets	(10)	1,523	491
Current derivative assets	(4)	19	34
Other current financial assets	(5)	65	249
Current income tax receivables	(6)	101	96
Other current assets	(11)	145	193
Assets held for sale and discontinued operations	(12)	118	–
Current assets		**4,057**	**4,389**
Total assets		**8,880**	**10,518**

€ million	Note	Dec. 31, 2020	Dec. 31, 2021
EQUITY AND LIABILITIES			
Capital stock and capital reserves		1,317	1,317
Other reserves[1]		1,359	2,401
Net income		885	267
Other equity components		(560)	(229)
Equity attributable to non-controlling interests		(2)	6
Equity	(13)	**2,999**	**3,762**
Provisions for pensions and other post-employment benefits	(14)	1,205	877
Other non-current provisions	(15)	349	360
Non-current derivative liabilities	(4)	1	1
Other non-current financial liabilities	(16)	2,265	2,829
Non-current income tax liabilities	(17)	75	37
Other non-current liabilities	(18)	51	50
Deferred taxes	(29)	113	223
Non-current liabilities		**4,059**	**4,377**
Other current provisions	(15)	332	492
Trade payables	(19)	681	1,008
Current derivative liabilities	(4)	15	21
Other current financial liabilities	(16)	566	675
Current income tax liabilities	(17)	24	25
Other current liabilities	(18)	129	157
Liabilities directly related to assets held for sale and discontinued operations	(12)	75	1
Current liabilities		**1,822**	**2,379**
Total equity and liabilities		**8,880**	**10,518**

1) Also includes the reserve for own shares in the previous year.

Income Statement LANXESS Group

€ million	Note	2020	2021
Sales	(21)	**6,104**	**7,557**
Cost of sales	(22)	(4,548)	(5,712)
Gross profit		**1,556**	**1,845**
Selling expenses	(23)	(773)	(951)
Research and development expenses	(24)	(108)	(115)
General administration expenses	(25)	(267)	(304)
Other operating income	(26)	77	79
Other operating expenses	(27)	(232)	(204)
Operating result (EBIT)		**253**	**350**
Interest income		10	12
Interest expense		(66)	(63)
Other financial income and expense		877	4
Financial result	(28)	**821**	**(47)**
Income before income taxes		**1,074**	**303**
Income taxes	(29)	(165)	(84)
Income after income taxes from continuing operations		**909**	**219**
Income after income taxes from discontinued operations		**(7)**	**48**
Income after income taxes		**902**	**267**
of which attributable to non-controlling interests		17	0
of which attributable to LANXESS AG stockholders (net income)		885	267
Earnings per share (basic/diluted) (€)	(30)		
from continuing operations		10.49	2.52
from discontinued operations		(0.27)	0.57
from continuing and discontinued operations		**10.22**	**3.09**

Statement of Comprehensive Income LANXESS Group

€ million	2020	2021
Income after income taxes	**902**	**267**
Items that will not be reclassified subsequently to profit or loss		
Remeasurements of the net defined benefit liability for post-employment benefit plans	(208)	337
Financial instruments fair value measurement	–	37
Income taxes	54	(103)
	(154)	**271**
Items that may be reclassified subsequently to profit or loss if specific conditions are met		
Exchange differences on translation of operations outside the eurozone	(292)	312
Financial instruments fair value measurement	21	(13)
Financial instruments cost of hedging	(1)	0
Income taxes	(5)	4
	(277)	**303**
Other comprehensive income, net of income tax	**(431)**	**574**
Total comprehensive income	**471**	**841**
of which attributable to non-controlling interests	20	0
of which attributable to LANXESS AG stockholders	451	841
from continuing operations	449	783
from discontinued operations	2	58

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, 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**
Allocations to retained earnings			885	(885)				0		0
Acquisition of own shares	(1)	1						–		0
Dividend payments			(86)					(86)	0	(86)
Total comprehensive income			243	267	312	19	0	841	0	841
Income after income taxes				*267*				*267*	*0*	*267*
Other comprehensive income, net of income tax			*243*		*312*	*19*	*0*	*574*	*0*	*574*
Remeasurements of the net defined benefit liability for post-employment benefit plans			*337*					*337*		*337*
Exchange differences on translation of operations outside the eurozone					*312*			*312*	*0*	*312*
Financial instruments						*24*	*0*	*24*		*24*
Income taxes on other comprehensive income			*(94)*			*(5)*	*0*	*(99)*		*(99)*
Other changes			0					0	8	8
Dec. 31, 2021	**86**	**1,231**	**2,401**	**267**	**(257)**	**28**	**0**	**3,756**	**6**	**3,762**

Statement of Cash Flows
LANXESS Group

€ million	Note	2020	2021
Income before income taxes		**1,074**	**303**
Amortization, depreciation, write-downs and reversals of impairment charges of intangible assets, property, plant and equipment		504	513
Gains on disposals of intangible assets and property, plant and equipment		(1)	(1)
Financial losses (gains)		(840)	30
Income taxes paid		(215)	(10)
Changes in inventories		73	(441)
Changes in trade receivables		(8)	(213)
Changes in trade payables		41	241
Changes in other assets and liabilities		(34)	17
Net cash provided by operating activities – continuing operations	(38)	**594**	**439**
Net cash used in operating activities – discontinued operations		**(9)**	**(32)**
Net cash provided by operating activities – total		**585**	**407**
Cash outflows for purchases of intangible assets and property, plant and equipment		(456)	(479)
Cash inflows from sales of intangible assets and property, plant and equipment		4	3
Cash outflows for financial and other assets held for investment purposes		(1,793)	(519)
Cash inflows from financial and other assets held for investment purposes		1,044	1,447
Cash outflows for the acquisition/sale of subsidiaries and other businesses, less acquired cash and cash equivalents		(25)	(1,006)
Cash inflows from the sale of subsidiaries and other businesses, less acquired cash and cash equivalents		821	115
Interest and dividends received		155	8
Cash outflows for external funding of pension obligations (CTAs)		(100)	–
Net cash used in investing activities – continuing operations	(38)	**(350)**	**(431)**
Net cash used in investing activities – discontinued operations		**(3)**	**(1)**
Net cash used in investing activities – total		**(353)**	**(432)**
Proceeds from borrowings		1,000	1,102
Repayments of borrowings		(1,048)	(564)
Interest paid and other financial disbursements		(79)	(63)
Dividend payments		(82)	(86)
Cash outflows for the acquisition of own shares		(37)	–
Net cash used in/provided by financing activities – continuing operations	(38)	**(246)**	**389**
Net cash used in financing activities – discontinued operations		**(1)**	**0**
Net cash used in/provided by financing activities – total		**(247)**	**389**
Change in cash and cash equivalents – continuing operations		**(2)**	**397**
Change in cash and cash equivalents – discontinued operations		**(13)**	**(33)**
Change in cash and cash equivalents – total		**(15)**	**364**
Cash and cash equivalents as of January 1		296	271
Exchange differences and other changes in cash and cash equivalents – total		(10)	8
Cash and cash equivalents as of December 31	(38)	**271**	**643**
of which continuing operations		271	643
of which discontinued operations		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 2021 were prepared by the Board of Management of LANXESS AG and authorized for submission to the Supervisory Board on March 1, 2022. It is the responsibility of the Supervisory Board to examine the consolidated financial statements and declare whether 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, 2021, 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 2021 currently has no impact, or no material impact, on the LANXESS Group:

Standard	
IFRS 16	Amendments to IFRS 16 – COVID-19-Related Rent Concessions beyond June 30, 2021
IFRS 4	Insurance Contracts – Extension of the Temporary Exemption from Applying IFRS 9
IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – Phase 2

FINANCIAL REPORTING STANDARDS ISSUED BUT NOT YET MANDATORY

In fiscal year 2021, 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; including Amendments to IFRS 17 (issued on June 25, 2020)	May 18, 2017	2023	Yes
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	Yes
IAS 16	Amendments to IAS 16 – Proceeds before Intended Use	May 14, 2020	2022	Yes
IAS 37	Amendments to IAS 37 – Onerous Contracts — Cost of Fulfilling a Contract	May 14, 2020	2022	Yes
Various IAS and IFRS	Annual Improvements to International Financial Reporting Standards (2018–2020 Cycle)	May 14, 2020	2022	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
IAS 12	Amendments to IAS 12 – Deferred Tax related to Assets and Liabilities arising from a Single Transaction	May 7, 2021	2023	No
IFRS 17	Amendments to IFRS 17 – Initial Application of IFRS 17 and IFRS 9	Dec. 9, 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 entities 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 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 retail consumer price index (IPC Nacional INDEC) is used for inflation. The price index was at 385.88 points at the start of the fiscal year and 582.46 points at the end of the fiscal year.

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

Exchange Rates

1 euro		Closing rate Dec. 31, 2020	Closing rate Dec. 31, 2021	Average rate 2020	Average rate 2021
Argentina	ARS	103.26	116.36	80.95	112.45
Brazil	BRL	6.38	6.32	5.89	6.38
China	CNY	8.02	7.19	7.87	7.63
Great Britain	GBP	0.90	0.84	0.89	0.86
India	INR	89.66	84.19	84.62	87.44
Japan	JPY	126.49	130.38	121.81	129.86
U.S.	USD	1.23	1.13	1.14	1.18

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 2021 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

There are currently no known effects of climate-related issues that would lead to a change in the assumed useful lives of the specified asset classes.

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 the income statement. 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 the income statement.

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.

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 or reversals of 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 2020 and 2021 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 as well as the global problem of climate change and its effects. In general, the coronavirus pandemic continued to have a negative impact on the global economic environment and the business performance in the past fiscal year. Among other things, there was a sharp increase in energy prices, supply shortages and rising inflation rates. In addition, there were signs of increasing volatility in the development of demand in both raw material prices and selling prices. This was mitigated by the balanced product portfolio and the measures taken by LANXESS to manage the coronavirus pandemic. Global climate change and the transition to a low-carbon economy also entail potential uncertainties for LANXESS. For example, national and international measures to combat climate change can result in increasing volatility of energy prices. The increase in extreme weather events can have an adverse impact on LANXESS's global supply chains. This can result in rising transport and logistics costs as well as disruption to goods flows. The uncertainties caused by climate change with regard to the plannability of certain revenue and cost components in financial planning can affect the determination of the various values stated in the consolidated financial statements. By focusing on clear strategic guidelines on how to deal with climate change, LANXESS is able to gain additional headroom to remain sustainable and competitive under altered conditions. This also enables the utilization of additional strategic and operational opportunities and growth potential. However, both the coronavirus pandemic and the effects of climate change are still sources 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 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 2021 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 6.5% (previous year: 6.0%), while the impairment tests as of the end of the reporting period are based on a discount rate after taxes of 6.5% (previous year: 6.0%).

The impairment tests of the cash-generating units showed no need for the recognition of impairment charges in fiscal years 2020 and 2021.

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 €207 million (previous year: €191 million) relates to the Lubricant Additives business unit, €323 million (previous year: €298 million) to the Polymer Additives business unit and €150 million (previous year: €139 million) to the Urethane Systems business unit. The changes compared to the previous year are due to currency effects.

In the fiscal year, goodwill of €2 million resulted from the acquisition of all shares in the French company INTACE S.A.S., Courbevoie, France, and goodwill of €36 million from the acquisition of the French Theseo Group. The acquisitions were 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 6.5% was used for impairment testing. The goodwill amounted to €38 million as of the end of the reporting period. In the previous year, the goodwill of €14 million resulting from the acquisition 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 in the previous year. Goodwill amounted to €10 million as of the end of the previous year's reporting period. In the current reporting year, the Material Protection Products business unit accounted for total goodwill of €188 million as of the end of the reporting period (previous year: €142 million). The change compared to the previous year is due to the addition of the recently acquired goodwill and to exchange rate effects.

Goodwill of €397 million resulted from the acquisition of the U.S. specialty chemicals manufacturer Emerald Kalama Chemical and was assigned to the newly established Flavors & Fragrances business unit in the Consumer Protection segment. This goodwill was tested for impairment as of the end of the reporting period. A discount rate after taxes of 6.5% was used for impairment testing. Due to exchange rate effects, goodwill in the Flavors & Fragrances business unit amounted to €423 million as of the end of the reporting period.

Other business units account for goodwill of €33 million (previous year: €38 million).

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, construction, paint and varnish, and various other industries. The Flavors & Fragrances business unit operates globally in the field of consumer goods. These include preservatives for use in food, household products and cosmetics, flavors and fragrances as well as preservative products for animal nutrition and animal health.

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 5% (previous year: 7%) was assumed for the Lubricant Additives business unit and 5% (previous year: 4%) for the Polymer Additives business unit. The Urethane Systems business unit planned average annual sales growth of 7% (previous year: 6%), the Material Protection Products business unit planned 6% (previous year: 4%) and the newly formed Flavors & Fragrances business unit planned average annual sales growth of 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 unit in the perpetual annuity calculation. In the Polymer Additives business unit, lower (previous year: higher) EBITDA values were assumed in the perpetual annuity calculation in the fiscal year than in the previous detailed planning year, while in the Flavors & Fragrances business unit higher EBITDA values were assumed in the current reporting year than in the previous detailed planning year.

The impairment test performed on goodwill in the current reporting year and in the previous year did not indicate any need for recognition of impairment charges. Neither a one-percentage-point increase in the discount rate nor a 10% reduction in expected future net cash flows would have led to the recognition of an impairment charge on goodwill items.

The impact of the ongoing trade conflict between 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 2021 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 and to measure share options. 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, 2021. 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, 2021	28	11	4	7	23	73
Additions	8	1	4	1	1	15
Retirements	(1)	–	–	–	(1)	(2)
Mergers	–	–	–	(1)	–	(1)
Dec. 31, 2021	**35**	**12**	**8**	**7**	**23**	**85**
Associates and joint operations						
Jan. 1, 2021	0	1	1	0	0	2
Changes	–	–	–	–	–	0
Dec. 31, 2021	**0**	**1**	**1**	**0**	**0**	**2**
Non-consolidated companies						
Jan. 1, 2021	2	3	0	2	3	10
Changes	–	–	–	–	–	0
Dec. 31, 2021	**2**	**3**	**0**	**2**	**3**	**10**
Total						
Jan. 1, 2021	30	15	5	9	26	85
Additions	8	1	4	1	1	15
Retirements	(1)	–	–	–	(1)	(2)
Mergers	–	–	–	(1)	–	(1)
Dec. 31, 2021	**37**	**16**	**9**	**9**	**26**	**97**

On August 3, 2021, the U.S. specialty chemicals manufacturer Emerald Kalama Chemical was acquired. This involved LANXESS acquiring all shares in EPM Polymer Additives Holding Corp., Wilmington, U.S., as well as its domestic and foreign subsidiaries and affiliates.

As part of the acquisition of the French Theseo Group, THESEO Deutschland GmbH, Wietmarschen, Germany; THESEO FRANCE SAS, Laval, France; BIOLINK LIMITED, Hull, Great Britain; and THESEO SAÚDE ANIMAL LTDA, Descalvado, Brazil, were acquired. INTACE S.A.S., Courbevoie, France, was also acquired in the reporting period.

In addition, SR (Changzhou) Specialty Materials Co., Ltd., Changzhou, China, was disposed of in connection with the sale of the organic leather chemicals business and LANXESS Chrome Mining (Pty) Ltd., Modderfontein, South Africa, was disposed of in connection with the sale of the chrome ore business.

In the reporting period, LANXESS Indústria de Poliuretanos e Lubrificantes Ltda., Rio Claro, Brazil, was merged into LANXESS Indústria de Produtos Quimicos e Plásticos Ltda., São Paulo, Brazil.

Europigments, S.L., Barcelona, Spain, and Rhein Chemie (Qingdao) Limited, Qingdao, China, are production companies in which LANXESS has a stake of 52% and 90%, respectively. These companies are fully consolidated because LANXESS holds the majority of the voting rights and therefore exercises control. The non-controlling interests in these companies have a negligible influence on the activities and cash flows of the LANXESS Group.

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, the Republic of Korea, Russia, South Africa, Taiwan and Vietnam are subject to restrictions as a result of regulated capital markets. These affect approximately 17% (previous year: 44%) 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 around 0.1% of Group sales and around 0.1% of Group equity.

Additions from acquisitions

On March 1, 2021, LANXESS completed the acquisition of all shares in the French company INTACE S.A.S., Courbevoie, France. This manufacturer of special fungicides for the packaging and paper industry will enhance LANXESS's position as one of the world's leading producers of biocides and antimicrobial active ingredients. The business was integrated into the Material Protection Products business unit of the Consumer Protection segment. The company generated sales in the mid-single-digit millions in euros in the previous year.

On April 1, 2021, LANXESS completed the acquisition of the French Theseo Group, a leading manufacturer of disinfection and hygiene solutions. With this acquisition, LANXESS has significantly expanded its product portfolio for the growing livestock farming market and now offers an extensive range of disinfection and hygiene solutions. In addition, LANXESS has expanded its portfolio with products for pest control, animal nutrition and animal health. The business with over 100 employees at its sites in Laval, France; Wietmarschen, Germany; Hull, Great Britain; and Descalvado, Brazil, generated sales in the lower double-digit millions in euros in fiscal year 2020 and was likewise integrated into the Material Protection Products business unit of the Consumer Protection segment.

Both acquisitions were financed with existing liquidity and accounted for as business combinations in accordance with IFRS 3. For the purchase price allocations, the identifiable assets, liabilities and contingent liabilities of the business acquired were recognized at fair value. The intangible assets are mainly customer relationships, technologies, and brands. IFRS 3 permits adjustment of the purchase price allocations within one year of the date of acquisition to reflect new information and findings. Changes can generally arise in all items of the statement of financial position.

The acquired businesses have contributed around €24 million to sales since the acquisition and did not have any material effect on the earnings of the LANXESS Group. Net income was impacted by charges as a result of the purchase price allocations. If the businesses had already been acquired as of January 1, 2021, the contribution to LANXESS Group sales and to net income would have changed only slightly.

In connection with these acquisitions, transaction costs totaling around €2 million were recognized in other operating expenses.

The goodwill totaling around €38 million resulting from the acquisitions mainly reflects additional sales opportunities arising with new customers with regard to the existing business. The goodwill is primarily non-tax-deductible.

The following table shows the overall effects of the acquisitions. By itself, neither acquisition has a material effect on the Group's financial position:

€ million	Fair values at first-time consolidation
Intangible assets	32
Property, plant and equipment	8
Other assets	16
Total assets	**56**
Other non-current liabilities	9
Other current liabilities	8
Total liabilities (excl. equity)	**17**
Net acquired assets (excl. goodwill)	**39**
Cost of acquisition	**77**
Goodwill	**38**

The other assets include cash and cash equivalents of around €3 million. The gross amount of trade receivables comes to approximately €6 million, which is expected to be fully recoverable.

LANXESS completed the acquisition of Emerald Kalama Chemical on August 3, 2021. This U.S. company is one of the world's leading manufacturers of specialty chemicals, particularly for the consumer sector, and was majority owned by subsidiaries of the U.S. private equity company American Securities LLC. On acquisition, it was included in the consolidated financial statements for the first time. The purchase price of €920 million was paid out of existing liquidity. LANXESS mostly integrated this business into the newly founded Flavors & Fragrances business unit in the Consumer Protection segment. In addition, the product portfolio of Emerald Kalama Chemical is expanded by specialty chemicals for industrial applications, such as for the plastics and adhesives industries. These products were integrated into the Polymer Additives business unit of the Specialty Additives segment.

The acquisition was accounted for as a business combination in accordance with IFRS 3. For the purchase price allocation, the identifiable assets, liabilities and contingent liabilities of the business acquired were recognized at fair value. IFRS 3 permits adjustment of the purchase price allocation within one year of the date of acquisition to reflect new information and findings. In particular, this may affect items based on assumptions and estimates, which primarily include provisions, contingent liabilities and deferred taxes. It cannot be ruled out that changes in other items may also arise. However, there are no indications of this at present. The acquired business has contributed around €184 million to sales since the acquisition date and, primarily due to reductions in earnings resulting from the purchase price allocation, has not had any material effect on LANXESS's earnings. If the business had already been acquired as of January 1, 2021, the contribution to LANXESS Group sales would have been around €230 million higher, while net income would have been around €35 million lower due to exceptional items and effects from the purchase price allocation. Earnings effects from the remeasurement of intangible assets were taken into account here as if this had already taken place as of January 1, 2021. The intangible assets of €307 million identified in the purchase price allocation can be broken down into customer relationships of €192 million, technologies of €79 million and other intangible assets of €36 million. The goodwill of €397 million resulting from the acquisition mainly reflects additional sales opportunities. This goodwill is to be regarded as non-tax-deductible and is allocated entirely to the Flavors & Fragrances business unit. The gross amount of trade receivables comes to €56 million, of which €1 million is expected to be uncollectible. In connection with this acquisition, transaction costs of €14 million were recognized in other operating expenses in the reporting period.

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

€ million	Fair values at first-time consolidation
Intangible assets	307
Property, plant and equipment	250
Inventories	73
Trade receivables	55
Cash and cash equivalents	8
Other assets	32
Total assets	**725**
Provisions for pensions and other post-employment benefits	–
Other non-current liabilities	125
Trade payables	56
Other current financial liabilities	3
Other current liabilities	18
Total liabilities (excl. equity)	**202**
Net acquired assets (excl. goodwill)	**523**
Cost of acquisition	**920**
Goodwill	**397**

Addition from acquisition in previous year

In the previous year, LANXESS acquired all shares in the biocide manufacturer IPEL-Itibanyl Produtos Especiais Ltda., Jarinu, Brazil, on February 3, 2020. 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 enhanced 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 purchase price allocation for this acquisition was completed in January 2021. There were no changes in comparison to the information published in the consolidated financial statements for fiscal year 2020.

Divestments and discontinued operations

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. The final purchase price was €0 million. 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 with a net asset value of €0 million. In total, written-down property, plant and equipment and intangible assets of €0 million, inventories of €6 million, and provisions and other liabilities of €6 million were disposed of on January 1, 2021. Earnings from the sale thus came to €0 million.

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.

Leather business unit

In the context of further realignment, LANXESS initiated the sale of the Leather business unit in the former 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 integrated their businesses in the same way, the businesses were sold separately. With the sale of the chrome ore and organic leather businesses in the current reporting year and the chrome chemicals business in the previous year, the sale of the Leather business unit is complete. It was recognized as discontinued operations for the first time in the consolidated financial statements at the end of 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 included 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 comprised 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 in the previous year.

On November 15, 2019, a contract for the sale of the *chrome ore* business was concluded with the company Chrome Production Holdings Proprietary Limited, Johannesburg, South Africa, a subsidiary of Clover Alloys, South Africa. The contract covered the sale of the 74% interest in the subsidiary LANXESS Chrome Mining (Pty) Ltd., Modderfontein, South Africa. The business was accounted for as a discontinued operation and reported accordingly from December 31, 2019. The sale was completed on September 15, 2021. The proceeds from the transaction amounted to €11 million. In total, net liabilities of €5 million were sold. These comprised intangible assets and property, plant and equipment of €2 million, inventories, trade receivables and other assets of €0 million and cash of €2 million. The liabilities disposed of comprised provisions and trade payables of €9 million. The derecognition of currency translation differences relating to the net assets resulted in expenses of €4 million. Corrected for equity attributable to non-controlling interests, a profit attributable to LANXESS AG stockholders of €4 million was generated, which was recognized in income from discontinued operations.

On August 12, 2020, an agreement was entered into with TFL Ledertechnik GmbH, Rheinfelden, Germany, a portfolio company of the U.S. investment company Black Diamond Capital, L.L.C., for the sale of the *organic leather chemicals* business unit. The sale was completed on June 1, 2021.

The purchase price comprises a fixed component of €80 million. Due to the purchase price mechanism agreed with the buyer, LANXESS received an additional approximately €26 million. The purchase price also includes a performance-based component, which could result in cash inflows totaling up to €115 million in the coming years. At the date of the sale and as of December 31, 2021, the performance-based component was valued at €20 million and is disclosed under other financial assets.

The carrying amounts of the assets and liabilities of the organic leather chemicals business disposed of are shown in the following table:

Carrying Amounts of Assets and Liabilities Disposed Of

€ million	June 1, 2021
Property, plant and equipment and intangible assets	48
Inventories and trade receivables	77
Other assets	2
Total assets	**127**
Provisions	20
Trade payables	7
Other liabilities	4
Total liabilities	**31**

As part of the transaction, the shares in the subsidiary SR (Changzhou) Specialty Materials Co., Ltd., Changzhou, China, were also sold.

The gain on the disposal of the organic leather chemicals business amounted to €26 million and is reported in the LANXESS Group income statement under “Income after income taxes from discontinued operations.”

Gain on the Disposal

€ million	2021
Total consideration received	126
Net assets sold	(96)
Cumulative currency gains and losses from the net assets sold	0
Gain on the disposal before income taxes	**30**
Income taxes	(4)
Gain on the disposal	**26**

With the exception of the special provisions of IFRS 5, the 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 in the previous year are shown in the following table:

Carrying Amounts of Reclassified Assets and Liabilities (Leather Business Unit)

€ million	Dec. 31, 2020
Property, plant and equipment and intangible assets	44
Inventories and trade receivables	65
Other assets	3
Total assets	**112**
Provisions	36
Trade payables	23
Other liabilities	10
Total liabilities	**69**

As of December 31, 2021, there were still subsequent obligations of €1 million in connection with the sale of the chrome ore business, which were reported under liabilities from discontinued operations.

In detail, earnings from discontinued operations are as follows:

Income Statement from Discontinued Operations (Leather Business Unit)

€ million	2020	2021
Sales	**202**	**85**
Cost of sales	(151)	(55)
Gross profit	**51**	**30**
Other functional costs	(56)	8
Operating result (EBIT)	**(5)**	**38**
Financial result	**(1)**	**(1)**
Income before income taxes	**(6)**	**37**
Income taxes	(1)	(5)
Income after income taxes	**(7)**	**32**

The gain on the disposal of the organic leather chemicals business before income taxes and the gain attributable to LANXESS AG stockholders from the disposal of the chrome ore business are included in the income statement from discontinued operations under other functional costs.

In addition, income of €5 million in the cost of sales and income from income taxes of €11 million from subsequent matters in connection with the sale of the investment in ARLANXEO to Saudi Aramco as of December 31, 2018, was reported under discontinued operations.

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, 2021, amount to €0 million (previous year: €16 million), and the amounts recognized cumulatively in other reserves for the remeasurement of the net defined benefit liability include losses of €0 million (previous year: €14 million).

The discontinued operations of the Leather business unit generated EBITDA pre exceptionals of €6 million (previous year: minus €9 million). Capital expenditures amounted to €1 million (previous year: €4 million). As in the previous year, no depreciation or amortization was recognized. In fiscal year 2021, the annual average number of employees allocable to discontinued operations was 128 (previous year: 708). Personnel expenses attributable to employees amounted to €15 million (previous year: €43 million). With the completion of the sale of the Leather business unit, no employees are allocable to discontinued operations as of December 31, 2021 (previous year: 447).

Divestment in the previous year

Sale of the 40% interest in the chemical park operator Currenta

By 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). As of December 31, 2019, a carrying amount of €0 million was recognized as held for sale. 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 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. As of December 31, 2019, the net asset value of minus €1 million was recognized as held for sale. In the transaction completed on January 31, 2020, the acquirer was paid €1 million for taking on the negative net assets. Including the net assets sold and the currency translation adjustment, there was a loss of €1 million, which was recognized in other operating expenses as an exceptional item.

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
THESEO Deutschland GmbH, Wietmarschen	100
EMEA (excluding Germany)	
Anderol B.V., Venlo, Netherlands	100
Antec International Ltd., Sudbury, Suffolk, Great Britain	100
BIOLINK LIMITED, Hull, Great Britain	100
Chemtura France S.A.S., Fitz James, France	100
Emerald Kalama Chemical B.V., Rotterdam, Netherlands	100
Emerald Kalama Chemical Holdings Ltd., St. Helier, Jersey	100
Emerald Kalama Chemical Ltd., Widnes, Great Britain	100
Emerald Kalama Chemical SRL, Milan, Italy	100

Company Name and Domicile

	Interest held in %
Emerald Kalama Holdings Coöperatief, U.A., Amsterdam, Netherlands	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
INTACE S.A.S., Courbevoie, 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
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

Company Name and Domicile	Interest held in %
EMEA (excluding Germany)	
Sybron Chemical Industries Nederland B.V., Ede, Netherlands	100
Sybron Chemicals International Holdings Ltd., Manchester, Great Britain	100
THESEO FRANCE SAS, Laval, France	100
North America	
Emerald Kalama Chemical LLC, Cuyahoga Falls, U.S.	100
Emerald Kalama Holdings LLC, Cuyahoga Falls, U.S.	100
Emerald Performance Materials LLC, Wilmington, U.S.	100
EPM Polymer Additives Holding Corp., Wilmington, U.S.	100
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
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 Produtos Quimicos e Plasticos Ltda., São Paulo, Brazil	100
LANXESS S.A., Buenos Aires, Argentina	100
LANXESS S.A. de C.V., Mexico City, Mexico	100
Rhein Chemie Uruguay S.A., Colonia, Uruguay	100
THESEO SAÚDE ANIMAL LTDA., Descalvado, Brazil	100

Company Name and Domicile	Interest held in %
Asia-Pacific	
Chemtura Chemicals Nanjing Co. Ltd., Nanjing, China	100
Chemtura China Holding Co. Ltd., Shanghai, China	100
EPM Emerald Performance Hong Kong Ltd., Hong Kong, Hong Kong	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
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) Limited, Qingdao, China	90

Company Name and Domicile	Interest held in %
Joint operations	
Germany	
DuBay Polymer GmbH, Hamm	50
North America	
Rubicon LLC, Salt Lake City, U.S.	50
Immaterial non-consolidated subsidiaries	
Germany	
LANXESS Performance Materials 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
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 immaterial non-consolidated 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 2020

€ million	Acquired goodwill	Other intangible assets	Advance payments	**Total**
Cost of acquisition or construction, Dec. 31, 2019	873	1,190	91	2,154
Adjustments according to 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 construction, Dec. 31, 2020	**815**	**1,151**	**128**	**2,094**
Accumulated depreciation and write-downs, Dec. 31, 2019	(8)	(381)	0	(389)
Adjustments according to IFRS 5	–	1	–	1
Depreciation 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 depreciation and write-downs, Dec. 31, 2020	**(7)**	**(440)**	**0**	**(447)**
Carrying amounts, Dec. 31, 2020	**808**	**711**	**128**	**1,647**

Changes in Intangible Assets in 2021

€ million	Acquired goodwill	Other intangible assets	Advance payments	Total
Cost of acquisition or construction, Dec. 31, 2020	815	1,151	128	2,094
Adjustments according to IFRS 5	–	3	–	3
Acquisitions	435	339	18	792
Capital expenditures	–	12	59	71
Disposals	–	(9)	0	(9)
Reclassifications	–	75	(75)	0
Adjustments in accordance with IAS 29	–	0	–	0
Exchange differences	82	73	2	157
Cost of acquisition or construction, Dec. 31, 2021	**1,332**	**1,644**	**132**	**3,108**
Accumulated depreciation and write-downs, Dec. 31, 2020	(7)	(440)	0	(447)
Adjustments according to IFRS 5	–	(3)	–	(3)
Depreciation in 2021	–	(112)	0	(112)
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)	1	(22)
Accumulated depreciation and write-downs, Dec. 31, 2021	**(8)**	**(570)**	**1**	**(577)**
Carrying amounts, Dec. 31, 2021	**1,324**	**1,074**	**133**	**2,531**

In the previous year, the adjustments in accordance with IFRS 5 related to the reporting of the Liquid Purification Technologies business unit's reverse osmosis membranes business under assets held for sale.

The changes from acquisitions in fiscal year 2021 mainly related to the purchase of all shares in the French company INTACE S.A.S., Courbevoie, France, the acquisition of the French Theseo Group and the acquisition of the U.S. specialty chemicals manufacturer Emerald Kalama Chemical. Advance payments for the acquisition of a distribution business that was completed at the beginning of fiscal year 2022 are also recognized here. The amount of the advance payments is essentially equal to the final purchase price, which is mainly attributable to customer relationships and goodwill. The acquisition was effected by taking over the distribution right as well as other assets and the employees. In the previous year, the changes from acquisitions related to the purchase of all shares in the biocide manufacturer IPEL-Itibanyl Produtos Especiais Ltda., Jarinu, Brazil.

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 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 according to 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 according to 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**

Changes in Property, Plant and Equipment in 2021

€ 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, 2020	1,389	5,766	342	515	8,012
Adjustments according to IFRS 5	(3)	0	0	0	(3)
Acquisitions	66	159	7	27	259
Capital expenditures	95	106	22	308	531
Disposals	(16)	(79)	(16)	0	(111)
Reclassifications	37	229	17	(283)	0
Adjustments in accordance with IAS 29	5	1	4	0	10
Exchange differences	38	99	7	8	152
Cost of acquisition or construction, Dec. 31, 2021	**1,611**	**6,281**	**383**	**575**	**8,850**
Accumulated depreciation and write-downs, Dec. 31, 2020	(838)	(4,240)	(257)	(3)	(5,338)
Adjustments according to IFRS 5	0	0	0	–	0
Depreciation in 2021	(65)	(298)	(37)	(1)	(401)
of which write-downs	(1)	(9)	0	(1)	(11)
Reversals of impairment charges	–	–	–	–	0
Disposals	16	78	16	0	110
Reclassifications	0	0	0	0	0
Adjustments in accordance with IAS 29	(4)	0	(3)	–	(7)
Exchange differences	(10)	(50)	(6)	0	(66)
Accumulated depreciation and write-downs, Dec. 31, 2021	**(901)**	**(4,510)**	**(287)**	**(4)**	**(5,702)**
Carrying amounts, Dec. 31, 2021	**710**	**1,771**	**96**	**571**	**3,148**

In the previous year, the adjustments in accordance with IFRS 5 related to the reporting of the Liquid Purification Technologies business unit's reverse osmosis membranes business under assets held for sale.

The changes from acquisitions in fiscal year 2021 related to the purchase of all shares in the French company INTACE S.A.S., Courbevoie, France, the acquisition of the French Theseo Group and the acquisition of the U.S. specialty chemicals manufacturer Emerald Kalama Chemical. In the previous year, the changes from acquisitions related to the purchase of all shares in the biocide manufacturer IPEL-Itibanyl Produtos Especiais Ltda., Jarinu, Brazil.

In fiscal year 2021, write-downs were recognized due to reorganizations and other value-decreasing events. In the previous year, the write-downs on land and buildings, technical equipment and machinery, and on other fixtures, fittings and equipment essentially related to write-downs of €17 million in connection with the sale of the Liquid Purification Technologies business unit's reverse osmosis membranes business.

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

Investments in other affiliated companies of €54 million (previous year: €0 million) primarily include an investment in the listed company Standard Lithium Ltd., Vancouver, Canada. These shares were received in the past fiscal year as a result of the conversion into equity of a loan issued to Standard Lithium Ltd. In addition, this item contains interests in other affiliated companies totaling €2 million (previous year: €2 million).

4 | Derivative Financial Instruments

The derivative financial instruments held by the LANXESS Group generally comprise forward exchange, forward commodity and forward interest rate contracts as well as derivatives 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 reporting date, derivative assets are capitalized in the consolidated financial statements for fiscal year 2021 at a total fair value of €62 million (previous year: €23 million). Instruments with a negative fair value totaling €22 million (previous year: €16 million) are recognized as derivative liabilities.

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)
Non-current forward interest rate contracts	–	0	–
Non-current derivatives not designated as hedging instruments	–	–	–
	1,274	**23**	**(16)**

Derivative Financial Instruments

€ million	Dec. 31, 2021 Nominal amount	Dec. 31, 2021 Positive fair values	Dec. 31, 2021 Negative fair values
Current forward exchange contracts	1,929	34	(21)
Current forward commodity contracts	9	0	0
Non-current forward exchange contracts	72	0	(1)
Non-current forward interest rate contracts	500	3	–
Non-current derivatives not designated as hedging instruments	–	25	–
	2,510	**62**	**(22)**

Non-current derivatives not designated as hedging instruments in the amount of €25 million (previous year: €0 million) include options for shares in the company Standard Lithium Ltd., Vancouver, Canada. These share options were received in the past fiscal year as a result of the conversion of a loan issued in 2019.

The remarks below relate exclusively to transactions that qualify for hedge accounting and are recognized accordingly:

Currency hedges

Currency hedges in the form of forward exchange contracts 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 from fiscal year 2017 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 reclassified to profit or loss until May 2024. In fiscal year 2021, interest rate hedges to safeguard future interest payments were concluded for a total financing volume of €1 billion. Forward interest rate contracts for a financing volume of €500 million were recognized in other comprehensive income on the issue of a new bond in November 2021. The amounts recognized in other comprehensive income will be reclassified to profit or loss until November 2029.

Forward Exchange, Forward Commodity and Forward Interest Rate Contracts in 2020

€ million	**Nominal amount**	**Carrying amount** Positive fair values	Negative fair values	**Line item in statement of financial position**	**Change in value of hedged item**[1]	**Change in value of hedging instrument**[1]
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/liabilities	(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
Forward interest rate contracts	–	–	–	Non-current derivative assets	–	–
	355	**18**	**(6)**		**(19)**	**19**

1) Changes in value are changes in the hedged component in the period.

Forward Exchange, Forward Commodity and Forward Interest Rate Contracts in 2021

€ 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	2	0	0	Current and non-current derivative assets/liabilities	0	0
EUR/USD	666	9	(13)	Current and non-current derivative assets	21	(21)
USD/BRL	21	0	(2)	Current and non-current derivative assets/liabilities	(3)	3
Forward commodity contracts	9	0	0	Current and non-current derivative assets/liabilities	0	0
Forward interest rate contracts	500	3	–	Non-current derivative assets	(3)	3
	1,198	**12**	**(15)**		**15**	**(15)**

1) Changes in value are changes in the hedged component in the period.

Maturities and Average Prices 2020

	2021		>2021	
	Nominal amount € million	Average rate[1] in €	Nominal amount € 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	–	–
Forward interest rate contracts	–	–	–	–
	277		**78**	

1) For forward commodity contracts and forward interest rate contracts, the average hedging rate corresponds to the fixed side of the contract.

Maturities and Average Prices 2021

	2022		>2022	
	Nominal amount € million	Average rate[1] in €	Nominal amount € million	Average rate[1] in €
Forward exchange contracts				
EUR/JPY	2	119.50	–	–
EUR/USD	594	1.19	72	1.17
USD/BRL	21	5.16	–	–
Forward commodity contracts	9	597.75	–	–
Forward interest rate contracts	–	–	500	0.17
	626		**572**	

1) For forward commodity contracts and forward interest rate contracts, the average hedging rate corresponds to the fixed side of the contract.

As in the previous year, the hedged cash flows for the forward exchange and forward commodity contracts will be realized within the next two years. The hedged cash flows for the forward interest rate contracts will be realized by fiscal year 2029.

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**

Hedge Accounting Reconciliation Other Comprehensive Income 2021

€ 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	9	0	0	**9**	(1)	1	**0**	**9**
Changes other comprehensive income	(11)	0	3	**(8)**	1	(1)	**–**	**(8)**
Reclassification in profit or loss due to recognition of underlying transaction	(2)	–	0	**(2)**	–	–	**–**	**(2)**
December 31	**(4)**	**0**	**3**	**(1)**	**0**	**0**	**0**	**(1)**

The LANXESS Group expects that, of the unrealized losses on currency hedges recognized in other comprehensive income as of the reporting date, €3 million will be reclassified from equity to profit or loss in fiscal year 2022 and €1 million in fiscal year 2023 (previous year: unrealized gains of €6 million in fiscal year 2021 and €2 million in fiscal year 2022). The unrealized gains recognized on interest rate hedges as of the reporting date will be reclassified to profit or loss in fiscal years 2022 to 2029.

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, 2020: Non-current	Dec. 31, 2020: Current	Dec. 31, 2020: Total
Contract assets	21	59	80
Financial assets	–	–	–
Other financial receivables	20	6	26
	41	**65**	**106**

Other Financial Assets

€ million	Dec. 31, 2021: Non-current	Dec. 31, 2021: Current	Dec. 31, 2021: Total
Contract assets	34	109	143
Financial assets	–	100	100
Other financial receivables	28	40	68
	62	**249**	**311**

Financial assets mainly comprise liquid funds invested with banks.

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 increase in comparison to the previous year is due on the one hand to selling price adjustments as a result of higher raw material and energy costs, and on the other hand to a year-on-year increase in pre-production in the context of customer-specific manufacturing.

Miscellaneous other financial receivables include claims from transactions that do not result directly from the sale of chemical products and services in normal operations. These include investments in High-Tech Gründerfonds, loan receivables and other financial receivables. The year-on-year increase is also due to the inclusion of contingent purchase price receivables in connection with the sale of the organic leather chemicals business. Other current and non-current financial assets are reduced by expected credit losses in the amount of €5 million (previous year: €0 million).

Change in Contract Assets

€ million	2020	2021
January 1	94	80
Cumulative catch-up adjustments to revenues of the reporting period	(9)	4
Cumulative catch-up adjustments to revenues of previous reporting periods	(11)	1
Contract changes	1	–
Additions	82	118
(Reversals of) impairment losses	0	(1)
Reclassifications to trade receivables	(79)	(59)
Exchange differences	2	0
December 31	**80**	**143**

The additions 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 €56 million (previous year: €81 million) essentially comprise uncertain tax positions where reimbursement is considered probable. The decrease resulted primarily from completed tax audits.

The current income tax receivables of €96 million (previous year: €101 million) essentially include tax prepayments.

7 | Other Non-Current Assets

Other non-current assets of €56 million (previous year: €48 million) essentially include receivables in connection with pension obligations, periodic accruals and other reimbursement claims. The increase resulted primarily from other tax claims.

Other non-current assets are generally carried at amortized cost less any write-downs. No write-downs were made in fiscal years 2020 or 2021.

8 | Inventories

The inventories of the LANXESS Group comprise:

Inventories

€ million	Dec. 31, 2020	Dec. 31, 2021
Raw materials and supplies	255	421
Work in progress, finished goods and merchandise	815	1,212
	1,070	**1,633**

Inventories of €118 million (previous year: €87 million) are recognized at net realizable value. The year-on-year increase in inventories mainly resulted from significant rises in raw material and energy prices and an increased production volume. Other effects resulted from logistical restrictions and the integration of newly acquired companies.

Due to inflation adjustments in accordance with IAS 29, inventories increased by less than €1 million as in the previous year.

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

Write-Downs of Inventories

€ million	2020	2021
January 1	(90)	(80)
Adjustments according to IFRS 5	0	–
Additions charged as expenses	(10)	(12)
Reversals/utilization	17	26
Exchange differences	3	(1)
December 31	**(80)**	**(67)**

The adjustments to the previous year's figures 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.

9 | Trade Receivables

All trade receivables – totaling €1,050 million (previous year: €745 million) – are due within one year. The increase as against the previous year is essentially due to strong sales growth. An additional effect results from the integration of the companies acquired in the reporting year.

Loss allowances of €10 million were recognized as of the end of the reporting period (previous year: €10 million). The underlying gross receivables amount to €10 million (previous year: €10 million). The loss allowance for trade receivables and the maturity structure classes for the loss allowance in fiscal years 2020 and 2021 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 €491 million (previous year: €1,523 million).

11 | Other Current Assets

Other current assets totaling €193 million (previous year: €145 million) are generally carried at amortized cost less any write-downs. They essentially comprise miscellaneous claims for tax refunds, mainly for VAT, of €132 million (previous year: €101 million). €124 million (previous year: €96 million) of this amount is expected to be refunded within one year and €8 million (previous year: €5 million) at a later date. Furthermore, there are other reimbursement claims from goods and service transactions of €47 million (previous year: €31 million). This item included write-downs of €4 million (previous year: €4 million) as of December 31, 2021.

12 | Assets and Liabilities Held for Sale and Discontinued Operations

In the current reporting year, there are liabilities from discontinued operations in connection with the sale of the chrome ore business in the Leather business unit. In the previous year, this item included assets and liabilities held for sale from the sale of the Liquid Purification Technologies business unit's reverse osmosis membranes business. The Leather business unit accounted for as a discontinued operation was also reported here. Detailed information on this can be found under "Companies consolidated".

13 | Equity

Capital stock

The capital stock of LANXESS AG amounts to €86,346,303 as of December 31, 2021 and is composed of 86,346,303 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, 2021:

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, 2021:

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 and/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.

Purchase and utilization of own shares

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 as part of the first tranche, equating to 1.26% of LANXESS AG's outstanding capital stock. No shares were repurchased under the second tranche, which was increased by the funds from the first tranche that were not used for a repurchase to a total of €463.3 million on March 11, 2021. By announcement of August 25, 2021, the entire stock repurchase program was terminated.

In total, LANXESS AG repurchased 1,101,549 shares at a weighted average price of €33.3151. This equated to 1.26% of the company's capital stock of €87,447,852 at that time. The total price for the repurchased shares, not including incidental expenses, amounted to €36,698,254.49.

Making use of the above authorization to withdraw treasury shares and reduce the capital stock, the company's Board of Management resolved on September 22, 2021 to reduce LANXESS AG's capital stock by €1,101,549.00 from €87,447,852.00 to €86,346,303.00 by withdrawing all repurchased shares, equivalent to 1,101,549 no-par bearer shares with a notional share in the capital stock of €1.00 each. The reduction of the capital stock took place by way of a simplified capital reduction in accordance with Section 71, Paragraph 1, No. 8, Sentence 6 AktG without a further resolution by the Annual Stockholders' Meeting.

Capital reserves

The capital reserves of LANXESS AG amounted to €1,230,828,913 as of December 31, 2021 (previous year: €1,229,727,364). An amount of €1,101,549, equal to the reduction of the capital stock in connection with the stock repurchase described above, was added to the capital reserves in the reporting year in accordance with Section 71, Paragraph 1, No. 8, Sentence 6 of the German Stock Corporation Act.

Other reserves

The €1,042 million increase in other reserves to €2,401 million is mainly due to the increase in retained earnings from €1,200 million to €2,243 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 or 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 2021. 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 2021 totaled €43 million (previous year: €41 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 €22 million (previous year: €23 million) to Bayer-Pensionskasse. Contributions of about the same amount are expected for fiscal year 2022.

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 multiemployer 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 2021, total expenses of €64 million (previous year: €68 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	**2020**	**2021**	**2020**	**2021**
Operating result				
Current service cost	44	47	2	1
Past service cost	1	0	–	0
Administration expenses/taxes	3	3	0	0
Actuarial gains and losses	–	–	2	1
Financial result				
Net interest	12	9	4	3
Amounts recognized in profit or loss	**60**	**59**	**8**	**5**

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	**2020**	**2021**	**2020**	**2021**
Return on plan assets excluding amounts included in interest	46	166	3	5
Actuarial gains/losses from changes in demographic assumptions	(4)	0	3	1
Actuarial gains/losses from changes in financial assumptions	(239)	184	(7)	7
Actuarial gains/losses from experience adjustments	(1)	(15)	(2)	(6)
Changes in effects of the asset ceiling	(2)	(6)	(2)	(5)
Amounts recognized in other comprehensive income	**(200)**	**329**	**(5)**	**2**

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	**2020**	**2021**	**2020**	**2021**
Net defined benefit liability, January 1	979	1,077	121	115
Adjustments according to IFRS 5	0	–	–	–
Amounts recognized in profit or loss	60	59	8	5
Amounts recognized in other comprehensive income	200	(329)	5	(2)
Employer contributions	(118)	(18)	(1)	(1)
Benefits paid	(43)	(40)	(12)	(11)
Acquisitions	–	0	1	0
Other addition	1	1	6	–
Exchange differences	(2)	3	(13)	6
Net defined benefit liability, December 31	**1,077**	**753**	**115**	**112**
Amounts recognized in the statement of financial position				
Receivables from pension obligations and other post-employment benefits	(13)	(12)	–	0
Provisions for pensions and other post-employment benefits	1,090	765	115	112
Net defined benefit liability, December 31	**1,077**	**753**	**115**	**112**

The adjustments in accordance with IFRS 5 in the previous year resulted from the reporting of the Liquid Purification Technologies business unit's reverse osmosis membranes business under assets and liabilities held for sale.

The acquisitions in other post-employment benefits in the previous year included additions of €1 million due to the purchase of all shares in the biocide manufacturer IPEL-Itibanyl Produtos Especiais Ltda., Jarinu, Brazil.

The expected cash outflows for employer contributions and benefit payments in fiscal year 2022 are €19 million and €59 million, respectively, based on year-end 2021 exchange rates. In the previous year, the expected cash outflows for employer contributions and benefit payments in fiscal year 2021 were €19 million and €56 million, respectively, based on exchange rates at the end of fiscal year 2020.

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

€ million	Pension plans 2020	Pension plans 2021	Other post-employment benefit plans 2020	Other post-employment benefit plans 2021
Defined benefit obligation for pension commitments				
Defined benefit obligation, January 1	2,422	2,622	135	129
Adjustments according to IFRS 5	0	–	0	–
Current service cost	44	47	2	1
Interest expense	38	27	4	3
Actuarial gains/losses from changes in demographic assumptions	4	0	(3)	(1)
Actuarial gains/losses from changes in financial assumptions	239	(184)	7	(7)
Actuarial gains/losses from experience adjustments	1	15	4	7
Past service cost	1	0	–	0
Settlements	–	–	–	0
Employee contributions	1	1	0	0
Benefits paid	(82)	(82)	(13)	(13)
Acquisitions	–	0	1	0
Other additions	1	1	6	–
Administration expenses/taxes	(1)	(1)	0	0
Exchange differences	(46)	44	(14)	7
Defined benefit obligation, December 31	**2,622**	**2,490**	**129**	**126**

The adjustments in accordance with IFRS 5 in the previous year resulted from the reporting of the Liquid Purification Technologies business unit's reverse osmosis membranes business under assets and liabilities held for sale.

Of the defined benefit obligation for pensions, Germany accounts for 74% (previous year: 74%), Great Britain for 12% (previous year: 12%) and the U.S. for 10% (previous year: 9%).

The other post-employment benefit obligations comprise €93 million (previous year: €93 million) for the reimbursement of health care costs and €33 million (previous year: €36 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 in the previous year in Brazil. In the U.S., actuarial losses (previous year: gains) resulted from the application of the newly published and adopted MP2021 (previous year: MP2020) mortality improvement tables, which assume higher future mortality improvement than in the previous year. In Great Britain, actuarial gains (previous year: losses) resulted 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 previous year, the past service cost for pension obligations resulted from improvements to existing benefit entitlements for employees taking early retirement.

The acquisitions in other post-employment benefits in the previous year included 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 the previous year resulted 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

€ million	Pension plans 2020	Pension plans 2021	Other post-employment benefit plans 2020	Other post-employment benefit plans 2021
Plan assets at fair value				
Plan assets, January 1	1,460	1,563	34	35
Interest income	26	18	1	1
Return on plan assets excluding amounts included in interest	46	166	3	5
Employer contributions	118	18	1	1
Employee contributions	1	1	0	0
Benefits paid	(39)	(42)	(1)	(2)
Administration expenses/taxes	(4)	(4)	0	0
Exchange differences	(45)	43	(3)	3
Plan assets, December 31	**1,563**	**1,763**	**35**	**43**

Of the plan assets, Germany accounts for 64% (previous year: 60%), Great Britain for 19% (previous year: 22%) and the U.S. for 12% (previous year: 13%).

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. No additional funding was provided to LANXESS Pension Trust e.V. in fiscal year 2021. In the previous year, a total of €100 million was paid in.

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

€ million	Pension plans 2020	Pension plans 2021	Other post-employment benefit plans 2020	Other post-employment benefit plans 2021
January 1	**17**	**18**	**20**	**21**
Interest expense	0	0	1	1
Additions (+)/ reversals (–)	2	6	2	5
Exchange differences	(1)	2	(2)	2
December 31	**18**	**26**	**21**	**29**

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 2021, 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	2020	2021
Cash and cash equivalents	37	27
of which quoted in an active market	37	27
Equity instruments	477	556
of which quoted in an active market	477	556
Government bonds	205	160
of which quoted in an active market	205	160
Corporate bonds	487	603
of which quoted in an active market	487	603
Investment funds	51	112
of which quoted in an active market	25	57
Real estate	16	17
of which quoted in an active market	16	17
Insurance contracts	314	316
of which quoted in an active market	233	218
Other	11	15
of which quoted in an active market	8	14
	1,598	**1,806**

The plan assets do not include any real estate used by the company. Financial instruments owned by the company account for approximately 2% (previous year: 3%) of the plan assets. Index products could conceivably include LANXESS securities.

The following weighted discount rates were used to calculate the defined benefit obligation and determine the pension expense:

Discount Rates as of December 31

	Pension plans		Other post-employment benefit plans	
in %	2020	2021	2020	2021
Discount rate	1.05	1.49	2.50	3.22
Germany	0.80	1.20	0.11	0.80
U.S.	2.50	2.80	2.32	2.81
Great Britain	1.30	1.90	–	–

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 %	2020	2021	2020	2021
Expected salary increases	2.6	2.6	3.6	4.5
Expected benefit increases	1.7	1.7	–	–
Expected increases in medical costs	–	–	6.5	6.3
Expected long-term increases in medical costs	–	–	5.0	5.0

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. In the previous year, 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 in order to align the methodical approach used in the LANXESS Group. 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: seven 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 %	**2020**	**2021**	**2020**	**2021**
Discount rate				
+0.5% pt	(8.6)	(8.0)	(4.8)	(4.7)
–0.5% pt	9.9	9.2	5.3	5.2
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	5.0	4.8	–	–
–0.25% pt	(4.7)	(4.5)	–	–
Mortality				
–10%	4.0	3.9	2.5	2.3
Expected increases in medical costs				
+1% pt	–	–	4.6	4.7
–1% pt	–	–	(3.8)	(3.9)

The sensitivity of the mortality rates was calculated for the countries with material 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 18 years (previous year: 19 years). This figure was based on weighted average durations of 20 years (previous year: 21 years) for Germany, 11 years (previous year: 11 years) for the U.S. and 19 years (previous year: 19 years) for Great Britain. The weighted average duration of the defined benefit obligations for other post-employment benefits was 10 years (previous year: 10 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, December 31

	Pension plans		Other post-employment benefit plans	
€ million	**2020**	**2021**	**2020**	**2021**
Funded status				
Defined benefit obligation for funded plans	1,932	1,865	19	21
External plan assets	(1,563)	(1,763)	(35)	(43)
Underfunding/overfunding of funded plans	**369**	**102**	**(16)**	**(22)**
Defined benefit obligation for unfunded plans	690	625	110	105
Funded status, December 31	**1,059**	**727**	**94**	**83**

15 | Other Non-Current and Current Provisions

On December 31, 2021, the LANXESS Group had other current provisions of €492 million (previous year: €332 million) and other non-current provisions of €360 million (previous year: €349 million). The maturity structure of other provisions is shown in the following table:

Other Provisions

	Dec. 31, 2020				Dec. 31, 2021			
€ 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	110	39	30	179	220	34	26	280
Environmental protection	28	43	108	179	27	44	115	186
Trade-related commitments	96	1	0	97	102	1	0	103
Restructuring	15	15	4	34	16	19	2	37
Miscellaneous	83	27	82	192	127	22	97	246
	332	**125**	**224**	**681**	**492**	**120**	**240**	**852**

In total, other provisions increased from €681 million to €852 million in fiscal year 2021. The changes in other provisions were as follows:

Changes in Other Provisions in 2021

€ million	Jan. 1, 2021	Acquisi-tions	Addition	Interest effect	Utilization	Release	Exchange differences, reclassifica-tions	Dec. 31, 2021
Personnel	179	4	205	0	(102)	(8)	2	280
Environmental protection	179	16	4	3	(17)	(7)	8	186
Trade-related commitments	97	0	89	–	(49)	(35)	1	103
Restructuring	34	–	9	0	(5)	(2)	1	37
Miscellaneous	192	0	92	0	(31)	(14)	7	246
	681	**20**	**399**	**3**	**(204)**	**(66)**	**19**	**852**

An amount of €1 million was reclassified from personnel-related provisions to provisions for pensions and other post-employment benefits in fiscal year 2021.

Personnel-related provisions

Personnel-related provisions particularly include 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^{SM} 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

%	2020	2021
Expected share price volatility	33.0	34.0
Expected dividend payment	2.0	2.0
Expected volatility of Dow Jones STOXX 600 Chemicals[SM]	19.0	19.0
Correlation between LANXESS stock and Dow Jones STOXX 600 Chemicals[SM]	76.0	74.0
Expected volatility of MSCI World Chemicals Index	18.0	19.0
Correlation between LANXESS stock and MSCI World Chemicals Index	73.0	72.0

The relevant risk-free interest rate in the reporting year was minus 0.56% (previous year: minus 0.34%).

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**	**2017 tranche**	**2018 tranche**	**2019 tranche**	**2020 tranche**	**2021 tranche**
Duration	9 years	9 years	7 years	4 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	Dec. 31, 2021	Dec. 31, 2022	Dec. 31, 2023	Dec. 31, 2024
Initial LANXESS share price	€44.54	€63.25	€64.84	€66.90	€42.57	€59.39	€63.01
Initial Dow Jones STOXX 600 Chemicals^{SM} price	533.45 points	665.98 points	–	–	–	–	–
Initial MSCI World Chemicals Index price	–	–	276.04 points	337.09 points	280.46 points	326.83 points	376.38 points
Fair value per right as of December 31, 2020	€0.00	€0.01	€0.38	€1.00[1]	€1.23[1]	€0.92[1]	–
Fair value per right as of December 31, 2021	–	€0.00	€0.04	€0.68[1]	€0.85[1]	€0.51[1]	€0.63[1]
Change in number of outstanding rights							
Outstanding rights as of January 1, 2021	6,263,176	6,801,234	8,811,092	11,874,949	13,308,370	14,327,923	–
Rights granted	–	–	–	–	–	14,313	15,348,368
Rights exercised	–	–	–	–	–	–	–
Rights compensated	25,999	414,603	–	646,338	697,161	652,824	783,744
Rights forfeited	6,237,177	9,978	593,284	163,280	304,869	333,026	155,941
Outstanding rights as of December 31, 2021	**0**	**6,376,653**	**8,217,808**	**11,065,331**	**12,306,340**	**13,356,386**	**14,408,683**

1) The same payment amount in USD applies to the tranches of the U.S. plans.

LANXESS shares were trading at €54.50 (previous year: €62.76) as of the end of 2021. The Dow Jones STOXX 600 Chemicals^{SM} benchmark index stood at 1,366.92 points (previous year: 1,116.70) while the MSCI World Chemicals Index was at 446.73 points (previous year: 371.87).

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 2021 was €3 million (previous year: net expense of €10 million). A provision of €21 million existed as of December 31, 2021 (previous year: €22 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 €37 million (previous year: €34 million) as of December 31, 2021, comprising €29 million (previous year: €23 million) for environmental protection measures, €6 million (previous year: €7 million) for human resources measures and €2 million (previous year: €4 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 obligations in connection with the German Renewable Energy Sources Act (EEG) surcharge, 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, 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**

Other Financial Liabilities as of December 31, 2021

	Current	Non-current					
€ million	**2022**	**2023**	**2024**	**2025**	**2026**	**> 2026**	**Total**
Bonds	599	–	–	496	496	1,676	2,668
Liabilities to banks	3	–	–	–	–	–	–
Lease liabilities	47	36	28	23	20	51	158
Other primary financial liabilities	26	1	–	2	–	0	3
	675	**37**	**28**	**521**	**516**	**1,727**	**2,829**

In the LANXESS Group, the following bonds were outstanding on December 31, 2021:

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	499	2.625	November 2022
October 2016	500	496	1.000	October 2026
December 2016	500	490	4.500	December 2076
May 2018	500	496	1.125	May 2025
September 2021	500	495	0.000	September 2027
December 2021	600	592	0.625	December 2029

As of December 31, 2021, the weighted average interest rate on bonds was 1.7% (previous year: 2.0%).

Lease installments of €236 million (previous year: €157 million) are payable to the respective lessors in subsequent years. The interest component included amounts to €31 million (previous year: €31 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

The non-current income tax liabilities of €37 million (previous year: €75 million) essentially comprise uncertain tax positions for ongoing tax proceedings. The decrease resulted primarily from completed audits.

Current income tax liabilities of €25 million (previous year: €24 million) essentially include taxes incurred for the fiscal year but not yet paid.

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, 2020	Dec. 31, 2021
Asset subsidies granted by third parties	29	26
Contract liabilities	5	8
Social security liabilities	6	7
Payroll liabilities	2	0
Miscellaneous liabilities	9	9
	51	**50**

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, 2020	Dec. 31, 2021
Other tax liabilities	42	61
Social security liabilities	15	20
Contract liabilities	18	17
Payroll liabilities	11	15
Miscellaneous liabilities	43	44
	129	**157**

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	2020	2021
January 1	29	23
Cumulative catch-up adjustments to revenues of the reporting period	(6)	17
Cumulative catch-up adjustments to revenues of previous reporting periods	2	(16)
Additions	20	22
Revenue recognized that was included in the beginning balance	(22)	(21)
Exchange differences	0	0
December 31	**23**	**25**

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 2021, trade payables amounted to €1,008 million (previous year: €681 million) and were due within one year, as in the previous year. The increase as against the previous year essentially results from higher demand-driven production, increased raw material and energy prices, and the integration of newly acquired companies.

20 | Further Information on Liabilities

€1,738 million of total liabilities (previous year: €1,122 million) have maturities of more than five years.

NOTES TO THE INCOME STATEMENT

21 | Sales

Sales, which amount to €7,557 million (previous year: €6,104 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	2020	2021
Sales of goods	6,011	7,426
Services	93	131
	6,104	**7,557**

Revenue Recognition

€ million	2020	2021
Point in time	5,656	7,017
Over time	448	540
	6,104	**7,557**

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 €409 million (previous year: €355 million) and to services rendered over time of €131 million (previous year: €93 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 €2,410 million as of December 31, 2021 (previous year: €2,406 million). The associated sales are expected to be as follows:

Maturity Structure of Revenues

€ million	2020	2021
Up to 1 year	659	687
1 to 2 years	416	406
2 to 3 years	262	260
3 to 4 years	207	225
4 to 5 years	197	216
Over 5 years	665	616
	2,406	**2,410**

22 | Cost of Sales

Cost of Sales

€ million	2020	2021
Expenses for raw materials and merchandise	2,472	3,329
Direct manufacturing and other production costs	2,076	2,383
	4,548	**5,712**

The manufacturing costs include, among other costs, those for personnel, depreciation, amortization, write-downs, energy, and goods and services procured. The other production costs particularly comprise inventory valuation effects.

23 | Selling Expenses

Selling Expenses

€ million	2020	2021
Marketing costs	469	536
Outward freight charges and other selling expenses	304	415
	773	**951**

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 €115 million (previous year: €108 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 €304 million (previous year: €267 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	2020	2021
Income from non-core business	34	9
Income from the reversal of provisions	10	9
Exceptional items	11	1
Miscellaneous operating income	22	60
	77	**79**

Exceptional items include income from the reversal of provisions, essentially for restructuring, recognized as exceptional items in previous years. Based on economic relevance, they comprise €1 million (previous year: €4 million) allocated to the cost of sales and €0 million (previous year: €7 million) allocated to general administrative expenses.

27 | Other Operating Expenses

Other Operating Expenses

€ million	2020	2021
Exceptional items	154	151
Expenses for non-core business	30	7
Expenses for hedging with derivative financial instruments	17	2
Loss allowance on trade receivables and other current assets	1	1
Miscellaneous operating expenses	30	43
	232	**204**

Exceptional items in fiscal year 2021 included costs of €31 million for the strategic realignment, which also included exceptional items in connection with the integration of the U.S. company Emerald Kalama Chemical. Furthermore, there were exceptional items for strategic IT projects of €31 million. There were also exceptional items of €8 million for restructuring measures to adapt the production network and of €81 million for M&A activities, digitalization and other measures.

In the previous year, exceptional items included costs for the strategic realignment of €49 million. These mostly related to 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 €29 million for strategic IT projects and of €53 million for M&A activities, digitalization and other measures.

Of the exceptional items of €151 million (previous year: €154 million), €36 million (previous year: €66 million) related to the cost of sales in line with its economic relevance, while €115 million (previous year: €88 million) related to general administration expenses.

28 | Financial Result

The financial result breaks down as follows:

Financial Result

€ million	2020	2021
Interest income	10	12
Interest expense	(66)	(63)
Net interest expense	**(56)**	**(51)**
Interest expense from compounding interest-bearing provisions	(21)	(16)
Net exchange gain/loss	4	6
Miscellaneous financial expense and income	4	14
Dividends and income from other affiliated companies	890	0
Other financial income and expense	**877**	**4**
Financial result	**821**	**(47)**

The change in interest income essentially relates to the increase 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 €3 million (previous year: €4 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 income of €26 million from the measurement of financial instruments in connection with the company Standard Lithium Ltd., Vancouver, Canada. This is offset by an expense of €4 million from the measurement of near-cash financial assets at fair value. In addition, this item includes the monetary loss of €4 million (previous year: €2 million) from restating the price level in the context of financial reporting in hyperinflationary economies, as well as expenses for the bridge financing for the intended acquisition of IFF Microbial Control of €3 million. In the previous year, income from dividends and other equity investments resulted from the gain of €740 million on the sale of the 40% interest in Currenta GmbH & Co. OHG, Leverkusen, Germany, and of €150 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	2020	2021
Current taxes	(117)	(25)
Deferred taxes		
temporary differences	(17)	(34)
statutory changes in tax rates	(10)	(12)
loss carryforwards	(21)	(13)
Income taxes	**(165)**	**(84)**

The actual tax expense for fiscal year 2021 was €84 million (previous year: €165 million). This was €4 million (previous year: €148 million) less than the expected tax expense of €88 million (previous year: €313 million).

In calculating the expected tax expense for the LANXESS Group, the aggregated income tax rate of 29.1% (previous year: 29.1%) 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	2020	2021
Income before income taxes	1,074	303
Aggregated income tax rate of LANXESS AG	29.1 %	29.1 %
Expected tax result	(313)	(88)
Tax difference due to differences between local tax rates and the hypothetical tax rate	12	17
Reduction in taxes due to tax-free income and reduction of tax bases	2	4
Increase in taxes due to		
non-tax-deductible expenses	(9)	(11)
unrecognized deferred taxes on tax losses and temporary differences	(22)	(11)
Other tax effects	165	5
Actual tax result	**(165)**	**(84)**
Effective tax rate	15.4%	27.7%

In the previous year, the other tax effects essentially resulted from the disposal of the equity investment in Currenta GmbH & Co. OHG, Leverkusen, Germany, and were 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).

The deferred tax assets and liabilities are allocable to the various items of the statement of financial position as follows:

Deferred Taxes

	Dec. 31, 2020		Dec. 31, 2021	
€ million	Less deferred tax assets	Deferred tax liabilities	Less deferred tax assets	Deferred tax liabilities
Intangible assets	3	152	5	236
Property, plant and equipment	4	186	5	259
Assets held for sale and discontinued operations	26	8	26	11
Receivables and other assets	28	35	48	81
Pension provisions	339	0	239	–
Other provisions	92	0	94	0
Payables	27	1	49	1
Loss carryforwards	76	–	91	–
	595	**382**	**557**	**588**
of which non-current	422	340	340	498
Set-off	(269)	(269)	(365)	(365)
	326	**113**	**192**	**223**

The change in deferred taxes is calculated as follows:

Changes in Deferred Taxes

€ million	2020	2021
Deferred taxes, January 1	**215**	**213**
Tax income/expense recognized in the income statement	(48)	(66)
Changes in companies consolidated	0	(77)
Deferred taxes recognized in other comprehensive income	49	(97)
Exchange differences	(3)	(4)
Deferred taxes, December 31	**213**	**(31)**

The deferred taxes recognized in other comprehensive income comprised minus €92 million (previous year: €54 million) relating to remeasurements of the net defined benefit liability for post-employment benefit plans and minus €5 million (previous year: minus €5 million) relating to financial instruments. In addition, other comprehensive income contains current taxes of minus €2 million (previous year: €0 million).

Deferred tax assets of €171 million (previous year: €20 million), which exceed the reversal of taxable temporary differences, relate to tax jurisdictions in which losses were incurred in fiscal year 2021 or the previous year. Deferred taxes assets of €159 million (previous year: €0 million) are attributable to the German tax group. These primarily result from the different tax valuation of pension provisions. In addition, deferred tax assets exceeding the earnings effects from the reversal of taxable temporary differences include €9 million (previous year: €2 million) in deferred taxes on loss carryforwards. 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 €91 million (previous year: €76 million) were recognized on the €315 million (previous year: €277 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: €12 million) on loss carryforwards with an unlimited carryforward period.

Deferred taxes were not recognized for €889 million (previous year: €846 million) of tax loss carryforwards. Of this amount, €157 million (previous year: €113 million) can theoretically be used over more than five years. No deferred tax assets were recognized in fiscal year 2021 for tax-deductible temporary differences of €163 million (previous year: €169 million). Accordingly, deferred taxes on loss carryforwards of €224 million (previous year: €218 million) and deferred tax assets on tax-deductible temporary differences of €41 million (previous year: €43 million) were not recognized.

30 | Earnings and Dividend per Share

Earnings per share for fiscal year 2021 amount to €3.09, consisting of €2.52 from continuing operations and €0.57 from discontinued operations. These values were calculated based on the weighted average number of shares outstanding in the reporting period. As of December 31, 2021, a total of 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

	2020	2021	Change %
Net income (€ million)	885	267	(69.8)
from continuing operations	908	218	(76.0)
from discontinued operations	(23)	49	> 100
Weighted average number of shares outstanding	86,587,838	86,346,303	(0.3)
Earnings per share (basic/diluted) (€)	**10.22**	**3.09**	**(69.8)**
from continuing operations	10.49	2.52	(76.0)
from discontinued operations	(0.27)	0.57	> 100

LANXESS AG reported a distributable profit of €102 million for fiscal year 2021 (previous year: €130 million). The dividend payment made to stockholders of LANXESS AG for fiscal year 2020 amounted to €1.00 per share (previous year: €0.95 per share).

31 | Personnel Expenses

The breakdown of personnel expenses is as follows:

Personnel Expenses

€ million	2020	2021
Wages and salaries	1,031	1,165
Social security contributions	172	197
Retirement benefit expenses	93	94
Social assistance benefits	11	12
	1,307	**1,468**

Personnel expenses increased in total in fiscal year 2021. This was mainly attributable to pay adjustments and an increase in headcount in connection with the acquisition of the U.S. company Emerald Kalama Chemical, the French Theseo Group and the French company INTACE S.A.S., Courbevoie, France. These factors were partly offset by effects from the sale of the reverse osmosis membranes business from the Liquid Purification Technologies business unit to SUEZ S.A., Paris, France. 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 2021 was 14,548 (previous year: 14,346). The year-on-year increase in headcount mainly resulted from the acquisition of the U.S. company Emerald Kalama Chemical, the French Theseo Group and the French company INTACE S.A.S., Courbevoie, France, and from organic growth in the Germany region. This was offset by effects from the sale of the Liquid Purification Technologies business unit's reverse osmosis membranes business.

Employees by Function

	2020	2021
Production	10,256	10,420
Administration	1,906	1,951
Marketing and sales	1,660	1,652
Research and development	524	525
	14,346	**14,548**

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 of December 31, 2021, contingent liabilities to third parties totaled €14 million (previous year: less than €1 million). The majority of these related to the sale of the chrome ore business in South Africa.

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 €143 million (previous year: €157 million). All of these payments are due in fiscal year 2022.

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. In the first four months of fiscal year 2020, the services amounted to €136 million. The LANXESS Group generated sales of €10 million from transactions with Currenta GmbH & Co. OHG and its affiliated companies by April 30, 2020. The other financial result also included a profit participation in Currenta GmbH & Co. OHG of €150 million.

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 2021. 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

In addition to the fixed compensation, compensation for Board of Management members also comprises short-term and long-term variable compensation components. The two variable compensation components – the Annual Performance Payment (APP) for the Board of Management and the Long-Term Incentive (LTI) – 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 short-term variable compensation component APP includes a financial and a non-financial performance criterion. Currently, the financial performance criteria is EBITDA (operating earnings before depreciation, amortization, write-downs and reversals) pre exceptionals and the non-financial performance criteria is the lost time injury frequency rate (LTIFR: accidents per million hours worked) for accidents with days lost. The long-term variable compensation component consists of the Long Term Performance Bonus (LTPB), which will expire on December 31, 2023, and be replaced by the Sustainability Performance Plan (SPP), and the Long Term Stock Performance Plan (LTSP). The SPP considers a non-financial sustainability criterion, which for the 2021–2024 assessment period is the amount of CO_2e emissions. The LTSP is based on the price performance of the LANXESS stock against a reference index.

For fiscal year 2021, total compensation of €15,059 thousand (previous year: €8,840 thousand) was paid to the members of the Board of Management of LANXESS AG, comprising €10,211 thousand (previous year: €5,677 thousand) in short-term compensation (fixed annual salary, APP, benefits in kind and other) and other long-term compensation components of €2,647 thousand (previous year: €962 thousand) as part of the LTPB. The total also includes compensation paid under the LTSP. A total of 2,201,250 (previous year: 2,201,250) compensation rights were granted to the members of the Board of Management in fiscal year 2021. The fair value of these rights at the grant date was €2,201 thousand (previous year: €2,201 thousand). In fiscal year 2021, the LTSP resulted in income of €666 thousand (previous year: expense of €1,197 thousand).

In addition, service costs of €2,547 thousand (previous year: €2,068 thousand) relating to defined benefit pension plans were incurred in fiscal year 2021 for members of the Board of Management as part of their compensation package. The present value of the defined benefit obligation was €25,591 thousand as of December 31, 2021 (previous year: €24,584 thousand).

In accordance with IAS 24, the total net expense for the compensation of the members of the Board of Management in fiscal year 2021 was €15,133 thousand (previous year: €9,904 thousand). The balances outstanding to members of the Board of Management as of December 31, 2021, totaled €12,595 thousand (previous year: €7,294 thousand), comprising provisions of €6,447 thousand (previous year: €1,919 thousand) for the APP, €3,679 thousand (previous year: €2,239 thousand) for the LTPB, €394 thousand (previous year: €0 thousand) for the SPP and €2,469 thousand (previous year: €3,136 thousand) for the LTSP.

Payments totaling €1,427 thousand (previous year: €5,739 thousand) and relating to pension benefits were made to former members of the Board of Management in fiscal year 2021, €318 thousand (previous year: €4,576 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, 2021, was €36,622 thousand (previous year: €39,520 thousand).

The total compensation of the Supervisory Board members in fiscal year 2021 included fixed annual compensation and compensation for work on committees and totaled €1,908 thousand (previous year: €1,730 thousand), including attendance allowances. It is paid at the start of the following year.

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.

No loans were granted to members of the Board of Management or the Supervisory Board in fiscal year 2021 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 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 according to 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 according to 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**

Change in Right-of-Use Assets from Leases 2021

€ million	Land and buildings	Technical equipment and machinery	Other fixtures, fittings and equipment	Total
Cost of acquisition or construction, Dec. 31, 2020	131	50	54	235
Adjustments according to IFRS 5	0	0	0	0
Acquisitions	15	3	4	22
Additions	81	13	13	107
Retirements	(3)	(3)	(5)	(11)
Exchange differences	3	1	2	6
Cost of acquisition or construction, Dec. 31, 2021	**227**	**64**	**68**	**359**
Accumulated depreciation and write-downs, Dec. 31, 2020	(47)	(27)	(29)	(103)
Adjustments according to IFRS 5	0	0	0	0
Depreciation in 2021	(27)	(14)	(13)	(54)
Retirements	3	3	4	10
Exchange differences	(1)	0	(1)	(2)
Accumulated depreciation and write-downs, Dec. 31, 2021	**(72)**	**(38)**	**(39)**	**(149)**
Carrying amounts, Dec. 31, 2021	**155**	**26**	**29**	**210**

The changes from acquisitions in fiscal year 2021 primarily related to the acquisition of the U.S. specialty chemicals manufacturer Emerald Kalama Chemical. The addition to land and buildings particularly included the extension of the lease for the Group headquarters in Cologne.

The adjustments in accordance with IFRS 5 in the previous year related to the reporting of the Liquid Purification Technologies business unit's reverse osmosis membranes business under assets held for sale.

In fiscal year 2021, interest expenses for lease liabilities of €3 million (previous year: €4 million) were recognized in the income statement. The expected future payments for lease liabilities amount to €236 million (previous year: €157 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 2021, expenses for short-term leases amounted to €6 million (previous year: €5 million) and expenses for leases for low-value assets amounted to €3 million (previous year: €2 million). This essentially equals the payments made for these leases. Disbursements made under leases totaled €62 million in fiscal year 2021 (previous year: €58 million).

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 €199 million (previous year: €224 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 2021. 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 €7 million are expected in the following year (previous year: €5 million), of €6 million from 2023 to 2026 (previous year: €1 million from 2022 to 2025) and €1 million after 2026 (previous year: €2 million after 2025).

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 or depreciation 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 €1 million (previous year: €10 million). This would mainly have affected other comprehensive income by increasing or reducing the reported gain correspondingly. This effect mainly relates to the U.S. dollar.

Interest rate risks

As of the reporting date, variable-rate financial instruments are recognized almost exclusively in the form of money market investments from available liquidity. In contrast, borrowings mainly related to fixed-rate bonds. Due to this relationship, the LANXESS Group's net interest position would improve if interest rates were to rise. A general change of one percentage point in interest rates as of December 31, 2021, would have altered Group net income by €8 million (previous year: €13 million). In addition, this change in interest rates would have resulted in a change in the fair value of the interest rate hedge concluded of €24 million (previous year: €0 million). This effect would have impacted other comprehensive income.

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:

As of December 31, 2020

€ million	2021	2022	2023	2024	2025	After 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	–	–	–	–	–

Stand Dec. 31, 2021

€ million	2022	2023	2024	2025	2026	After 2026
Bonds	**(657)**	**(41)**	**(41)**	**(541)**	**(535)**	**(2,840)**
of which interest	(57)	(41)	(41)	(41)	(35)	(1,140)
Liabilities to banks	**(3)**	**–**	**–**	**–**	**–**	**–**
of which interest	0	–	–	–	–	–
Trade payables	**(1,008)**	**–**	**–**	**–**	**–**	**–**
of which interest	–	–	–	–	–	–
Lease liabilities	**(50)**	**(38)**	**(29)**	**(24)**	**(21)**	**(74)**
of which interest	(3)	(2)	(1)	(1)	(1)	(23)
Other primary financial liabilities	**(26)**	**(1)**	**–**	**(2)**	**–**	**0**
of which interest	(25)	–	–	–	–	–
Derivative liabilities						
Hedging instruments that qualify for hedge accounting						
Disbursements	(248)	(48)	–	–	–	–
Receipts	232	46	–	–	–	–
Other hedging instruments						
Disbursements	(415)	–	–	–	–	–
Receipts	409	–	–	–	–	–
Derivative assets						
Hedging instruments that qualify for hedge accounting						
Disbursements	(364)	(28)	(1)	(1)	(1)	(3)
Receipts	375	26	1	1	2	8
Other hedging instruments						
Disbursements	(891)	–	–	–	–	–
Receipts	917	–	–	–	–	–

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, 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
Derivatives not designated as hedging instruments	FV P&L	–	–	–	–	–	–
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 through other comprehensive income
FV P&L Financial assets/liabilities at fair value through profit and loss

Carrying Amounts, Measurement and Fair Values of Financial Instruments as of December 31, 2021

€ million	IFRS 9 measurement category	Carrying amount Dec. 31, 2021	Measurement according to IFRS 9			Measurement according to IFRS 16	Fair value Dec. 31, 2021
			Amortized cost	Fair value (other comprehensive income)	Fair value (profit or loss)		
Financial assets							
Trade receivables	AC	1,050	1,050	–	–	–	1,050
Other financial receivables							
Financial assets – at cost	AC	100	100	–	–	–	100
Other financial receivables – at cost	AC	42	42	–	–	–	42
Other financial receivables – at fair value through profit or loss	FV P&L	26	–	–	26	–	26
Contract assets	AC	143	143	–	–	–	143
Near-cash assets	FV P&L	491	–	–	491	–	491
Cash and cash equivalents	AC	643	643	–	–	–	643
Equity instruments measured at fair value through other comprehensive income	FV OCI	54	–	54	–	–	54
Derivative assets							
Hedging instruments that qualify for hedge accounting	–	13	–	13	–	–	13
Other hedging instruments	FV P&L	24	–	–	24	–	24
Derivatives not designated as hedging instruments	FV P&L	25	–	–	25	–	25
Financial liabilities							
Bonds	AC	(3,267)	(3,267)	–	–	–	(3,383)
Liabilities to banks	AC	(3)	(3)	–	–	–	(3)
Trade payables	AC	(1,008)	(1,008)	–	–	–	(1,008)
Lease liabilities	–	(205)	–	–	–	(205)	–
Other primary financial liabilities	AC	(29)	(29)	–	–	–	(29)
Derivative liabilities							
Hedging instruments that qualify for hedge accounting	–	(15)	–	(15)	–	–	(15)
Other hedging instruments	FV P&L	(7)	–	–	(7)	–	(7)

AC Financial assets/liabilities at amortized cost
FV OCI Financial assets at fair value through other comprehensive income
FV P&L Financial assets/liabilities at fair value through profit and 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 €225 million (previous year: €233 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, 2020	Dec. 31, 2021
Financial assets measured at amortized cost	1,102	1,978
Financial assets measured at fair value through other comprehensive income (debt instruments)	–	0
Equity instruments measured at fair value through other comprehensive income	0	54
Financial assets required to be measured at fair value through profit or loss	1,548	566
Financial assets	**2,650**	**2,598**
Financial liabilities measured at amortized cost	(3,386)	(4,307)
Financial liabilities required to be measured at fair value through profit or loss	(10)	(7)
Financial liabilities	**(3,396)**	**(4,314)**

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 2020 or 2021.

Assets and Liabilities Measured at Fair Value

	Dec. 31, 2020		
€ million	Level 1	Level 2	Level 3
Non-current assets			
Investments in other affiliated companies	–	–	–
Non-current derivative assets	–	4	–
Other non-current financial assets	–	15	5
Current assets			
Financial assets	–	–	–
Current derivative assets	–	19	–
Near-cash assets	1,523	–	–
Non-current liabilities			
Non-current derivative liabilities	–	1	–
Current liabilities			
Current derivative liabilities	–	15	–

Assets and Liabilities Measured at Fair Value

€ million	Dec. 31, 2021 Level 1	Level 2	Level 3
Non-current assets			
Investments in other affiliated companies	54	–	–
Non-current derivative assets	–	28	–
Other non-current financial assets	–	1	25
Current assets			
Financial assets	0	–	–
Current derivative assets	–	34	–
Near-cash assets	491	–	–
Non-current liabilities			
Non-current derivative liabilities	–	1	–
Current liabilities			
Current derivative liabilities	–	21	–

Investments in other affiliated companies of €54 million (previous year: €0 million), which are assigned to Level 1 of the measurement hierarchy, relate to shares in the listed company Standard Lithium Ltd., Vancouver, Canada. These shares were received in the past fiscal year as a result of the conversion of the loan originally provided to Standard Lithium Ltd. In accordance with the exercise of the option, the shares are recognized at fair value through other comprehensive income. The corresponding measurements increased other comprehensive income in the past fiscal year by €37 million (previous year: €0 million).

In addition to the shares mentioned, share options were received in connection with the loan conversion. In the amount of €25 million, these form part of the non-current derivative assets at Level 2 of the measurement hierarchy. The fair value of the options was calculated on the basis of an option pricing model. As of December 31, 2020, a hybrid financial instrument in connection with a loan receivable was still a component of the other non-current financial assets on Level 2 of the measurement hierarchy. The fair value was €14 million and was likewise calculated on the basis of an option pricing model.

Level 1 of the fair value hierarchy includes near-cash assets of €491 million (previous year: €1,523 million). These relate to shares of money market funds that can be sold at any time.

Other non-current financial assets assigned to Level 3 include outstanding conditional purchase price payments in connection with the sale of the organic leather chemicals business of €20 million (previous year: €0 million). These conditional purchase price payments are based on the achievement of performance indicators by fiscal year 2023 and a potential profit participation if the acquirer sells on the business disposed of. The determination of fair value was based on planned performance indicators, and their achievement was weighted by probability. The amount of the fair value can vary depending on the estimation and development of the performance indicators. 10% higher performance indicators would result in an increase in fair value of around €20 million; 10% lower performance indicators would result in a decrease in fair value of around €10 million. These changes would be recognized in income from discontinued operations.

At Level 3 of the measurement hierarchy, other non-current financial assets also include investments in High-Tech-Gründerfonds, which are measured based on the amount of the equity interests held. The fair values amount to €5 million (previous year: €5 million).

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.

Apart from one individual matter, no increased risk of default was ascertained in fiscal year 2021 for the financial assets listed. Thus, their risk of default was generally calculated based on the next twelve months. The individual matter related to outstanding purchase price receivables, which were written down by €5 million.

Carrying Amounts and Loss Allowances

€ million	Dec. 31, 2020			Dec. 31, 2021		
	Gross carrying amount	Loss allowances	Net carrying amount	Gross carrying amount	Loss allowances	Net carrying amount
Cash and cash equivalents	271	0	271	643	0	643
Other financial assets	6	0	6	147	(5)	142

As in the previous year, neither cash and cash equivalents nor other financial receivables were written down due to actual defaults in fiscal year 2021.

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, 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%**	

Aging Structure and Loss Allowances (Simplified Model) Dec. 31, 2021

€ 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	931	99	13	3	4	**1,050**
Default rates calculated	**0.0%**	**0.1%**	**0.9%**	**2.6%**	**4.1%**	

The total carrying amounts and loss allowances for trade receivables and contract assets are as follows:

Carrying Amounts and Loss Allowances

	Dec. 31, 2020			Dec. 31, 2021		
€ million	Gross carrying amount	Loss allowances	Net carrying amount	Gross carrying amount	Loss allowances	Net carrying amount
Trade receivables	755	(10)	745	1,060	(10)	1,050
Contract assets	80	0	80	144	(1)	143

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 2021 and for which legal action was initiated amount to €0 million (previous year: €1 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 2020 and 2021:

Reconciliation Loss Allowance 2020

€ million	Expected loss allowance for cash and cash equivalents and other financial receivables[1]	Expected loss allowance for trade receivables and contract assets	Expected loss allowance for credit-impaired assets at acquisition	Total
	12 months	Lifetime – simplified model		
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.

Reconciliation Loss Allowance 2021

€ million	Expected loss allowance for cash and cash equivalents and other financial receivables[1]	Expected loss allowance for trade receivables and contract assets	Expected loss allowance for credit-impaired assets at acquisition	Total
	12 months	Lifetime – simplified model		
January 1	0	10	0	**10**
Newly acquired financial assets	5	3	1	**9**
Release	0	(2)	0	**(2)**
Financial assets derecognized in the period – sale, repayment, modification	0	(1)	0	**(1)**
Change of model or risk parameters	–	0	–	**0**
Currency or other differences	0	0	0	**0**
December 31	**5**	**10**	**1**	**16**

1) Cash and cash equivalents and other financial receivables are not presented separately for reasons of materiality.

The acquired, impaired financial assets in fiscal year 2021 included trade receivables from the acquisition of Emerald Kalama Chemical. 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, 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)	0	743
Derivative assets	23	(1)	–	22
Financial liabilities				
Trade payables	(681)	2	0	(679)
Derivative liabilities	(16)	1	–	(15)

Offsetting of Financial Assets and Financial Liabilities as of December 31, 2021

€ million	Carrying amount of financial instruments	Related amounts not offset in the statement of financial position		Net amount
		Financial instruments	Financial collateral	
Financial assets				
Trade receivables	1,050	0	–	1,050
Derivative assets	62	(5)	–	57
Financial liabilities				
Trade payables	(1,008)	0	–	(1,008)
Derivative liabilities	(22)	5	–	(17)

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 table provides an overview of the net results based on the measurement categories according to IFRS 9:

Net Results by Measurement Category

€ million	2020	2021
Financial assets measured at amortized cost	31	(24)
Financial assets and liabilities required to be measured at fair value through profit or loss	(26)	66
Equity instruments measured at fair value through other comprehensive income	0	0
Financial liabilities measured at amortized cost	(49)	(74)
	(44)	**(32)**

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 €3 million (previous year: €4 million); the total interest expense for financial liabilities that are not measured at fair value through profit or loss is €63 million (previous year: €62 million).

In addition, fees of €6 million were incurred in fiscal year 2021 (previous year: €3 million) in connection with financial instruments.

Collateralization of financial liabilities

There were no financial liabilities collateralized by mortgages or by other property claims in fiscal year 2021 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 write-downs 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 €303 million (previous year: €1,074 million). Income before income taxes includes depreciation, amortization, write-downs and reversals of write-downs of €513 million (previous year: €504 million). Income taxes paid in fiscal year 2021 amounted to €10 million (previous year: €215 million). The change in net working capital resulted in cash outflows of €413 million (previous year: inflows of €106 million). Taking into account the change in other assets and liabilities of €17 million (previous year: minus €34 million), cash inflows provided by operating activities from continuing operations amounted to €439 million in the reporting year (previous year: €594 million). Cash used in the operating activities of discontinued operations amounted to €32 million (previous year: €9 million).

Net cash used in investing activities

Purchases of property, plant and equipment and intangible assets led to cash outflows of €479 million in fiscal year 2021 (previous year: €456 million). In connection with the acquisition/sale of subsidiaries and other businesses, there were payments of €1,006 million, which essentially related to the acquisition of the U.S. specialty chemicals manufacturer Emerald Kalama Chemical. The sale of subsidiaries and other businesses led to proceeds totaling €115 million from the disposal of the organic leather chemicals business and the chrome ore business. In the fiscal year, cash inflows from financial and other assets held for investment purposes were used particularly to finance the acquisitions made. The net cash outflow for the investing activities of continuing operations amounted to €431 million (previous year: €350 million). Discontinued operations resulted in cash outflows from investing activities of €1 million (previous year: €3 million).

Net cash provided by financing activities

Net borrowing of €538 million (previous year: net repayment of €48 million) was attributable to financial liabilities as follows:

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**

Reconciliation of Borrowings 2021

€ million	Dec. 31, 2020	Cash changes	Non-cash changes				Dec. 31, 2021
			Acquisitions	Lease liabilities new additions	Exchange differences	Interest effect from compounding, accrued interest and other changes	
Bonds	2,677	586	–	–	–	4	3,267
Liabilities to banks	0	2	1	–	0	–	3
Lease liabilities	126	(50)	22	105	3	(1)	205
Other primary financial liabilities	28	0	–	–	0	1	29
	2,831	**538**	**23**	**105**	**3**	**4**	**3,504**

Borrowings mainly related to two newly issued bonds totaling €1,100 million. Repayments of borrowings particularly included the repayment of a bond of €500 million.

Interest payments and other financial disbursements led to cash outflows of €63 million (previous year: €79 million). Dividend payments in fiscal year 2021 totaled €86 million (previous year: €82 million). There was therefore a total cash inflow of €389 million (previous year: outflow of €246 million) from financing activities in continuing operations. Discontinued operations resulted in a net cash outflow of €0 million (previous year: €1 million).

Cash and cash equivalents

Cash and cash equivalents, which comprise cash, checks and bank balances, amounted to €643 million (previous year: €271 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 2020	Advanced Intermediates 2021	Specialty Additives 2020	Specialty Additives 2021	Consumer Protection 2020	Consumer Protection 2021	Engineering Materials 2020	Engineering Materials 2021	Reconciliation 2020	Reconciliation 2021	LANXESS 2020	LANXESS 2021
External sales	1,629	1,949	1,965	2,295	1,243	1,515	1,190	1,708	77	90	6,104	7,557
Inter-segment sales	39	35	11	8	51	52	–	0	(101)	(95)	0	0
Segment/Group sales	1,668	1,984	1,976	2,303	1,294	1,567	1,190	1,708	(24)	(5)	6,104	7,557
Segment result/EBITDA pre exceptionals	309	333	278	323	266	275	151	241	(142)	(162)	862	1,010
Exceptional items affecting EBITDA	2	(6)	(17)	(17)	0	(13)	(1)	(1)	(89)	(110)	(105)	(147)
Segment assets	1,181	1,395	2,619	3,018	1,073	2,393	1,217	1,533	247	328	6,337	8,667
Segment acquisitions	–	–	–	67	26	949	–	–	–	–	26	1,016
Segment capital expenditures	134	135	147	164	83	107	94	72	79	124	537	602
Depreciation and amortization	104	112	175	166	88	106	67	72	30	46	464	502
Write-downs	4	3	17	6	18	1	0	0	1	1	40	11
Reversals of impairment charges	0	–	–	–	–	–	–	–	0	–	0	–
Segment liabilities	626	754	623	697	440	482	323	427	742	584	2,754	2,944
Employees – as of Dec. 31	3,025	3,021	3,083	3,030	2,754	3,266	2,191	2,264	3,256	3,285	14,309	14,866
Employees – average for the year	3,059	3,267	3,112	3,045	2,733	2,769	2,199	2,237	3,243	3,230	14,346	14,548

Prior-year figures restated.

Key Data by Region

€ million	EMEA (excluding Germany) 2020	EMEA (excluding Germany) 2021	Germany 2020	Germany 2021	North America 2020	North America 2021	Latin America 2020	Latin America 2021	Asia-Pacific 2020	Asia-Pacific 2021	LANXESS 2020	LANXESS 2021
External sales by market	1,876	2,404	1,128	1,360	1,408	1,688	295	420	1,397	1,685	6,104	7,557
Non-current segment assets	654	1,101	1,473	1,644	1,876	2,582	67	89	286	306	4,356	5,722
Segment acquisitions	–	390	–	39	–	578	26	8	–	1	26	1,016
Segment capital expenditures	92	82	282	363	128	110	6	10	29	37	537	602
Employees – as of Dec. 31	1,787	2,063	7,627	7,729	1,979	2,194	797	811	2,119	2,069	14,309	14,866

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 eleven 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.

As of January 1, 2021, the business with antioxidants and reaction accelerators was organizationally reassigned from the Advanced Intermediates segment's Advanced Industrial Intermediates business unit to the Specialty Additives segment's Rhein Chemie business unit. The previous year's figures have been restated accordingly. At the same time, the business with colorants and colorant additives was organizationally transferred within the Specialty Additives segment from the Rhein Chemie business unit to the Polymer Additives business unit.

As of October 1, 2021, the benzyl products from the Advanced Industrial Intermediates business unit in the Advanced Intermediates segment were added to the new Flavors & Fragrances business unit in the Consumer Protection segment. The previous year's figures have been restated accordingly.

The Leather business unit had been classified as a discontinued operation since December 2019 and was therefore no longer part of the reportable Consumer Protection segment. Information on discontinued operations is presented under "Companies consolidated."

On December 31, 2021, 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, 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	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, flavors and fragrances, 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 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 2021, 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 2021). 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 write-downs 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 €540 million (previous year: €448 million), €64 million (previous year: €41 million) of which relate to the Advanced Intermediates segment, €4 million (previous year: €2 million) to the Specialty Additives segment, €425 million (previous year: €360 million) to the Consumer Protection segment, €21 million (previous year: €16 million) to the Engineering Materials segment, and €26 million (previous year: €29 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 €148 million (previous year: €116 million) in fiscal year 2021 essentially related to expenses in connection with the strategic realignment of the LANXESS Group and strategic IT projects, as well as M&A projects and digitalization projects. They are offset by positive exceptional items of €1 million (previous year: €11 million), which relate to 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	2020	2021
Total segment sales	**6,128**	**7,562**
Other	77	90
Consolidation	(101)	(95)
Group sales	**6,104**	**7,557**

Reconciliation of Segment Results

€ million	2020	2021
Total segment results	**1,004**	**1,172**
Depreciation and amortization	(504)	(513)
Reversals of impairment charges	0	–
Exceptional items affecting EBITDA	(105)	(147)
Other financial income and expense	877	4
Net interest expense	(56)	(51)
Other	(142)	(162)
Income before income taxes	**1,074**	**303**

The reconciliation of segment results to income before income taxes contains total exceptional items comprising net charges of €150 million (previous year: charges of €143 million) (see Notes [26] and [27]). These include exceptional items within EBITDA of minus €147 million (previous year: minus €105 million) and write-downs of minus €3 million (previous year: minus €38 million).

Reconciliation of Segment Assets

€ million	Dec. 31, 2020	Dec. 31, 2021
Total segment assets	**6,090**	**8,339**
Adjustments to discontinued operations	112	–
Cash and cash equivalents	271	643
Deferred taxes	326	192
Near-cash assets	1,523	491
Income tax receivables	182	152
Derivative assets	23	62
Other financial assets	106	311
Other	247	328
Group assets	**8,880**	**10,518**

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, 2020	Dec. 31, 2021
Total segment liabilities	**2,011**	**2,360**
Adjustments to discontinued operations	69	1
Other financial liabilities	2,831	3,504
Derivative liabilities	16	22
Income tax liabilities	99	62
Deferred taxes	113	223
Other	742	584
Group liabilities	**5,881**	**6,756**

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 2021, total audit fees of €2,582 thousand (previous year: €2,540 thousand) for the auditor of the consolidated financial statements of the LANXESS Group were recognized as expenses. The total amount includes €2,282 thousand (previous year: €2,227 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. €248 thousand (previous year: €195 thousand) relates to other assurance services. These essentially include services in connection with sustainability reporting and audit certification services. €52 thousand (previous year: €118 thousand) relates to other services. Other services essentially comprised project-related consulting services. As in the previous year, no tax advisory services were performed by the auditor of the consolidated financial statements in the reporting year. 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 2021, the following German subsidiaries made use of disclosure exemptions pursuant to Section 264, Paragraph 3 of the German Commercial Code (HGB):

- Bond-Laminates GmbH, Brilon
- 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
- LANXESS Performance Materials GmbH, Cologne
- Saltigo GmbH, Leverkusen
- THESEO Deutschland GmbH, Wietmarschen

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 2021:

- LANXESS Trademark GmbH & Co. KG, Leverkusen

43 | Events after the Reporting Period

No events of particular significance took place after December 31, 2021, that could be expected to have a material effect on the earnings, asset and financial position of the LANXESS Group or LANXESS AG.

However, it should be reported that the ongoing conflict in Ukraine has intensified by the start of military hostilities. At the time these financial statements were prepared, the further development of the conflict and its consequences for the global economy and LANXESS was not foreseeable, but we believe that further negative effects, such as higher energy and logistics costs, are conceivable.

Cologne, March 1, 2022
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, March 1, 2022
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. 3a 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, 2021, and consolidated statement of profit or loss, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January 1 to December 31, 2021, 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, 2021.

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 § [Article]315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] 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, 2021, and of its financial performance for the financial year from January 1 to December 31, 2021, 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.

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, 2021. 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 €1.324 million (12,6 % of consolidated total assets or 35,2 % 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 €877 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 separate non-financial report pursuant to § 289b Abs. 3 HGB and § 315b Abs. 3 HGB;
- 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

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 mentioned above and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report disclosures audited in terms of content or with 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 controls.
- 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

Report on the Assurance on the Electronic Rendering of the Consolidated Financial Statements and the Group Management Report Prepared for Publication Purposes in Accordance with § 317 Abs. 3a HGB

Assurance Opinion

We have performed an assurance work in accordance with § 317 Abs. 3a HGB to obtain reasonable assurance about whether the rendering of the consolidated financial statements and the group management report (hereinafter the "ESEF documents") contained in the electronic file lanxess-2021-12-31-de.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 work 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 these renderings nor to any other information contained in the electronic file identified above.

In our opinion, the rendering of the consolidated financial statements and the group management report contained in the electronic file identified above and prepared for publication purposes complies in all material respects with the requirements of § 328 Abs. 1 HGB for the electronic reporting format. Beyond this assurance opinion 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, 2021 contained in the "Report on the Audit of the Consolidated Financial Statements and on the Group Management Report" above, we do not express any assurance opinion on the information contained within these renderings or on the other information contained in the electronic file identified above.

Basis for the Assurance Opinion

We conducted our assurance work on the rendering of the consolidated financial statements and the group management report contained in the electronic file identified above in accordance with § 317 Abs. 3a HGB and the IDW Assurance Standard: Assurance Work on the Electronic Rendering, of Financial Statements and Management Reports, Prepared for Publication Purposes in Accordance with § 317 Abs. 3a HGB (IDW AsS 410 (10.2021)) and the International Standard on Assurance Engagements 3000 (Revised). Our responsibility in accordance therewith is further described in the "Group Auditor's Responsibilities for the Assurance Work on the ESEF Documents" section. Our audit firm applies the IDW Standard on Quality Management 1: 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 renderings of the consolidated financial statements and the group management report in accordance with § 328 Abs. 1 Satz 4 Nr. [number]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 supervisory board is responsible for overseeing the process for preparing the ESEF documents as part of the financial reporting process.

Group Auditor's Responsibilities for the Assurance Work 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 work. 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 opinion.
- Obtain an understanding of internal control relevant to the assurance work 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 opinion 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 in force at the date of the consolidated financial statements on the technical specification for this electronic file.

- Evaluate whether the ESEF documents provide an XHTML rendering 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) in accordance with the requirements of Articles 4 and 6 of the Delegated Regulation (EU) 2019/815, in the version in force at the date of the consolidated financial statements, enables an appropriate and complete machine-readable XBRL copy of the XHTML rendering.

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on May 19, 2021. We were engaged by the supervisory board on August 20, 2021. 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).

REFERENCE TO AN OTHER MATTER– USE OF THE AUDITOR'S REPORT

Our auditor's report must always be read together with the audited consolidated financial statements and the audited group management report as well as the assured ESEF documents. The consolidated financial statements and the group management report converted to the ESEF format – including the versions to be published in the Federal Gazette – are merely electronic renderings of the audited consolidated financial statements and the audited group management report and do not take their place. In particular, the "Report on the Assurance on the Electronic Rendering of the Consolidated Financial Statements and the Group Management Report Prepared for Publication Purposes in Accordance with § 317 Abs. 3a HGB" and our assurance opinion contained therein are to be used solely together with the assured ESEF documents made available in electronic form.

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Jörg Sechser.

Cologne, March 2, 2022

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).

The Sustainability Accounting Standards Board (SASB) has published 77 industry standards to enable businesses to communicate financially material sustainability information to their investors. Starting on page 261, we present an SASB Index in alignment with the Chemicals Standard and thus acknowledge the growing importance of these guidelines.

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 2020 was published in March 2021.

LANXESS also follows the recommendations for effective climate-related reporting of the Task Force on Climate-related Financial Disclosure (TCFD). Accordingly, we will publish detailed information on the handling of climate-related opportunities and risks in a TCFD Index. You can download the TCFD Index at Investors in April 2022.

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 Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 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 PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft on behalf of the Supervisory Board. The audit report can be found on page 250. The reporting year is 2021. Key non-financial performance indicators are an integral component of the audit of the combined management report and subject to the audit of the consolidated financial statements.

Information on the business model can be found on page 90 onwards of the management report.

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) 2016 as the framework for the materiality analysis and reporting on management approaches and on general and topic-specific disclosures.

Information on environmental protection provisions of €186 million for potential future costs of environmental protection and remediation measures can be found in Note [15].

Index to the Non-Financial Report

NFR issues	Topic (section)	Pages
Environmental issues	Circular and Sustainable Sourcing	Identified content on p. 21–23
	Safe and Sustainable Sites	Identified content on p. 24–30
	Climate Action and Energy Efficiency	Identified content on p. 33–37
Employee issues	Good Governance and Energized Employees	Identified content on p. 42–43, 45, 46–55
Social issues	Safe and Sustainable Sites	P. 31–32
Respect for human rights	Good Governance and Energized Employees	Identified content on p. 37–39
	Circular and Sustainable Sourcing	Identified content on p. 21–23
Combating corruption and bribery	Good Governance and Energized Employees	Identified content on p. 37–38, 40

DATA COLLECTION

In compiling the data, we applied the principles of balance, comparability, accuracy, timeliness, clarity and reliability.

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 GmbH Wirtschaftsprüfungsgesellschaft has audited selected key figures with limited assurance. These are identified accordingly in the report.

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, with the production of chrome tanning salts in Merebank, South Africa, expected to continue in contract manufacturing for the new owner until 2024. The organic leather chemicals business was disposed of on June 1, 2021. The sale of the chrome ore mine was completed on September 15, 2021. The Leather business unit had been recognized as discontinued operations since December 2019. Because of its recent immateriality, we have decided not to include our activities in the Leather business unit in the non-financial report for 2021.

KEY REPORT CONTENT

The content of the report is based on a materiality analysis performed in fiscal year 2021. All material topics identified are described in detail in this report.

The following table shows which GRI standards cover the material topics.

Allocation to GRI Standards

Material topics	Management approach (GRI 103-2, 103-3)/associated GRI standard[1)]
Circular and Sustainable Sourcing	Management approach: p. 14, 17, 21-23 GRI 204: Procurement Practices GRI 308: Supplier Environmental Assessment GRI 414: Supplier Social Assessment
Safe and Sustainable Sites	Management approach: p. 14, 17-18, 24–32 GRI 203: Indirect Economic Impacts GRI 303: Water and Effluents 2018 GRI 306: Waste 2020 GRI 413: Local Communities
Climate Action and Energy Efficiency	Management approach: p. 14, 18, 33–37 GRI 302: Energy GRI 305: Emissions
Good Governance and Energized Employees	Management approach: p. 14, 19, 37–56 GRI 202: Market Presence GRI 205: Anti-corruption GRI 206: Anticompetitive Behavior GRI 207: Taxes 2019 GRI 307: Environmental Compliance 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 406: Non-discrimination GRI 407: Freedom of Association and Collective Bargaining 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
Sustainable Products	Management approach: p. 14, 20, 57–66 GRI 301: Materials GRI 416: Customer Health and Safety GRI 417: Marketing and Labeling

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 of LANXESS AG, Cologne (hereinafter the "Company") for the period from 1 January to 31 December 2021 which includes the information marked with a gray side stripe in the "Corporate Responsibility" section of the Annual Report (hereinafter the "Separate Non-financial Group Report").

Not subject to our assurance engagement are the external sources of documentation or expert opinions mentioned in the Separate Non-financial Group Report.

Responsibility of the Executive Directors

The executive directors of the Company are responsible for the preparation of the Separate Non-financial Group Report in accordance with §§ (Articles) 315c in conjunction with 289c to 289e HGB ("Handelsgesetzbuch": "German Commercial Code") and Article 8 of Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on establishing a framework to facilitate sustainable investment and amending Regulation (EU) 2019/2088 (hereinafter the "EU Taxonomy Regulation") and the Delegated Acts adopted thereunder, as well as for making their own interpretation of the wording and terms contained in the EU Taxonomy Regulation and the Delegated Acts adopted thereunder, as set out in section "Reporting on the EU taxonomy" of the Separate Non-financial Group Report.

This responsibility includes the selection and application of appropriate non-financial reporting methods and making assumptions and estimates about individual non-financial disclosures of the Group that are reasonable in the circumstances. Furthermore, the executive directors are responsible for such internal controls as the executive directors consider necessary to enable the preparation of a Separate Non-financial Group Report that is free from material misstatement whether due to fraud or error.

The EU Taxonomy Regulation and the Delegated Acts issued thereunder contain wording and terms that are still subject to considerable interpretation uncertainties and for which clarifications have not yet been published in every case. Therefore, the executive directors have disclosed their interpretation of the EU Taxonomy Regulation and the Delegated Acts adopted thereunder in section "Reporting on the EU taxonomy" of the Separate Non-financial Group Report. They are responsible for the defensibility of this interpretation. Due to the immanent risk that indeterminate legal terms may be interpreted differently, the legal conformity of the interpretation is subject to uncertainties.

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.

Responsibility of the Assurance Practitioner

Our responsibility is to express a conclusion with limited assurance on the Separate Non-financial Group Report based on our assurance engagement.

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.

We conducted our assurance engagement in accordance with 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 obtain limited assurance about whether any matters have come to our attention that cause us to believe that the Company's Separate Non-financial Group Report, other than the external sources of documentation or expert opinions mentioned in the Separate Non-financial Group Report, are not prepared, in all material respects, in accordance with §§ 315c in conjunction with 289c to 289e HGB and the EU Taxonomy Regulation and the Delegated Acts issued thereunder as well as the interpretation by the executive directors disclosed in section "Reporting on the EU taxonomy" of the Separate Non-financial Group Report.

In a limited assurance engagement the procedures performed are less extensive than in a reasonable assurance engagement, and accordingly a substantially lower level of assurance is obtained. The selection of the assurance procedures is subject to the professional judgement of the assurance practitioner.

In the course of our assurance engagement, we have, amongst other things, performed the following assurance procedures and other activities:

› Gain an understanding of the structure of the Group's sustainability organisation and stakeholder engagement
› Inquiries of the executive directors and relevant employees involved in the preparation of the Separate Non-financial Group Report about the preparation process, about the internal control system relating to this process and about disclosures in the Separate Non-financial Group Report
› Identification of likely risks of material misstatement in the Separate Non-financial Group Report
› Analytical procedures on selected disclosures in the Separate Non-financial Group Report
› Reconciliation of selected disclosures with the corresponding data in the consolidated financial statements and group management report
› Evaluation of the presentation of the Separate Non-financial Group Report
› Evaluation of the process to identify taxonomy-eligible economic activities and the corresponding disclosures in the Separate Non-financial Group Report
› Inquiries on the relevance of climate-risks

In determining the disclosures in accordance with Article 8 of the EU Taxonomy Regulation, the executive directors are required to interpret undefined legal terms. Due to the immanent risk that undefined legal terms may be interpreted differently, the legal conformity of their interpretation and, accordingly, our assurance engagement thereon are subject to uncertainties.

Assurance Opinion

Based on the assurance procedures performed and evidence obtained, nothing has come to our attention that causes us to believe that the Separate Non-financial Group Report of the Company for the period from 1 January to 31 December 2021 is not prepared, in all material respects, in accordance with §§ 315c in conjunction with 289c to 289e HGB and the EU Taxonomy Regulation and the Delegated Acts issued thereunder as well as the interpretation by the executive directors disclosed in section "Reporting on the EU taxonomy" of the Separate Non-financial Group Report.

We do not express an assurance opinion on the external sources of documentation or expert opinions mentioned in the Separate Non-financial Group Report, which are marked unassured.

Restriction of Use

We draw attention to the fact that the assurance engagement was conducted for the Company's purposes and that the report is intended solely to inform the Company about the result of the assurance engagement. Consequently, it may not be suitable for any other purpose than the aforementioned. Accordingly, the report is not intended to be used by third parties for making (financial) decisions based on it. Our responsibility is to the Company. We do not accept any responsibility to third parties. Our assurance opinion is not modified in this respect.

Cologne, 2 February 2021

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Hendrik Fink	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 2021 of LANXESS AG, Cologne (hereinafter: "the Company"), for the period from 1 January to 31 December 2021 (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 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 2021 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 2021 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 executive directors and relevant employees involved in the preparation of the Environmental and Safety Performance Data table regarding the preparation process, the underlying internal control system and selected disclosures in the Environmental and Safety Performance Data table
- Identification of potential risks of material misstatements in the Environmental and Safety Performance Data table based on the GRI criteria
- Analytical procedures on the disclosures in the Environmental and Safety Performance Data table
- Assessment of the presentation of the disclosures 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 2021 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, 2 March 2022

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Hendrik Fink	Theres Schäfer
Wirtschaftsprüfer	Wirtschaftsprüferin
[German public auditor]	[German public auditor]"

GRI Content Index

GRI standard/disclosure		Location	Comments and online annexes	UNGC
		P. 247–249		
GRI 101: Foundation 2016				
GRI 102: General Disclosures 2016				
ORGANIZATIONAL PROFILE				
102-1	Name of the organization		LANXESS AG	
102-2	Activities, brands, products, and services	P. 93–94	Products and Solutions	
102-3	Location of headquarters		Cologne, Germany	
102-4	Location of operations	P. 93–94, 109–110	Sites	
102-5	Ownership and legal form	P. 69, 90		
102-6	Markets served	P. 100, 103, 109–110		
102-7	Scale of the organization	P. 3, 30, 125		
102-8	Information on employees and other workers	P. 48		6
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102-10	Significant changes to the organization and its supply chain	P. 21–23, 90–93, 173–177		
102-11	Precautionary Principle or approach	P. 57–65, 101, 133–137		
102-12	External initiatives	P. 12–15, 21–23, 24–25, 28, 34–35, 264	Education initiative	
102-13	Membership of associations	P. 12, 14–15, 22, 264		
102-14	Statement from senior decision-maker	P. 4		
102-15	Key impacts, risks, and opportunities	P. 6–10, 12–13, 33–34, 133–147	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, 37–40		10
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GOVERNANCE				
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102-20	Executive-level responsibility for economic, environmental, and social topics	P. 14		
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102-22	Composition of the highest governance body and its committees	P. 76–79, 86	Supervisory Board	
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102-26	Role of highest governance body in setting purpose, values, and strategy	P. 6–10, 14–16, 80, 84–86	Remuneration report	
102-27	Collective knowledge of highest governance body	P. 76–79	Supervisory Board	
102-28	Evaluating the highest governance body's performance	P. 74–75	Voting results	
102-29	Identifying and managing economic, environmental, and social impacts	P. 80, 84–87		

GRI standard/disclosure		Location	Comments and online annexes	UNGC
102-30	Effectiveness of risk management processes	P. 84–87, 133–137		
102-31	Review of economic, environmental, and social topics	P. 84–87		
102-32	Highest governance body's role in sustainability reporting	P. 85–86		
102-33	Communicating critical concerns	P. 37–40, 84–85		
102-34	Nature and total number of critical concerns	P. 39–40		
102-35	Remuneration policies		Remuneration report	
102-36	Process for determining remuneration		Remuneration report	
102-37	Stakeholders' involvement in remuneration		Remuneration report	
102-38	Annual total compensation ratio		Remuneration report	
102-39	Percentage increase in annual total compensation ratio		Remuneration report	
STAKEHOLDER ENGAGEMENT				
102-40	List of stakeholder groups	P. 14	Stakeholder dialog	
102-41	Collective bargaining agreements	P. 56		3
102-42	Identifying and selecting stakeholders	P. 14–15	Stakeholder dialog	
102-43	Approach to stakeholder engagement	P. 14–15, 53–56,	Stakeholder dialog	
102-44	Key topics and concerns raised	P. 14–15, 64–66	Stakeholder dialog	
REPORTING PRACTICE				
102-45	Entities included in the consolidated financial statements	P. 179–180		
102-46	Defining report content and topic Boundaries	P. 15–16	Material topics	
102-47	List of material topics	P. 16, 249		
102-48	Restatements of information	P. 248		
102-49	Changes in reporting	P. 173–178		
102-51	Date of most recent report	P. 247		
102-52	Reporting cycle	P. 247		
102-53	Contact point for questions regarding the report	P. 266		

GRI standard/disclosure		Location	Comments and online annexes	UNGC
102-54	Claims of reporting in accordance with the GRI Standards	P. 247		
102-55	GRI content index	P. 254–260		
102-56	External assurance	P. 250–253		
GRI 200: ECONOMIC STANDARDS				
GRI 201: Economic Performance 2016				
GRI 103	Management Approach 2016 (including 103-1, 103-2, 103-3)	P. 6–10, 18, 90–95		
201-1	Direct economic value generated and distributed	P. 3, 31, 68–70, 102, 105, 133, 150, 152, 183		
201-2	Financial implications and other risks and opportunities due to climate change	P. 9–10, 33–36, 137, 140–141		
201-3	Defined benefit plan obligations and other retirement plans	P. 194–201		
GRI 202: Market Presence 2016				
GRI 103	Management Approach 2016 (including 103-1, 103-2, 103-3)	P. 37–38, 46–48, 53		
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. 53		

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. 31–32		
203-1	Infrastructure investments and services supported	P. 31–32	Societal Added Value	
GRI 204: Procurement Practices 2016				
GRI 103	Management Approach 2016 (including 103-1, 103-2, 103-3)	P. 99–100		
204-1	Proportion of spending on local suppliers	P. 99–100		
GRI 205: Anti-corruption 2016				
GRI 103	Management Approach 2016 (including 103-1, 103-2, 103-3)	P. 37–38, 40		
205-1	Operations assessed for risks related to corruption	P. 40		10
205-2	Communication and training about anti-corruption policies and procedures	P. 40		10
205-3	Confirmed incidents of corruption and actions taken	P. 40		10
GRI 206: Anti-competitive Behavior 2016				
GRI 103	Management Approach 2016 (including 103-1, 103-2, 103-3)	P. 37–38		
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 2021.	
GRI 207: Taxes 2019				
GRI 103	Management Approach 2016 (including 103-1, 103-2, 103-3)	P. 37–38, 211–213		
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. 21–25, 99		
301-1	Materials used by weight or volume	P. 99–100		7, 8
GRI 302: Energy 2016				
GRI 103	Management Approach 2016 (including 103-1, 103-2, 103-3)	P. 18, 24–25, 35–36		
302-1	Energy consumption within the organization	P. 30		7, 8
302-2	Energy consumption outside the organization	P. 30		7, 8
302-3	Energy intensity	P. 35–36		8
302-4	Reduction of energy consumption	P. 35–36		7, 8, 9
302-5	Reductions in energy requirements of products and services	P. 35–36, 58–65	New mobility solutions	
GRI 303: Water and Effluents 2018				
GRI 103	Management Approach 2016 (including 103-1, 103-2, 103-3)	P. 17–18, 24–25, 26–28		
303-1	Interactions with water as a shared resource	P. 26–28	Safe and Sustainable Sites	7, 8
303-2	Management of water discharge-related impacts	P. 26–28		7, 8
303-3	Water withdrawal	P. 26–28, 30		7, 8
303-4	Water discharge	P. 26–28, 30		7, 8
303-5	Water consumption	P. 26–28, 30		7, 8
GRI 305: Emissions 2016				
GRI 103	Management Approach 2016 (including 103-1, 103-2, 103-3)	P. 18, 24–25		
305-1	Direct (Scope 1) GHG emissions	P. 30, 34		7, 8
305-2	Energy indirect (Scope 2) GHG emissions	P. 30, 35		7, 8
305-3	Other indirect (Scope 3) GHG emissions	P. 35		7, 8

GRI standard/disclosure		Location	Comments and online annexes	UNGC
305-4	GHG emissions intensity	P. 34–35		8
305-5	Reduction of GHG emissions	P. 30, 34–35	Material topics	8, 9
305-6	Emissions of ozone-depleting substances (ODS)	P. 30		7
305-7	Nitrogen oxides (NO_x), sulfur oxides (SO_x), and other significant air emissions	P. 30, 35		7, 8
GRI 306: Waste 2020				
GRI 103	Management Approach 2016 (including 103-1, 103-2, 103-3)			
306-1	Waste generation and significant waste-related impacts			7, 8
306-2	Management of significant waste-related impacts			7, 8
306-3	Waste generated			7, 8
GRI 307: Environmental Compliance 2016				
GRI 103	Management Approach 2016 (including 103-1, 103-2, 103-3)			
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. 14, 17, 21–23, 37–39		
308-1	New suppliers that were screened using environmental criteria	P. 21–23		8
308-2	Negative environmental impacts in the supply chain and actions taken	P. 21–23		8
GRI 400: SOCIAL STANDARDS				
GRI 401: Employment 2016				
GRI 103	Management Approach 2016 (including 103-1, 103-2, 103-3)	P. 19, 41, 44, 46, 48–51		
401-1	New employee hires and employee turnover	P. 44, 50–51		6
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	P. 46–49		6
401-3	Parental leave	P. 49		

GRI standard/disclosure		Location	Comments and online annexes	UNGC
GRI 402: Labor/Management Relations 2016				
GRI 103	Management Approach 2016 (including 103-1, 103-2, 103-3)	P. 41, 56		
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 2016				
GRI 103	Management Approach 2016 (including 103-1, 103-2, 103-3)	P. 53–56		
403-1	Occupational health and safety management system	P. 53–56		
403-2	Hazard identification, risk assessment, and incident investigation	P. 53–55		
403-3	Occupational health services	P. 53–55		
403-4	Worker participation, consultation, and communication on occupational health and safety	P. 53–55	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.	

GRI standard/disclosure		Location	Comments and online annexes	UNGC
403-5	Worker training on occupational health and safety	P. 24		
403-6	Promotion of worker health	P. 53–54		
403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	P. 55		
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. 24, 55	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 404: Training and Education 2016				
GRI 103	Management Approach 2016 (including 103-1, 103-2, 103-3)	P. 41, 45, 51–53		
404-1	Average hours of training per year per employee	P. 51–53		6
404-2	Programs for upgrading employee skills and transition assistance programs	P. 51–53		

GRI standard/disclosure		Location	Comments and online annexes	UNGC
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. 42–43, 76–79		
405-1	Diversity of governance bodies and employees	P. 42–43, 48, 76–79		6
405-2	Ratio of basic salary and remuneration of women to men	P. 46–48		6
GRI 406: Non-discrimination 2016				
GRI 103	Management Approach 2016 (including 103-1, 103-2, 103-3)	P. 37–39, 42–43		
406-1	Incidents of discrimination and corrective actions taken	P. 38–39		6
GRI 407: Freedom of Association and Collective Bargaining 2016				
GRI 103	Management Approach 2016 (including 103-1, 103-2, 103-3)	P. 37–39, 56		
407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	P. 56		3

GRI standard/disclosure		Location	Comments and online annexes	UNGC
GRI 408: Child Labor 2016				
GRI 103	Management Approach 2016 (including 103-1, 103-2, 103-3)	P. 12–13, 37–39		
408-1	Operations and suppliers at significant risk for incidents of child labor	P. 21–23, 38–39		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, 37–39		
409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labor	P. 21–23, 38–39		1, 2, 4
GRI 410: Security Practices 2016				
GRI 103	Management Approach 2016 (including 103-1, 103-2, 103-3)	P. 37–39		
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 Business Partner 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.	1, 2
GRI 411: Rights of Indigenous Peoples 2016				
GRI 103	Management Approach 2016 (including 103-1, 103-2, 103-3)	P. 12–13, 37–39		
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 2021, we received no reports or other indications of cases involving the violation of indigenous rights.	1, 2

GRI standard/disclosure		Location	Comments and online annexes	UNGC
GRI 412: Human Rights Assessment 2016				
GRI 103	Management Approach 2016 (including 103-1, 103-2, 103-3)	P. 12–13, 37–39		
412-1	Operations that have been subject to human rights reviews or impact assessments	P. 38–39		1, 2
412-2	Employee training on human rights policies or procedures	P. 38–40		1, 2
412-3	Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	P. 38–39		1, 2
GRI 413: Local Communities 2016				
GRI 103	Management Approach 2016 (including 103-1, 103-2, 103-3)	P. 12–13, 14, 24–30, 58–59		
413-1	Operations with local community engagement, impact assessments, and development programs	P. 31–32, 58–59	Societal Added Value	
413-2	Operations with significant actual and potential negative impacts on local communities	P. 24–30, 36–37, 58–59	Impact Assessment	
GRI 414: Supplier Social Assessment 2016				
GRI 103	Management Approach 2016 (including 103-1, 103-2, 103-3)	P. 17, 21–23		
414-1	New suppliers that were screened using social criteria	P. 21–23		1, 2
414-2	Negative social impacts in the supply chain and actions taken	P. 21–23		1, 2
GRI 415: Public Policy 2016				
GRI 103	Management Approach 2016 (including 103-1, 103-2, 103-3)	P. 14, 37–38, 40		
415-1	Political contributions	P. 40	Stakeholder dialog	10

GRI standard/disclosure		Location	Comments and online annexes	UNGC
GRI 416: Customer Health and Safety 2016				
GRI 103	Management Approach 2016 (including 103-1, 103-2, 103-3)	P. 57–59		
416-1	Assessment of the health and safety impacts of product and service categories	P. 21–23, 57–59	Material topics	
416-2	Incidents of non-compliance concerning the health and safety impacts of prod-ucts 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 2021.	
GRI 417: Marketing and Labeling 2016				
GRI 103	Management Approach 2016 (including 103-1, 103-2, 103-3)	P. 57		
417-1	Requirements for product and service information and labeling	P. 57		
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 2021.	

GRI standard/disclosure		Location	Comments and online annexes	UNGC
GRI 418: Customer Privacy 2016				
GRI 103	Management Approach 2016 (including 103-1, 103-2, 103-3)	P. 37–38		
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 2021, 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. 37–40		
419-1	Non-compliance with laws and regula-tions in the social and economic area		Should material cases occur, these would have to be reported in the audited financial statements.	

SASB Index

	Topic, accounting metric and unit of measure	Code	Chapter/section	Further publicly available information
Greenhouse gas emissions	Gross global Scope 1 emissions, percentage covered under emissions-limiting regulations	RT-CH-110a.1	› Climate action and energy efficiency, see page 34	› CDP questionnaire – Climate Change 2021, see sections C6.1, C11.1b
	Discussion of long-term and short-term strategy or plan to manage Scope 1 emissions, emissions reduction targets, and an analysis of performance against those targets	RT-CH-110a.2	› Strategy, see page 9 onwards › Corporate responsibility goals, see page 18 › Climate action and energy efficiency, see page 33 onwards	› CDP questionnaire – Climate Change 2021, see sections C2, C3, C4 › Responsibility –Climate-Neutral 2040
Air quality	Air emissions of the following pollutants: (1) NO_x (excluding N_2O), (2) SO_x, (3) Volatile organic compounds (VOCs), and (4) Hazardous air pollutants (HAPs)	RT-CH-120a.1	› Environmental and safety performance data, see page 30 › Climate action and energy efficiency, see page 35	› CDP questionnaire – Climate Change 2021, see section C7.1a
Energy management	(1) Total energy consumed, (2) Percentage grid electricity, (3) Percentage renewable, (4) Total self-generated energy	RT-CH-130a.1	› Climate action and energy efficiency, see pages 30, 36	› CDP questionnaire – Climate Change 2021, see sections C6.1, C11.1b
Water management	(1) Total water withdrawn, (2) Total water consumed, percentage of each in regions with high or extremely high baseline water stress	RT-CH-140a.1	› Environmental and safety performance data, see page 30	› CDP questionnaire – Water Security 2021, see sections W1.2b, W1.2d, W1.2h
	Number of incidents of non-compliance associated with water quality permits, standards, and regulations	RT-CH-140a.2	› GRI Content Index, see page 257 (GRI 307-1)	
	Description of water management risks and discussion of strategies and practices to mitigate those risks	RT-CH-140a.3	› Safe and sustainable sites, see page 24 onwards	› Investors – ESG – Water Background Paper › CDP questionnaire – Water Security 2021, see sections W3.3, W4

	Topic, accounting metric and unit of measure	Code	Chapter/section	Further publicly available information
Hazardous waste management	Amount of hazardous waste generated, percentage recycled	RT-CH-150a.1	› Safe and sustainable sites, see page 28 onwards › Environmental and safety performance data, see page 30	
Community relations	Discussion of engagement processes to manage risks and opportunities associated with community interests	RT-CH-210a.1	› Commitment to sustainable transformation, see page 12 onwards › Corporate citizenship, see page 31 onwards › Sustainable products, see page 57 onwards	› Responsibility – Societal Added Value › Investors – ESG – Water Background Paper › CDP questionnaire – Water Security 2021, see section W3.3c
Workforce health and safety	(1) Total recordable incident rate (TRIR) and (2) Fatality rate for (a) direct employees and (b) contract employees	RT-CH-320a.1	› Work-related injuries, see page 55 › GRI Content Index, see page 258 (GRI 403-9)	
	Description of efforts to assess, monitor, and reduce exposure of employees and contract workers to long-term (chronic) health risks	RT-CH-320a.2	› Occupational health and safety, see page 53 onwards	
Product design for use-phase efficiency	Revenue from products designed for use-phase resource efficiency	RT-CH-410a.1	› Sustainable products, see page 58 onwards › Reporting on the EU taxonomy, see page 62 onwards	
Safety and environmental stewardship of chemicals	(1) Percentage of products that contain Globally Harmonized System of Classification and Labeling of Chemicals (GHS) Category 1 and 2 Health and Environmental Hazardous Substances, (2) percentage of such products that have undergone a hazard assessment	RT-CH-410b.1	› Sustainable products, see page 58 onwards	
	Discussion of strategy to (1) manage chemicals of concern and (2) develop alternatives with reduced human and/or environmental impact	RT-CH-410b.2	› Sustainable products, see page 58 onwards	

	Topic, accounting metric and unit of measure	Code	Chapter/section	Further publicly available information
Genetically modified organisms	Percentage of products by revenue that contain genetically modified organisms (GMOs)	RT-CH-410c.1	› Not applicable, as no sales share in this area.	
Management of the legal & regulatory environment	Discussion of corporate positions related to government regulations and/or policy proposals that address environmental and social factors affecting the industry	RT-CH-530a.1	› Commitment to sustainable transformation, see page 12 onwards › Sustainable products, see page 57 onwards	› Responsibility – Political Positions
Operational safety, emergency preparedness, and response	Process Safety Incidents Count (PSIC), Process Safety Total Incident Rate (PSTIR), and Process Safety Incident Severity Rate (PSISR)	RT-CH-540a.1	› Disclosures on global process safety, see page 17	
	Number of transport incidents	RT-CH-540a.2	› Corporate responsibility goals, see page 17 › Safe and sustainable sites, see page 24 onwards	
Activity metric	Production by reportable segment	RT-CH-000.A	› Total volume sold in thousand metric tons, see page 30	

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