2022

Annual Report

LANXESS
Energizing Chemistry

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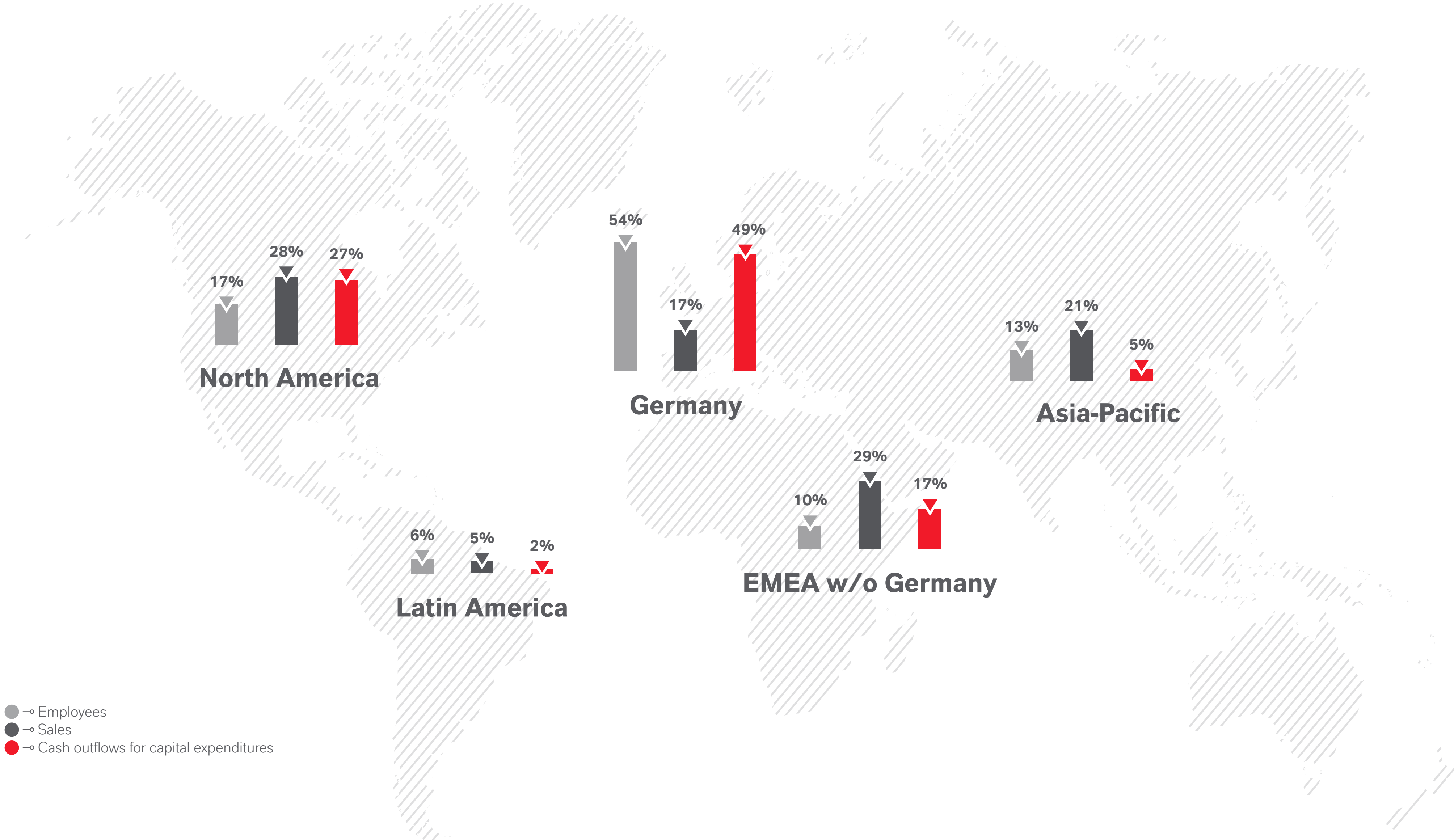
LANXESS AT A GLANCE

Group Structure

Segments	**Consumer Protection**	**Specialty Additives**	**Advanced Intermediates**
Business units	Material Protection Products Flavors & Fragrances Saltigo Liquid Purification Technologies	Polymer Additives Lubricant Additives Business Rhein Chemie	Advanced Industrial Intermediates Inorganic Pigments
Applications	› Agrochemicals › Flavors and fragrances › Disinfection, preservation and material protection products › Products for water treatment › Pharmaceuticals	› Colorants, polymer additives › Phosphorous-based and brominated flame retardants › Lubricants and lubricant additives	› Agrochemicals › Automotive › Construction › Aromas and flavors › Semiconductors and photovoltaics › Color pigments
Market positions	Top 3 position	Top 3 position	Top 3 position

GLOBAL PRESENCE



KEY DATA 2022

LANXESS Group

€ million	Q4 2021	Q4 2022	Change %	2021	2022	Change %
Sales	1,679	1,973	17.5	6,101	8,088	32.6
Gross profit	385	454	17.9	1,525	1,937	27.0
Gross profit margin	22.9%	23.0%		25.0%	23.9%	
EBITDA pre exceptionals[1]	172	175	1.7	815	930	14.1
EBITDA margin pre exceptionals[1]	10.2%	8.9%		13.4%	11.5%	
EBITDA[1]	123	153	24.4	668	826	23.7
EBIT pre exceptionals[1]	45	28	(37.8)	361	389	7.8
EBIT[1]	(4)	4	> 100	211	280	32.7
EBIT margin[1]	(0.2)%	0.2%		3.5%	3.5%	
Net income (loss)	29	(21)	< (100)	267	250	(6.4)
from continuing operations	(8)	(14)	(75.0)	115	184	60.0
from discontinued operations	37	(7)	< (100)	152	66	(56.6)
Weighted average number of shares outstanding	86,346,303	86,346,303	–	86,346,303	86,346,303	–
Earnings per share (€)	0.34	(0.24)	< (100)	3.09	2.90	(6.1)
from continuing operations	(0.09)	(0.16)	(77.8)	1.33	2.13	60.2
from discontinued operations	0.43	(0.08)	< (100)	1.76	0.77	(56.3)
Earnings per share from continuing operations adjusted for exceptional items and amortization of intangible assets (€)[2]	0.64	0.47	(26.6)	3.60	3.75	4.2
Dividend per share (€)				1.05	1.05[7]	–
ROCE[3]				6.6%	4.7%	
Cash flow from operating activities – continuing operations	223	92	(58.7)	368	187	(49.2)
Depreciation and amortization	127	149	17.3	457	546	19.5
Cash outflows for capital expenditures	183	158	(13.7)	424	407	(4.0)
Total assets				10,528[8]	11,281	7.2
Equity (including non-controlling interests)				3,762	4,427	17.7
Equity ratio[4]				35.7%[8]	39.2%	
Provisions for pensions and other post-employment benefits				877	367	(58.2)
Net financial liabilities[5]				2,345	3,814	62.6
Net financial liabilities after deduction of short-term money market investments and securities[6]				2,245	3,814	69.9

	Q4 2021	Q4 2022	Change %	2021	2022	Change %
Employees – as of Dec. 31				14,866[9]	15,177[9]	2.1
Work-related injuries resulting in at least 1 day's absence (per million hours worked)				0.9	0.5	(46)
Proportion of apprentices hired in Germany				83.0	85.0	
Turnover resulting from voluntary resignations				3.4	4.5	
Specific energy consumption (in gigajoules per metric ton of product)				3.78	3.14	(17)
CO_2e-emissions (Scope 1 and 2) (in CO_2 equivalents, metric tons per metric ton of product)				2,591	1,994	(23)
Specific water consumption (in cubic meters/k€)				1.68	1.36	(19)

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, earnings effects from the settlement of interest rate hedges and attributable tax effects. 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, 2021 and 2022, 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 24, 2023.
8) Prior-year figure restated.
9) There were 13,126 employees in continuing operations as of the reporting date after 12,951 as of December 31, 2021.

Letter from the CEO

Ladies and Gentlemen,

We can look back on 2022 as a year of political and economic drama. The Russian war of aggression has been particularly brutal on the people of Ukraine, but it has also shaken the entire world order, and we are all dealing with the impact of this conflict. We are facing uncertainty over energy supply, a strained logistics sector and rising inflation.

Nevertheless, there are good reasons to be optimistic in these difficult times. Even in recent months, we have had the power to change things. For example, we acquired the Microbial Control business from International Flavors & Fragrances. This brings the expansion of our Consumer Protection portfolio to a successful conclusion and makes us the world's largest provider of antimicrobial protection products.

We also systematically reviewed our portfolio and advanced key projects in 2022. For example, we will contribute our High Performance Materials business unit to a joint venture with Advent International.

With this step, we have now completed the extensive portfolio measures of recent years. Thanks to our consistent focus on specialty chemicals, we are now in a more stable position and less dependent on cyclical fluctuations than ever before.

Another source of optimism is the fact that we – as a team – have mastered the major challenges we faced in these months of global crisis. This achievement is especially attributable of our 15,000 employees around the globe. On behalf of the entire Board of Management, I wish to thank them for their commitment and flexibility.

To our stockholders, I say that we are working to give our company a successful future. LANXESS must grow, offer attractive products and enter new markets. But for us, a successful future also means becoming more sustainable in all our facts. Accordingly, we will continue to abide by the principles of the U.N. Global Compact in 2022.

Climate protection is a matter particularly close to our heart. Consequently, we set ourselves our next major target last year: We aim to make our upstream and downstream supply chains climate neutral by 2050. To this end, we initiated our "Net Zero Value Chain" program, which will realign our raw materials purchasing and see us procure more sustainable materials. In addition, we will pay greater attention to the carbon footprint when selecting means of transport and, in the medium term, offer emission-reduced and climate-neutral alternatives to all our products.

As you can see, we have big plans. We are ready to actively and targetedly pursue the necessary transformation to a climate-neutral economy. In the long term, we will thus create values that will benefit society, future generations, and of course you, our stockholders. We cordially invite you to continue accompanying us on our journey.

Best regards,

Matthias Zachert
Chairman of the Board of Management

STRATEGY

Market position clearly expanded

Stable through the Crisis

In a still challenging market environment, LANXESS has continued to drive its transformation into a specialty chemicals company. Our three segments – Consumer Protection, Specialty Additives and Advanced Intermediates – make up a portfolio that is less cyclical and exhibits the necessary resilience and high potential for sustainable growth.

SUSTAINABLE SOLUTIONS FOR CHALLENGING TIMES

2022 was characterized by rising energy and raw material costs, high inflation rates and geopolitical risks, which exacerbated the persisting effects of the coronavirus pandemic and led to the threat of recession. Despite macroeconomic headwind, LANXESS was able to pass on the higher energy and raw material costs in full at Group level.

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, as recently illustrated at the COP 27 Climate Change Conference in Sharm El Sheikh, Egypt. 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. This starts with safe, sustainable and climate-neutrally manufactured products and extends to products whose application helps to meet the challenges of a changing world. Our projects in the field of electric mobility and in the LANXESS Consumer Protection segment offer a particularly wide range of sustainable solutions: Biocides and disinfectants fight germs, viruses and bacteria, which are multiplying and spreading faster as global temperatures rise and the population grows. Ion exchangers support health protection and enable millions of people to supply themselves with clean water.

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 every respect. 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 given a new, strong foundation

With the acquisition of the U.S. specialty chemicals manufacturer Emerald Kalama Chemical in 2021, we not only undertook the second-largest acquisition in our company’s history but also made important progress on the restructuring of our portfolio. By integrating it into the Flavors & Fragrances business unit, LANXESS secures a leading position with global reach in the niche market for flavors and fragrances. In 2022, LANXESS completed the restructuring of its Consumer Protection portfolio following the integration of the Microbial Control business acquired from International Flavors & Fragrances (IFF).

With our strong Consumer Protection, Specialty Additives and Advanced Intermediates segments, we are building on a well-balanced portfolio that provides the right mix of resilience and flexibility to prevail in these volatile times and markets.

Our portfolio strategy also entails separating from businesses that no longer have long-term future prospects at LANXESS. In 2021, for example, we divested all operations of the Leather business unit as well as our business with reverse osmosis membranes in the Liquid Purification Technologies business unit. We thus repositioned our water treatment technology business. In 2022, we agreed to contribute the High Performance Materials business unit to a joint venture with Advent International, one of the largest and most experienced global private equity firms.

The extensive portfolio measures of recent years for the transformation into a specialty chemicals manufacturer are thus largely complete. The task now is to utilize synergies and fully exploit the earnings potential. LANXESS will continue to actively follow its strategic guidelines with smaller M&A activities in the future. 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 plan to establish a new production plant in Leverkusen, Germany, and a plant in Jhagadia, India. We have invested 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 lubricants for metal processing. At the Krefeld-Uerdingen site, we have invested a sum in the mid-double-digit millions to expand the menthol production capacity for the Advanced Industrial Intermediates business unit.

In addition, LANXESS continued to build on its cooperation with Provivi, Inc., a leading provider of crop protection solutions using pheromone technology. Our subsidiary Saltigo will again deliver an active ingredient for an integrated and sustainable crop protection system. Due to the high demand, production at the Leverkusen site was ramped up to a volume in the double-digit metric tons. Saltigo is also taking innovative and growth-enhancing approaches with regard to recycling. For instance, recovery of solvents has always made sense and been worthwhile, but the huge rise in prices has now made it essential. Reuse enables cost-effective production and also serves the sustainability and environmental protection targets.

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.

Our Group initiative for electric mobility, which commenced operations back in 2020, is aimed at sustainable, value-generating business models relating to new mobility concepts. The initiative is also dedicated to forming relevant ecosystems in the circular economy and representing them in important national and international bodies. In addition to the manufacture of high-performance electrolyte formulations for lithium-ion batteries, we are also working on the manufacture of iron oxides for cathode materials. The work with our cooperation partner Standard Lithium Ltd. at the site in El Dorado, U.S., for the production of lithium carbonate in battery-grade quality made progress in 2022. (See also p. 61–62 Innovation)

Our product portfolio strategy continues to bank on safety and sustainability as growth drivers. The focus is on restructuring the entire portfolio in a climate-neutral manner. Under the umbrella brand Scopeblue, for example, we offer products on the basis of renewable raw materials and with a carbon footprint reduced by at least 50%, such as Lewatit® ion exchange resins used for water treatment products. With our carbon-reduced products in the Consumer and Intermediates segments, we help our customers decarbonize their products. To this end, we are increasingly utilizing bio-based and circular raw materials.

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 11.5% in the reporting year. The year-on-year decline is primarily due to the above-average rise in energy prices and raw material costs. In addition to the earnings margin, we will also keep focusing on a continuous, solid cash flow and are now working on its further improvement following the conclusion of the last investment cycle.

We will of course continue to invest in attractive projects when we are convinced that we can thus create value for our stockholders 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.

The journey to climate neutrality

LANXESS intends to drive the structural change and thus be part of the solution as a sustainable chemicals company with long-term success. We have clearly formulated this ambition in our climate protection targets: We intend to be climate neutral in terms of Scope 1 and Scope 2 greenhouse gas emissions by 2040 and in terms of Scope 3 emissions by 2050. We therefore quantify the carbon footprint of all our products, and in 2022 we added the net-zero-value-chain component to our climate strategy.

The strategy for climate neutrality along the entire value chain is based on three pillars.

- Sustainable raw materials: LANXESS is realigning its raw materials purchasing and procuring more sustainable raw materials that are bio-based, recycled or manufactured using renewable energy. Recent examples of these raw materials are sustainably produced cyclohexane or starch-based polyether polyols for prepolymers under the Adiprene brand.
- Green logistics: The carbon footprint is taken into account when selecting means of transport. LANXESS also wants to use innovative solutions such as "green ships" with sustainable drives. Improved logistics planning also increases the utilization of transport capacity, optimizes the transportation of goods and reduces the need for goods transports.
- Climate-neutral products: LANXESS is expanding its range of climate-neutral products and solutions with a small carbon footprint. Since fall 2021, these products have borne the Scopeblue brand label. One example is our trimethylolpropane (TMP) Scopeblue, about half of which is made from renewable raw materials. In the medium term, LANXESS wants to offer low-carbon and climate-neutral alternatives for all its products.

In 2022, the Science Based Targets initiative (SBTi) verified that the LANXESS climate strategy follows the 1.5-degree pathway overall.

Further information on our global climate strategy

External recognition from rating agencies

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 twelfth time in a row and, as in the previous year, was ranked second in our relevant category. Moreover, LANXESS was included in DJSI Europe for the sixth time in a row as the best company in the sector. The CDP also awarded LANXESS an A grade for successful climate management once again. In the renowned sustainability rating by MSCI ESG Research, we again attained the second-highest category, AA. We also retained 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. In a persistently uncertain environment in 2023, we will focus on minimizing the impact of a potential recession, generating higher operating cash flow, exploiting potential for better earnings, and integrating acquired companies in order to utilize their portfolio synergies.

SUSTAINABILITY

−17%

absolute water withdrawal at LANXESS water risk sites

25.2%

woman in management

−69%

CO_2 emissions

Commitment to Sustainable Transformation

Even in challenging times, our commitment to sustainability does not change. We see it as a long-term transformation that we drive forward according to a clear roadmap – even in phases of geopolitical instability. Progress in the field of sustainability makes our company more resilient and promotes our future viability, so that we can successfully master challenges and crises.

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 2022 non-financial Group report

SUSTAINABILITY MANAGEMENT LOCATED AT BOARD OF MANAGEMENT LEVEL

Sustainability-Related Committees and Board of Management Responsibilities

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. Anno Borkowsky[1]	Michael Pontzen

1) Until the end of March Dr. Stephanie Coßmann

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 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 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

The "Value Chain Circularity & Product Stewardship" sub-committee and the "Sustainability Committee" adopted two new sustainability topics in the reporting year:

1. LANXESS wants to make its entire supply chain climate-neutral. The indirect emissions in the upstream and downstream supply chain (Scope 3) are to be eliminated by 2050.

   The LANXESS climate targets are in line with the Paris Climate Agreement. The Science Based Targets initiative (SBTi), a joint initiative of the climate change mitigation organization CDP, the U.N. Global Compact, the World Resources Institute and the World Wide Fund for Nature, validated our climate targets for Scope 1 and 2 and confirmed that LANXESS is helping to limit global warming to a maximum of 1.5 degrees Celsius. To measure 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.

2. Furthermore, we have set ourselves the target of carrying only climate-neutral products in our portfolio and quantifying the carbon footprint of all our products by 2050 (see targets table).

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, and 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, 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), which is funded by the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety, is focusing on the building and automotive sectors. 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. 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. In the context of national and international regulatory requirements such as those of the German Act on Corporate Due Diligence in Supply Chains, we also organized a stakeholder roundtable on the topic of "Sustainable Delivery – the Supply Chain of the Future" in 2022. With representatives of politics, science, business and environmental organizations, we discussed how LANXESS follows the legal requirements. There was also valuable input on selected sustainability topics and on the compatibility of ecology and business.

Globally, we are now also involved in the International Sustainability and Carbon Certification (ISCC) initiative. This multi-stakeholder initiative is governed by an association with more than 175 members. We will support the further development of the ISCC standards on the road to a sustainable, climate-neutral and circular economy.

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

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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 2021, we the responded to the ongoing, dynamic transformation with an extensive materiality analysis. As a result, we condensed the number of our sustainability topics from seven to five, sharpening the focus on important new topics such as the circular economy. The five main topics were confirmed by the Sustainability Committee following a review in the reporting year and, after close examination, provided our relevant management framework again in 2022. They also influence the structure of our external reporting on the topic of corporate responsibility. Our review of the material topics in the reporting year also considers the double materiality perspective. This shows how our activities impact different sustainability aspects ("inside-out perspective") and how sustainability topics, such as climate change, influence LANXESS ("outside-in perspective").

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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.	LANXESS manufactures 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 254.

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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

NFR

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 targets for CO_2e emissions in Scope 1 and Scope 2 and for the lost time injury frequency rate (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. In connection with the Scope 3 target, for example, these include the Net Zero Value Chain initiative, the elimination of indirect emissions in the upstream and downstream value chain by 2050, and innovations and adjustments with regard to diversity.

NFR

LANXESS Sustainability Goals

Topic	Goal	Indicator	Deadline	Status quo 2022	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	2023	The risk analysis is in operation, and all suppliers from North America and Germany have been integrated into the system. It has been successfully linked with external sources for risk assessment. The connection of suppliers from elsewhere in Europe and the rest of the world is scheduled for early 2023. The global launch of the necessary system was planned for 2021 and has been delayed.		20–22
Identification and reduction of sustainability risks in the supply chain	Differentiation of risk score by goods group/country (levels 1(6))	Sustainability risk score	2023	The risk tool is available and enables a risk overview via the supplier databases in North America and Germany. Following a bottom-up approach, GPL developed a manual calculation method with TfS guiding principles in order to analyze suppliers with a low sustainability score or none at all. Here, too, the global rollout has been delayed from 2021 to early 2023 for system-related reasons.		20–22
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	A process and a calculation tool have been developed to track, monitor and report on the proportion of bio-based, circular, renewable and recycled raw materials.		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	As of December 31, 2022, our matrix certificate covered 41 certifiable companies with 74 sites in 22 countries. In relation to the number of employees, this equates to 86% coverage of our matrix certificate (not including the newly acquired sites in 2021 and 2022: over 90%). Due to the changes in our site portfolio in recent years, we still have some site certificates and a region certificate, which will also be transferred to our matrix certificate. As of the reporting date, a total of 97% (not including sites acquired in 2022: over 98%) of our sites had ISO 14001 certification.		23–25
Global process safety	Continuous reduction in incidents relating to facility and process safety	Number of reportable incidents relating to facility and process safety	Ongoing	There are eight relevant incidents, of which five classified as reportable.		23
	Continuous reduction in environmental incidents	Number of reportable environmental incidents	Ongoing	There were no relevant environmental incidents.		23
	Continuous reduction in transportation incidents	Number of reportable transportation	Ongoing	There were no relevant transportation incidents.		25–26

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LANXESS Sustainability Goals

Topic	Goal	Indicator	Deadline	Status quo 2022	SDG	Page
Water consumption	Reduction of specific water consumption by 2% per year	Water consumption in cubic meters per thousand euros of sales	Ongoing	For continuing operations, the specific water consumption amounted to 1.36 cubic meters/thousand euros (–19% year-on-year). Including the HPM business unit, the specific water consumption amounted to 1.24 cubic meters/thousand euros (–26% year-on-year).		26–27
Wastewater	Reduction of total organic carbon (TOC) by 2% per year	Kilograms per thousand euros of sales	Ongoing	For continuing operations, the specific TOC amounted to 0.12 kilograms/thousand euros (–29% year-on-year). Including the HPM business unit, the specific TOC amounted to 0.10 kilograms/thousand euros (–40% year-on-year).		27–28
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 and continued in 2022.		26–27
	Reduction of absolute water withdrawal by 15% compared with base year 2019	Absolute water withdrawal in cubic meters	2023	For continuing operations, absolute water withdrawal at water risk sites has already been reduced by 17.3% compared with the base year 2019. Including the HPM business unit, absolute water withdrawal at risk sites has been reduced by 16.8% compared with the base year 2019.		26–27
Climate Action and Energy Efficiency					3, 7, 8, 12, 13	
Emissions	Reduction of CO_2e emissions by 65% versus 2004 (establishment of LANXESS; 6.5 million metric tons of CO_2e)	Absolute CO_2e emissions (Scope 1 and 2) (market-based method)	End of 2025	In continuing operations, absolute CO_2e emissions amounted to 1,994 thousand metric tons. Including the HPM business unit, the figure was 2,466 thousand metric tons of CO_2e. This constitutes a reduction of 69% for continuing operations and 62% including the HPM business unit versus 2004, when the company was founded.		32–35
	Reduction of emissions of non-methane volatile organic compounds (NMVOC) by 25% compared to base year 2015	Absolute NMVOC emissions	End of 2025	For continuing operations, this constitutes a reduction of 89% compared with the base year. Including the HPM business unit, the reduction compared with the base year was 86%.		32–35
	Reduction of CO_2e emissions by 80% versus 2004 (establishment of LANXESS; 6.5 million metric tons of CO_2e)	Absolute CO_2e emissions (Scope 1 and 2) (market-based method)	End of 2030	–		32–35
	Climate neutrality for the entire Group	Absolute CO_2e emissions (Scope 1 and 2) (market-based method)	End of 2040	–		32–35

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LANXESS Sustainability Goals

Topic	Goal	Indicator	Deadline	Status quo 2022	SDG	Page
Good Governance and Energized Employees					3, 4, 5, 8	
HR 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 4.5% in continuing operations. Including the HPM business unit, it was 4.4% (previous year: 3.4%).		49–51
HR development	At least 80% of apprentices hired after completing their training	Proportion of apprentices hired in Germany	Ongoing until the end of 2023	85% (previous year: 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 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 2022, the proportion was 96% (previous year: 89%).		48–49
Diversity and inclusion	At least one female Board of Management member	Proportion of women on the Board of Management	Mid-2022	The proportion of women on June 30, 2022, was 0% (previous year: 20%). However, Frederique van Baarle is to become Labor Relations Director no later than April 1, 2023, so there will be a female Board of Management member again.		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 on June 30, 2022, was 22.0%.		42–43
	Increase the proportion of women in the first level below the Board of Management to 25%	Proportion of women in the first level below the Board of Management	Mid-2027	In continuing operations, the proportion of women on December 31, 2022, was 18.4%. Including the HPM business unit, the figure was 22.5% (previous year: 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 on June 30, 2022, was 25.2%.		42–43
	Increase the proportion of women in the second level below the Board of Management to 28%	Proportion of women in the second level below the Board of Management	Mid-2027	In continuing operations, the proportion of women on December 31, 2022, was 25.1%. Including the HPM business unit, the figure was 24.8% (previous year: 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 134 (previous year: 102) participants in 2022, the proportions amounted to 28% (previous year: 25%) female and 55% (previous year: 60%) non-German participants. Excluding HPM, there were 127 participants, of which 29% female and 56% non-German participants.		42–43
	Increase proportion of women in management to 30%	Proportion of women in management	End of 2030	In continuing operations, the proportion of women was 25.5%. Including the HPM business unit, the figure was 25.2% (previous year: 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 0.5 in continuing operations. Including the HPM business unit, the LTIFR was 0.6.		55

LANXESS Sustainability Goals

Topic	Goal	Indicator	Deadline	Status quo 2022	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 strategy plan covers 70% of the relevant products.		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 proportion of inspected/updated dossiers is 31.6%.		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	140 projects in the reporting year were aimed at developing new/improving existing products and applications.		61–62
	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	83 projects in the reporting year concerned process technology issues with a view to reducing costs, improving efficiency or increasing capacity.		32–33
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.		62–63

15 thousand suppliers Group-wide

CIRCULAR AND SUSTAINABLE SOURCING

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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 bottlenecks in global supply chains remained a challenge in the reporting year and resulted in rising raw material prices. In addition, substantial fluctuations in electricity and gas prices had an impact on our production costs, especially in Europe. In China, the government-ordered power rationing at several of our sites resulted in interruptions to production.

Logistics

Costs also continued to increase in 2022 due to the rise in energy and fuel prices in Europe. The sales and marketing teams of our business units incorporated this cost increase into price negotiations with customers. The shortage of truck drivers, especially in Europe, Great Britain and America, continues to cause delays and put strain on the supply chain. Restrictions in connection with China's zero-COVID policy are likewise making goods transport to and from Asia more difficult.

Energy

Gas prices and thus prices for the entire energy sector increased in North America, but above all in Europe, particularly due to the war in Ukraine. Russia's invasion and the subsequent sanctions imposed by the West, which also affected coal and oil, caused gas prices to rise to more than ten times the average prices of the last decade and also led to an explosion in electricity prices in all European countries. Since the French nuclear power plants cannot supply much energy, the European markets remain very strained, and the huge volatility of the very high prices persists. The Asian energy markets, which are chiefly served by coal and liquefied natural gas (LNG), are being subsidized locally and are also benefiting from cheaper Russian coal and oil deliveries, which gives them advantages in terms of pricing and ability to supply. Since this macroeconomic development affected all market participants, we were unable to pass on the cost increase to our customers.

In 2022, procurement transactions with over 15,000 suppliers were processed. A global procurement guideline for the entire Group defines our employees' conduct when dealing with suppliers and their employees. We have specified standardized workflows in the context of procurement in more detail in a process description.

In accordance with the principles of the United Nations 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 Business Partner Code of Conduct is an essential prerequisite for all suppliers wishing to work with us.

In the interests of safe processing at our production facilities, there is a particular focus on the procurement of raw materials. For this reason, suppliers must submit up-to-date information to ensure that the raw materials comply with all relevant legislation for chemicals. 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 the materials and products that they are researching or have already brought to market. 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.

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.”

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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.

Because the assessment results and audit reports are shared within the initiative, we had more than 13,000 sustainability assessments and around 790 audit reports available to us as of the end of 2022. Suppliers whose sustainability-related activities have been assessed in TfS audits or assessments represent 72% 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.

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It is also encouraging to see that our suppliers’ average EcoVadis sustainability assessment of 50.1 points is above the EcoVadis benchmark of 44.7 points. With regard to our suppliers’ weak points, no trend could be discerned in 2022 again. We had no reason in the year under review to end our collaboration with suppliers due to sustainability aspects.

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 rollout is now taking place in parallel with a general update of the SAP system. In North America, this was already completed in 2021; Germany followed in the second quarter of 2022. The risk analysis system allows us to retrieve supplier-related data from around 300,000 sources and in various qualitative dimensions – such as regulatory, environmental, social or financial – in real time.

TotalEnergies is supplying the specialty chemicals company LANXESS with biocircular styrene. Unlike conventional styrene, the raw material used by TotalEnergies is based on tall oil, which is derived from a tree resin and is a by-product of pulp production. LANXESS uses the styrene to produce sustainable ion exchange resins. These products are used for water treatment and for the partial softening of drinking water in water filters.

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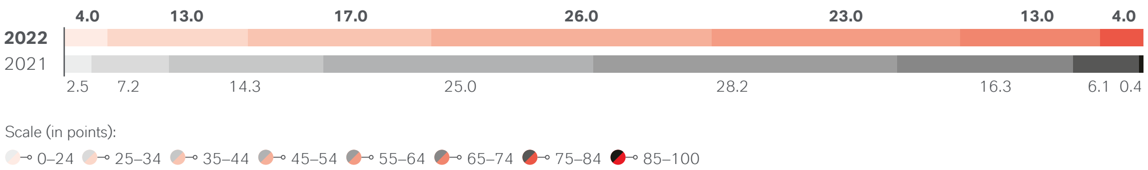
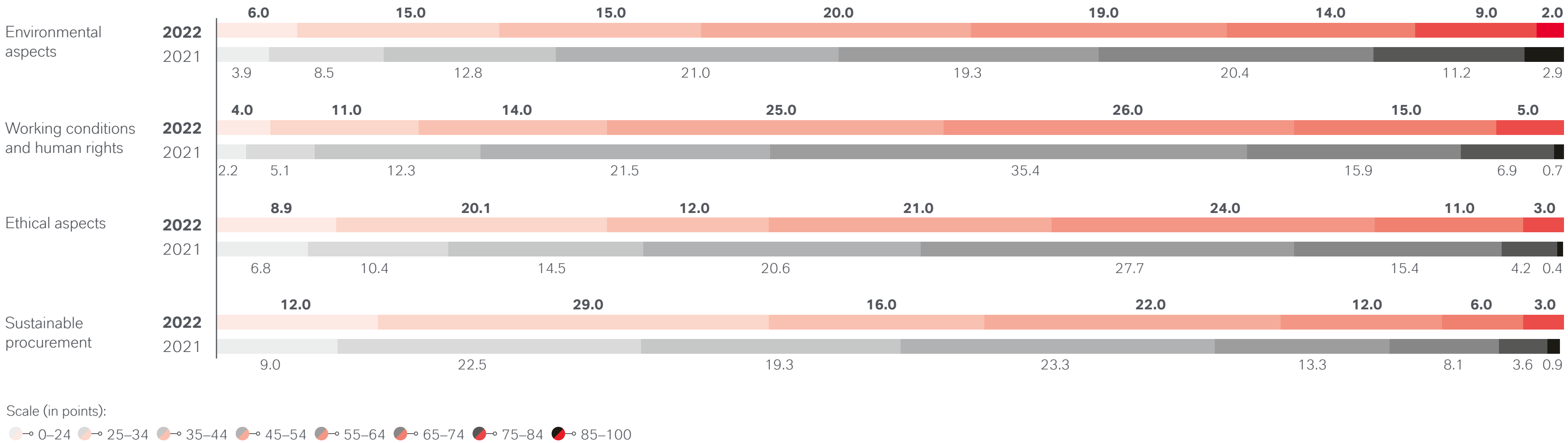
Overall Scores of Our Suppliers at EcoVadis
%



Detailed Scores of Our Suppliers at EcoVadis
%



The sustainable origin of the styrene is certified in accordance with the mass balance approach of the ISCC PLUS standard (“International Sustainability and Carbon Certification”). This is an important requirement, as LANXESS offers its products in accordance with this certification standard as well and therefore relies on the same transparency for its raw materials.

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In addition to styrene, the specialty chemicals company already sources many other sustainable equivalents of fossil raw materials. Biocircular acrylonitrile is used for another type of ion exchange resin. The preservative Preventol is also available with various fatty acid mixtures based on sunflower oil. The intermediate Trimethylolpropane Scopeblue is available in a version about half

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of which comprises sustainable n-butyraldehyde. The composite Tepex Scopeblue is based on flax and polylactic acid. And the high-performance plastic Durethan Scopeblue uses biocircular cyclohexane and waste glass.

SAFE AND SUSTAINABLE SITES

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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.

35
HSE (Health, Safety, Environment) checks at production facilities

Uniform standards in production

LANXESS operates a total of 57 production sites and has a presence in 18 countries (investments ≥ 50%, as of December 31, 2022). 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.

57
production sites in 18 countries

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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 2022, a total of 35 production facilities (previous year: 35) were examined in the context of HSE compliance checks (health, safety and environment), including 15 (previous year: 16) in Germany. Eight HSE compliance checks planned outside Germany and three planned in Germany were postponed to 2023, partly as a result of the coronavirus pandemic in China. In 2022, we conducted HSE gap analyses at six sites acquired in connection with migrations.

We use an electronic reporting system to record accidents and events worldwide in line with uniform regulations. On February 16, 2022, the new Intelex Incident Management System replaced its predecessor IRS (Incident Reporting System). By way of digitalization, the new, more agile and flexible system provides a platform for greater data and process safety and better functionality on mobile devices. Injuries, transportation accidents, near-accidents, environmental incidents, instances of

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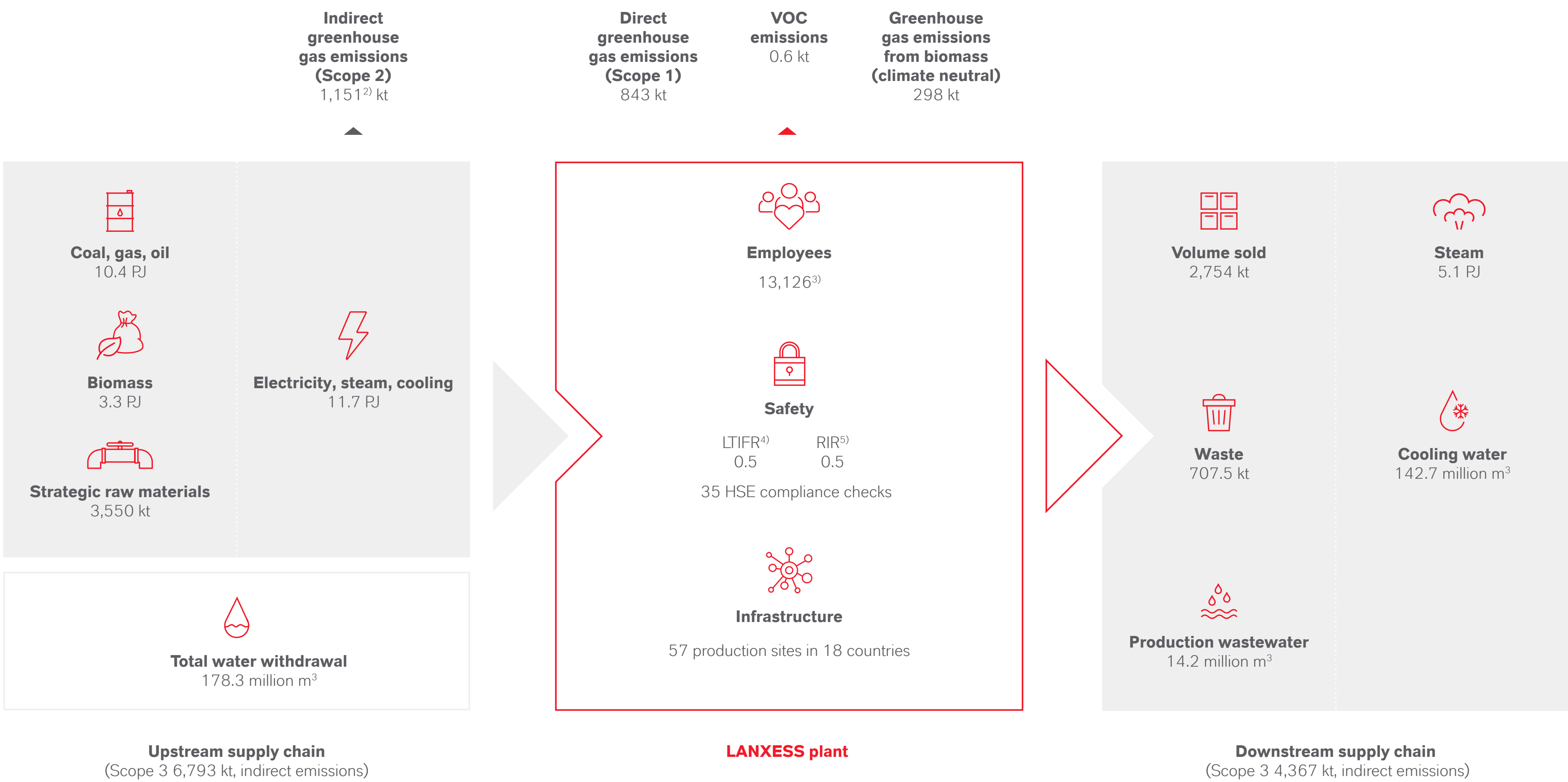
damage and security-relevant incidents such as theft are documented. Each event is carefully analyzed in order to draw conclusions as to how we can avoid similar incidents in the future. All measures count toward our goal of continuously reducing the number of events. The number of major process safety incidents in the 2022 reporting year was in the 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 is 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.

Input/Output Analysis[1]



1) Continued operations
2) Calculated according to the market-based method of the GHG Protocol.
3) Core workforce of the core companies as of December 31, 2022.
4) LTIFR: rate of occupational accidents with an incapacity certificate per planned million hours worked resulting in calendar days lost following the day of the accident (day of the accident does not count), calculated for all employees at all sites (including temporary workers for Germany, NAFTA, China, and India).
5) Number of incidents per 200,000 working hours that have to be reported according to OSHA rules.

86%
matrix certificate coverage

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Confirmation of compliance with the standards ISO 9001 and ISO 14001 is provided in global matrix certificates. This approach 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 2022, we successfully passed the surveillance audit in accordance with the standards ISO 9001:2015 and 14001:2015 and the recertification audit in accordance with ISO 50001:2018. In the reporting year, the production sites in Charleston, U.S., and Baxenden, Great Britain (formerly Chemtura), IMD Natural Solutions, Dortmund, and LANXESS Kimya Ticaret Limited Sirketi, Istanbul, were added to the matrix certificate. Most of the sites taken on with the acquisition of Chemtura were already integrated into the matrix certificates. Nearly all of the other sites 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 Chemical, Theseo and International Flavors & Fragrances Inc. (IFF) and their certificates.

As of December 31, 2022, our matrix certificate covered 41 certifiable companies (companies with staff and in which LANXESS has a stake of over 50%) with a total of 74 sites in 22 countries. In relation to the number of employees, this equates to 86% coverage (not including the newly acquired sites in 2021 and 2022: over 90%).

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, 2022, 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 ISCC+, 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 central safety-data system for chemicals at LANXESS. In connection with the introduction of the new enterprise resource planning system, more than 11,000 products and raw materials of LANXESS Deutschland, Saltigo, LANXESS Organometallics and Theseo were migrated to the central system in 2022. The integration of Emerald Kalama Chemical was begun and an interface successfully implemented in order to populate both the old LANXESS system and the new ERP system with logistically relevant data from the central safety-data system. This will prevent duplicate data management and ensure consistent data in the individual systems.

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To counter the deficiencies in load securing of general cargo, the PTSE and GPL Group functions have worked closely together to develop a load-securing standard for LANXESS, which has proven successful in numerous field tests and in practice. After the interruption of the pandemic, implementation resumed in 2022 at the site in Bushy Park, U.S.

Environmental responsibility

The preservation of natural resources – for example by using raw materials as efficiently as possible – and identification of further potential are ongoing tasks in the context of our environmental responsibility and expertise. We are focused, firstly, on responsible use of water as a resource, which includes both water consumption and water quality. Secondly, we endeavor to fulfill our ecological responsibility with regard to waste. The clear focus is compliance with all legal requirements. In line with circular economy, LANXESS strives to enforce the waste hierarchy – prevention, reuse, disposal – around the world.

LANXESS Water Program: Good progress continues

As a chemicals company, we rely on water for our production. We use it mainly for cooling (80%), as an input material in chemical processes (18%) or in the form of steam (2%). In addition, rivers are an important transportation tool, particularly for our networked sites in Germany.

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LANXESS is aware of water's ecological and social significance beyond water's importance as an economic resource. Access to water and sanitary facilities is a 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." The products of our Liquid Purification Technologies business unit in particular make a major contribution. For example, the Lewatit® ion exchange resin is used in the processing and reuse of process water and removes unwanted substances.

One of the most important indicators in discussions around water is water stress. Our annual analysis of all LANXESS production sites using the WRI Aqueduct Tool showed that – taking all portfolio changes of the current fiscal year into account – 13 of our production sites are in water-stress areas. These sites accounted for around 2% of our total water withdrawal in 2022. Around 90% of our water withdrawal takes place in areas with low water stress.

In order to further drive our dedication to the protection of water as a resource, we launched our global LANXESS Water Program in 2020. In addition to the global efficiency targets for water consumption and total organic carbon (TOC) in wastewater, the program primarily aims

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to make improvements at the LANXESS water risk sites. The sites are assessed using a customized, extensive water risk analysis. For fiscal year 2022, we identified a total of four locations as water risk sites: Jhagadia and Nagda, India; Latina, Italy; and Qingdao, China. The sites have not changed since the program began.

We believe we are on track to achieve our target to reduce absolute water withdrawal at water risk sites by 15% by 2023 (base year: 2019). Compared to 2019, the four sites have already reduced water withdrawal by 17.3%. Prioritized savings projects are all in the pilot phase or already complete. For example, water withdrawal has already been reduced by a technical optimization of the cooling towers in Latina and by various water saving measures in Qingdao. At the two Indian sites, Jhagadia and Nagda, rainwater projects were implemented with the local community. In addition, we concluded gap analyses regarding the local water stewardship programs at all water risk sites in the reporting year, and are seeing good progress. The water stewardship programs are to be fully initiated by 2023.

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

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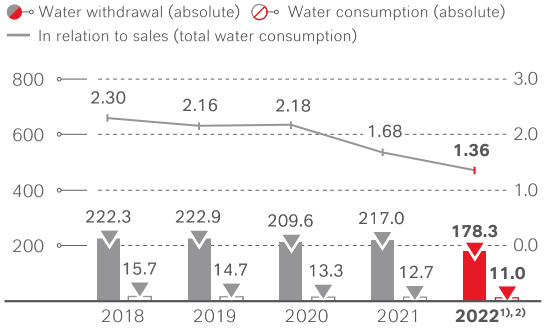
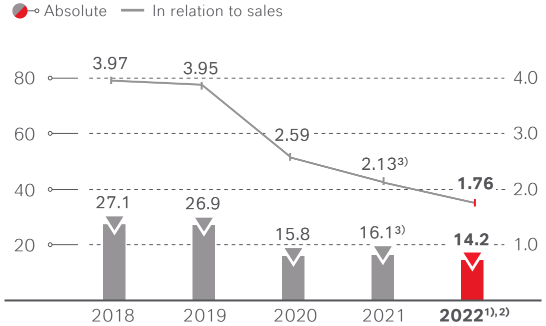
an annual reduction of both specific water consumption and specific total organic carbon (TOC) in wastewater flows by 2%.

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



1) Continuing operations
2) LANXESS total: Water withdrawal: 226.8, Water consumption: 12.4, specific: 1.24

Wastewater Discharge (treated)
in million cubic meters
in cubic meters/ thousand euros of sales



1) Continuing operations
2) LANXESS total: Wastewater discharge (treated): 15.6, specific: 1.56
3) Figure restated

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The comparison of water withdrawal and water consumption shows that, while large volumes of water are withdrawn (e.g. once-through cooling water), this water is later returned to the water cycle in the same quality. In 2022, LANXESS's water consumption is calculated by subtracting the volume of treated and untreated wastewater and water volumes (e.g. sold steam) sold to third parties from the water withdrawal (including purchased steam).

In the reporting year, both our water withdrawal and water consumption decreased considerably due to the deconsolidation of the HPM business unit. We achieved our target of reducing specific water consumption by at least 2% in the reporting year.

The volume of treated wastewater declined year-on-year. This is mainly due to the deconsolidation of the HPM business unit. As a responsible company, we consider numerous water quality indicators in addition to wastewater volumes in order to derive improvement measures. One of the most important parameters is TOC (total organic carbon). In fiscal year 2022, the specific TOC after wastewater treatment decreased to 0.12 kilograms/thousand euros (previous year: 0.17 kilograms/thousand euros). Because of this and the 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.

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Sustainable waste management

We aim to avoid hazardous as well as non-hazardous waste as far as possible and decouple our business growth and waste production. Rigorous material-flow management from raw material input to finished product is aimed at ensuring that we use resources as efficiently as possible and minimize our waste volumes.

Our business units and sites strive to increase efficiency and 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.

In fiscal year 2022, LANXESS ramped up its activities with regard to waste. Various working groups conducted potential and market analyses to look at new on-site and off-site recycling options, partnerships for innovative chemical recycling processes or the further standardization of waste reporting. The goal is to increase the circularity of waste streams.

The amount of waste generated has decreased significantly compared to the previous year. This is due on the one hand to the portfolio change and on the other hand to an adjusted declaration of aqueous waste streams at our site in El Dorado, U.S., on the basis of updated reporting standards. From reporting year 2022, the site's

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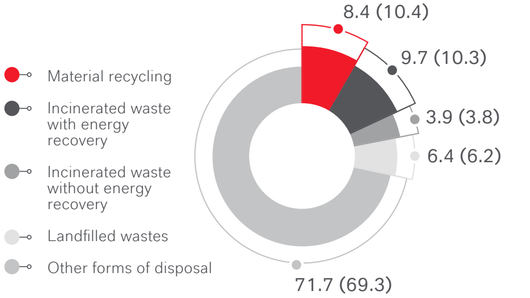
slightly polluted wastewater is reported as wastewater. The remaining wastewater still accounts for the biggest share of our waste.

Waste for Disposal[1]
% (LANXESS total)



1) Continuing operations

Using the previous year's method, the waste volume of continuing operations would have increased by roughly 5%.

We group waste into five categories, each divided into hazardous and non-hazardous waste. The chart shows each category's share (in %) of total waste.

In reporting year 2022, the share of recovered waste (material recycling/energy recovery) increased by 8 percentage points year-on-year to a total of 18%. The share of other forms of disposal decreased by around 12 percentage points compared to the previous year.

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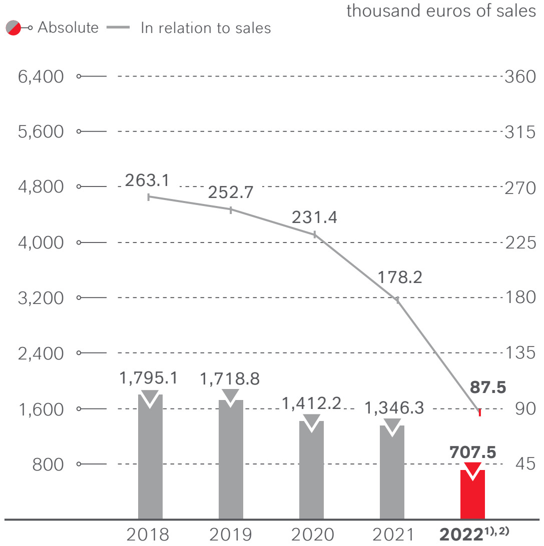
This was due, on the one hand, to the redeclaration in El Dorado and, on the other hand, to more detailed reporting at the sites in the Lower Rhine region. Through the increased efforts with regard to waste and improved data provision from the site utility company, a large volume of waste was reclassified from other forms of disposal to the other categories.

Total Waste
in thousand metric tons | in kilograms of waste/thousand euros of sales



1) Continuing operations
2) LANXESS total: Total waste: 738.3, specific: 73.7

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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 equity interest of more than 50%. Due to the planned deconsolidation of the HPM business unit, we are disclosing this data separately.

PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft audited our environmental and safety performance data and the requisite data-gathering processes with limited assurance for fiscal year 2022.

The non-financial performance indicators "CO_2e emissions (Scope 1 and Scope 2) and energy" as well as the "lost time injury frequency rate (LTIFR)" are management-relevant performance indicators. Therefore, they are part of the "reasonable assurance" audit of the consolidated financial statements and the combined management report.

Environmental and Safety Performance Data*

	2020	2021	2022 Continuing operations	2022 HPM business unit
Safety				
Occupational injuries to LANXESS employees resulting in at least one day's absence (LTIFR[1])	1.0	0.9	0.5	1.1
Volume sold[2] in thousand metric tons	**4,256**	**4,754**	**2,754**	**1,541**
Energy consumption in petajoules (10^{15} joules)[3]	**24.4**	**28.6[a]**	**25.4**	**2.8**
Direct energy sources (GRI 302-1)				
Non-renewable	9.5	11.2	10.4	1.1
Renewable (biomass)	2.4	3.3	3.3	0.0
Indirect energy sources (GRI 302-1)[4]				
Electricity consumption	5.8	6.3	4.7	1.5
Heat and steam consumption	6.0	7.05[a]	6.3	0.2
Energy consumption for cooling	0.55	0.54	0.55	0.00
Other	0.15	0.11	0.12	0.00
Water and wastewater in million cubic meters				
Total water withdrawal (GRI 303-3)	**209.6**	**217.0**	**178.3**	**48.5**
Surface water	48.4	57.5	28.1	45.7
Groundwater	4.3	4.6	4.5	0.0
Third-party wastewater	1.2	1.1	1.2	0.0
Third-party water	155.7	153.8	144.5	2.8
Total water withdrawal in water-stress areas, 4.2[13] (GRI 303-3)	**4.7**	**4.5**	**4.1**	**0.1**
Volume of once-through cooling water, 188.4[13] (GRI 303-4)	**169.7**	**176.4**	**142.7**	**45.7**
Total wastewater discharge (GRI 303-4)				
Wastewater discharge (treated)	15.8	16.1[a]	14.2	1.4
Wastewater discharge (untreated)	178.8	187.4	152.2	45.9
Total wastewater discharge by destination (GRI 303-4)				
Surface water		191.5	155.5	46.9
Groundwater		0.0	0.7	0.0
Seawater		0.4	0.4	0.0
Third-party water		11.5	9.8	0.4
Wastewater emissions (after treatment) in thousand metric tons				
Total nitrogen	0.4	0.5	0.4	0.0
Total organic carbon (TOC)[5]	1.2	1.3	1.0	0.1
Heavy metals[6]	0.0021	0.0023	0.0019	0.0001
Total water consumption in million cubic meters (GRI 303-5)[7]	**13.3**	**12.7**	**11.0**	**1.4**
Emissions to air in thousand metric tons				
Total greenhouse gas emissions CO_2e (GRI 305-1, GRI 305-2)	2,533	2,591	1,994	472
Direct (Scope 1)[8]	1,263	1,284	843	392
Indirect (Scope 2, marked-based)[9]	1,270	1,307	1,151	80
Ozone-depleting substances (GRI 305-6)	0.004	0.004	0.004	0.000
NO_x, SO_x and other emissions (GRI 305-7)				
NO_x[10]	2.1	1.4	0.9	0.4
SO_2[11]	0.9	0.9	0.3	0.3
CO	2.1	3.2	2.6	0.1
NH_3	0.02	0.03	0.01	0.01
NMVOC[12]	1.2	0.8	0.6	0.1
Waste in thousand metric tons				
Total weight of waste (GRI 306-3)	1,412.2	1,346.3	707.5	30.8
Incineration with energy recovery	77.1	70.7	68.3	7.5
Incineration without energy recovery	30.5	28.7	27.6	0.3
Landfilling	52.1	52.4	45.0	1.0
Material recovery	47.9	60.5	59.1	17.9
Other forms of disposal	1,204.6	1,134.0	507.5	4.1
Type of waste				
Hazardous	566.4	664.8	626.9	6.4
Non-hazardous	845.8	681.5	80.6	24.4

Explanations concerning our environmental and safety performance data

* The aggregate data refer to all LANXESS production sites in which the company holds equity interest of more than 50%. 2022: As a result of the acquisition of International Flavors & Fragrances Inc. (as of July 1, 2022), the environmental figures for the production site Institute were included pro rata.

1) LTIFR: rate of occupational accidents with an incapacity certificate per planned million hours worked resulting in calendar days lost following the day of the accident (day of the accident does not count), calculated for all employees at all sites (including temporary workers for Germany, NAFTA, China, and India).
2) Products sold internally to another LANXESS company or externally (excluding commercial products).
3) The energy volumes given were calculated on the basis of typical substance values. They do not include energy contained in raw materials.
4) Presented as a balance sheet, whereby the volume of energy sold is subtracted from the volume of energy purchased.
5) Chemical oxygen demand (COD) is calculated as follows: [COD] = [TOC] * 3. COD 2022: 3.0 kt. (not including BU HPM).
6) Heavy metals (arsenic, cadmium, chromium, copper, mercury, nickel, lead, tin, zinc).
7) According to GRI 303-5, total water consumption is calculated by subtracting the total water discharge from the total water withdrawal.
8) All Scope 1 greenhouse gases are calculated as CO_2e. 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), since 2021 the factors for calculating CO_2e have been 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). 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: 2018: 230 kt CO_2, 2019: 184 kt CO_2, 2020: 268 kt CO_2, 2021: 294 kt CO_2, 2022: 298 kt CO_2 (not including BU HPM). The material composition of the biomass is partially based on assumptions/estimates.
9) All Scope 2 greenhouse gases are calculated as CO_2e. In 2022, the conversion factors used were provided by the energy producers. Where these were not available, factors from the IEA (International Energy Agency) from 2020 were used for fiscal year 2022, from 2019 for 2021 and from 2018 for 2020. CO_2 Scope 2 emissions for 2022 (location-based method): 1,233 kt (not including BU HPM); CO_2 Scope 2 emissions for 2022 (location-based method): 1,345 kt (including BU HPM).
10) Nitrogen oxide (NO_x) calculated as NO_2 (excluding N_2O; nitrous oxide).
11) Sulfur dioxide (SO_2) + SO_3 calculated as SO_2.
12) Total VOC (volatile organic compounds) excluding methane and acetone.
13) LANXESS total.

a) Values restated due to supplementary notifications or change in calculation method.

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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 social responsibility. Our 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 impact on employee motivation and constantly improve our reputation.

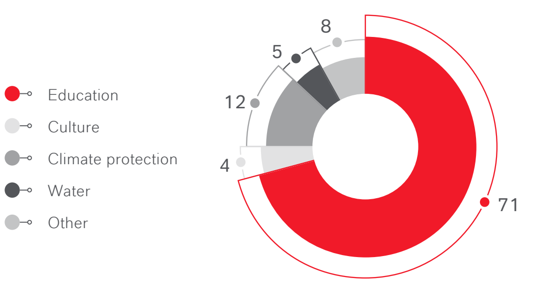
We provided around €1.3 million globally for our projects in 2022 (previous year: around €1.5 million). The regional focal points of our activities in the reporting year were the EMEA (particularly Germany) and Americas (number of projects) regions.

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

In total, roughly 1.5 million (previous year: roughly 1.5 million) people benefited from our projects in 2022. 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 2022, we performed an impact assessment for all (100%) of the projects we carried out, taking into account positive effects in the area around the site and positive environmental effects on our business. Specific feedback from people who benefit from our projects is a key factor in this context. We regard these indicators as relevant benchmarks, with which we manage our measures in an impact-oriented manner.

Social Activities by Topic[1)]

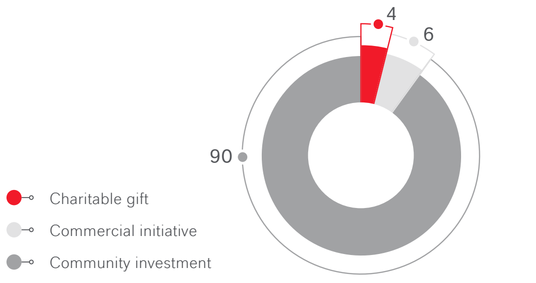
%



1) Number of projects: 138

Social Activities by Type of Investment[1)]

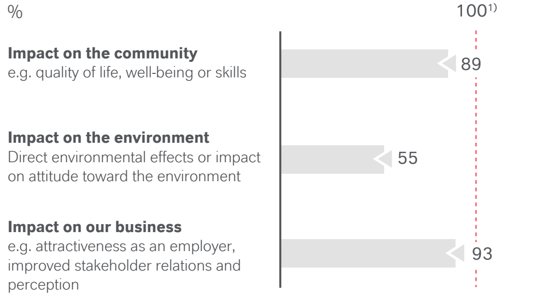
%



1) Number of projects: 138

Impact Dimensions of Evaluated Activities and Projects

%



1) Number of projects: 138

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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. In 2022, we supported a preparatory seminar for 20 schoolchildren from North Rhine-Westphalia, who had qualified to take part in the 54th International Chemistry Olympiad in China, with a sum of €10,000.

In Brazil, we implemented the “Formare 2022” program together with the Iochpe Foundation, which prepares young people from low-income backgrounds for the world of work and helps them look for their first job. The program is conducted in partnership with companies that provide their employees as volunteer educators. For example, ten young people from Porto Feliz were chosen to be prepared for vocational training for the role of “Production Operator in the Chemical Industry.”

In another project, LANXESS helped municipal schools in Nagda, India, to set up digital classrooms with interactive e-learning tool and a digital library. The schoolchildren also have access to a chemistry lab complete with instruments.

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In Japan, we strove to educate schoolchildren about climate change and its impact. Our newly developed “Climate Class and Science Experiment Workshop” program started in 2022, providing opportunities to learn about the environment and the fight against climate change. In the reporting year, we offered three workshop for children in grades one through six. In Brazil, the “Juntos pelo clima 2022/Together for the Climate 2022” project saw elementary schoolers learn about ecological challenges and how they can help to solve them on an environmental activity trail.

In 2022, LANXESS India also assisted the local community in Jhagadia, in the state of Gujarat, and the surrounding villages with the installation of solar-powered streetlights. They not only illuminate the villages but also help to make the roads safer.

In order to meet the demand for water in the arid Nagda region in Madhya Pradesh, India, our Indian company implemented a rainwater-collection project aimed at raising the water table. A similar project was also carried out in Jhagadia. Moreover, the eighth “Clean Water for Better Life” research competition was held for students in China.

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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 twelve years, gives talented young musicians from all over Asia the opportunity of first-class musical training.

Ukraine war: LANXESS donates €200,000

In light of the dramatic events in Ukraine, LANXESS has supported humanitarian aid. In the reporting year, the company donated €200,000 to “Aktion Deutschland Hilft,” a grouping of more than 20 aid organizations. The alliance is currently active in Ukraine and its neighboring countries. It has links to local organizations and supports families fleeing the war – in Ukraine and at the stops on their journey.

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 2030 by 55% compared with the base year of 1990. Industry is expected to contribute to this with a reduction of between 49% and 51%. As of this year, LANXESS has joined the growing list of companies that have set themselves science-based targets to limit global warming to 1.5 degrees Celsius. The validation of our commitment by the Science Based Targets initiative (SBTi) indicates that we are on the right track.

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.

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In light of this, it was therefore 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 in terms of our Scope 1 and 2 emissions by 2040. By 2030, we aim to reduce the greenhouse gas emissions achieved in 2018 by more than half to around 1.3 million metric tons of CO_2e. We will thus have achieved an 80% reduction compared to the emissions when LANXESS was founded.

In the reporting year, LANXESS set a target for indirect emissions from the upstream and downstream supply chain (Scope 3) for the first time. The Group intends to make the entire supply chain climate-neutral by 2050. This encompasses indirect emissions associated with purchased raw materials, logistics and end products. By 2030, Scope 3 emissions are to be cut by 40% – from 27.0 million metric tons to 16,500 million metric tons of CO_2 equivalents – compared with the reference year 2015. To achieve its Scope 3 targets, LANXESS has launched the "Net Zero Value Chain" initiative.

The LANXESS climate targets for Scope 1 and Scope 2 emissions are in line with the Paris Climate Agreement. The Science Based Targets initiative (SBTi), a joint initiative of the climate change mitigation organizations CDP, the U.N. Global Compact, the World Resources Institute and the World Wide Fund for Nature, validated the Group

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targets for the reduction of emissions and confirmed that LANXESS is supporting the objective of limiting global warming to a maximum of 1.5 degrees Celsius. At the same time, the SBTi also confirmed our Scope 3 emissions reduction target as ambitious. To measure 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.

Initiatives for our journey to climate neutrality

"Climate Neutral 2040" (Scope 1+2)

- Implement climate protection projects that generate major reductions.
- Decoupling growth and emissions.
- Strengthen process and technological innovations.
- Compensate remaining emissions.

"Net Zero Value Chain" (Scope 3)

- Purchase sustainable raw materials.
- Transition to green logistics.
- Offer more climate-neutral products and solutions with a low carbon footprint.

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“Climate Neutral 2040”: Clear strategy to lower direct emissions

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

Launch climate protection projects (medium-term target)
Over the next few years, several measures will significantly lower greenhouse gases.

For example, we are switching the energy supply in Jhagadia to a mix of biomass and solar power. This is expected to 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 37%, while the Nagda site achieved around 88%. 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.

Through these projects and other measures, we want to decrease our CO_2e emissions to 2.3 million metric tons by 2025.

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Decoupling growth and emissions (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, changed governance instruments play a significant role: a company’s carbon footprint becomes an investment criterion that impacts organic growth and 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.

Strengthen process and technological innovations (long-term target)
We are revising many of our existing production processes in order be climate neutral by 2040. For example, we plan to continue improving our network 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.

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By implementing the above measures, we want to decrease our annual emissions to less than 300,000 metric tons by 2040. We plan to 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 also become an even more sustainable partner for our customers.

“Net Zero Value Chain” program: Clear strategy to lower indirect emissions

In the reporting year, LANXESS also developed a clear strategy to lower indirect emissions and launched the Net Zero Value Chain program. This aims to make the entire LANXESS supply chain climate-neutral. The indirect emissions in the upstream and downstream supply chain (Scope 3) are to be eliminated by 2050. The “Net Zero Value Chain” initiative is based on three pillars:

- Transition of raw materials purchasing to increasingly sustainable raw materials that are bio-based, originate from a recycling process or are produced with renewable energy.
- Greater consideration of carbon footprint when selecting means of transport.
- Expansion of our range of climate-neutral products and solutions with a low carbon footprint.

In the coming years and decades, climate change will have significant global consequences for companies' business activities. This year, LANXESS therefore continued to work on an extensive risk analysis, based on three climate categories. We perform this scenario analysis globally for all locations and assess the risks that could arise in the short, medium and long terms.

Uncertainty over emissions trading

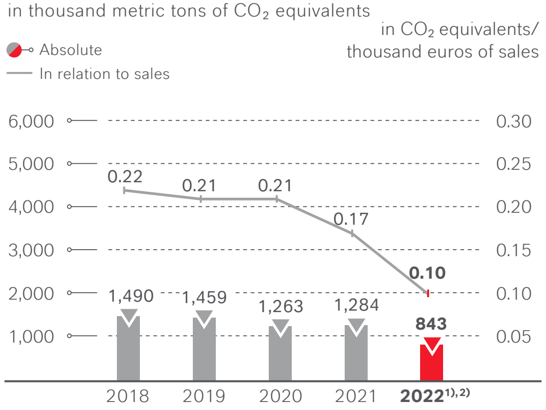
In Europe, twelve of our plants are subject to European emissions trading. Trading with CO_2 emissions rights, known as certificates, is intended to reduce emissions of the environmentally harmful gas CO_2 cost-effectively. Because all of our plants covered by emissions trading are state-of-the-art and 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 fourth 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. Since 2021, the introduction of the Fuel Emissions Trading Act (n-ETS) has resulted in additional costs, which suppliers include in the natural gas price. We cannot yet precisely estimate further costs due to the Scope expansion planned from 2023.

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. As one of 283 companies worldwide, we again received the best possible score of "A" in the "climate" category in the assessment for 2022, which puts LANXESS among the top 2% of the more than 15,000 companies rated by CDP. These gratifying results gave us encouragement to continue systematically pursuing our climate protection strategy. In the reporting year, we also received a very respectable A– from CDP for our water security efforts.

Greenhouse Gas Emissions (Scope 1)

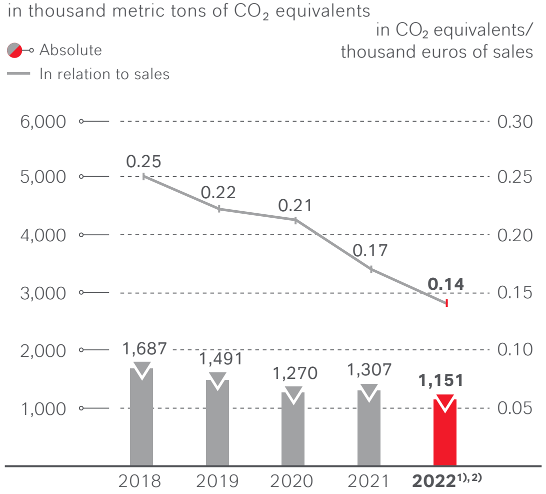
in thousand metric tons of CO_2 equivalents



1) Continuing operations
2) LANXESS total: Scope 1: 1,235, specific: 0.12

Greenhouse Gas Emissions (Scope 2)

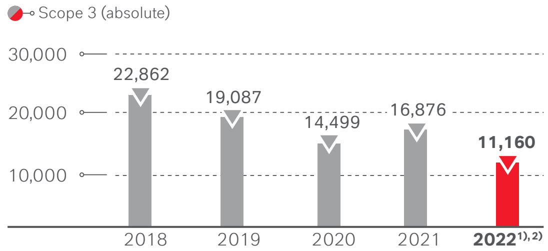
in thousand metric tons of CO_2 equivalents



1) Continuing operations
2) LANXESS total: Scope 2: 1,231, specific: 0.12

Greenhouse Gas Emissions (Scope 3)

in thousand metric tons of CO_2 equivalents



1) Continuing operations
2) LANXESS total: 14,652

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In 2022, our absolute Scope 1 emissions were significantly lower than the previous year's level, among other things this is due to the change in our portfolio. Moreover, the transition from coal to biomass at our Indian sites continues apace and is making a major contribution to the reduction of the CO_2 figures. This is countered by the full-year consolidation of the sites from the acquisitions of Emerald Kalama Chemical and Theseo, which were only included pro rata in 2021. Because of our altered portfolio, the transition to biomass and increased sales, the specific Scope 1 emissions also decreased year-on-year.

For continuing operations, Scope 2 emissions are also significantly below the previous year's level. This development is based mainly on the deconsolidation of the HPM business unit, but also a lower production volume.

The specific figure continues to decline due to the portfolio change and the increased sales.

In fiscal year 2022, we also registered significantly lower Scope 3 emissions due to the portfolio change and a declining production volume.

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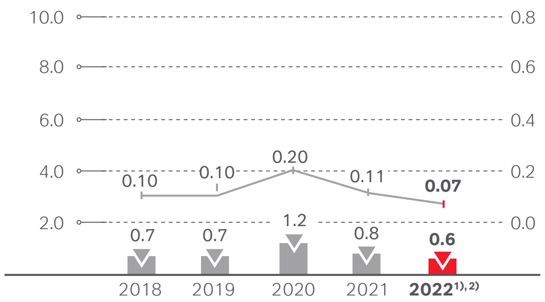
Other atmospheric emissions

VOC Emissions
in metric tons

in VOC, kilograms/ thousand euros of sales

Absolute
In relation to sales



1) Continuing operations
2) LANXESS total: VOC: 0.7, specific: 0.07

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In fiscal year 2022, absolute and specific VOC emissions decreased again due to the deconsolidation of the HPM business unit.

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 that increase energy efficiency in our plants. In each business unit, energy officers ensure the ongoing improvement of energy-related performance. Technical experts from the central departments help the local teams to identify and implement effective projects to increase efficiency.

With this efficiency improvement 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 also participated in the ChePap 2 network in the reporting year, the Bitterfeld site in the Bitterfeld-Wolfen 2.0 network.

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 compiled twelve recommendations for action at the start of 2021. We are convinced that our many years of experience in climate management will be beneficial to the Foundation.
klimawirtschaft.org

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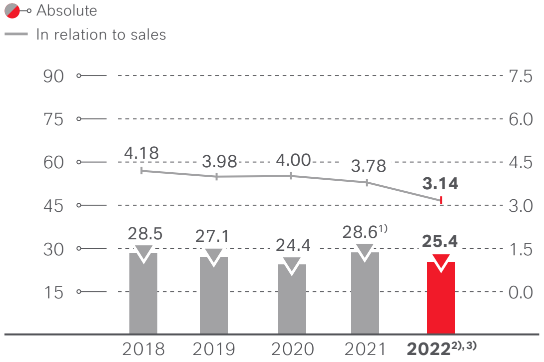
Energy Consumption (Balance Sheet)
in petajoules | in gigajoules/thousand euros of sales



1) Figure restated
2) Continuing operations
3) LANXESS total: Energy: 28.2, specific: 2.82

Both our absolute and our specific energy consumption declined in 2022. Besides the effect of the altered portfolio, lower production volumes and efficiency measures also helped to reduce energy consumption.

An analysis of energy consumption by region shows stark regional differences both in the amount of energy and the types of energy source.

Since the German sites account for the largest share of production volume, the most energy is also consumed there. At the networked sites in the Lower Rhine region, the site utility company mostly provides indirect energy sources. LANXESS operates most sites in the U.S., where according to the balance sheet only direct energy sources are used. In EMEA, there is a balanced mix of

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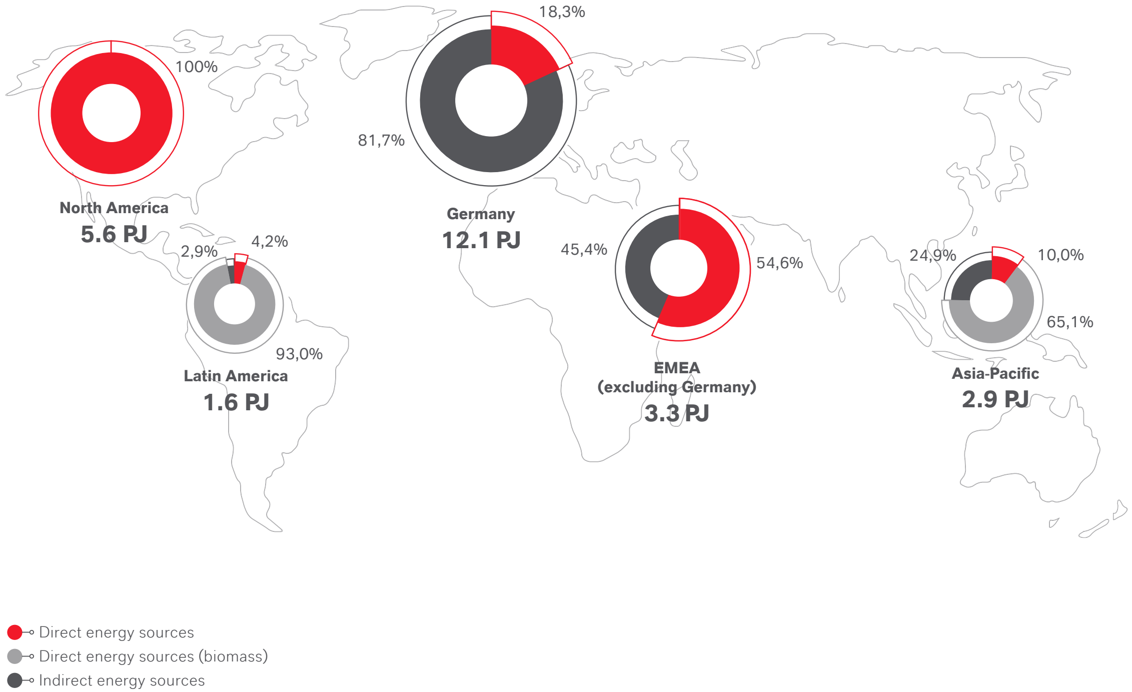
Direct and Indirect Energy Consumption by Region[1)]
in petajoules/%



1) Continuing operations

direct and indirect energy sources. In the Latin America and Asia-Pacific regions, the large share of biomass-based direct energy sources is particularly notable.

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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.

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We are particularly endeavoring to transition from road transport to intermodal transport options. In this context, we are currently making targeted investments in digital solutions that tell us the status of ship transports 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 plan to make increasing use of comparatively low-emission combined-transport options, where most of the distance

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involved is covered by train, barge or sea vessel, thus keeping initial and final journeys by road to an absolute minimum. 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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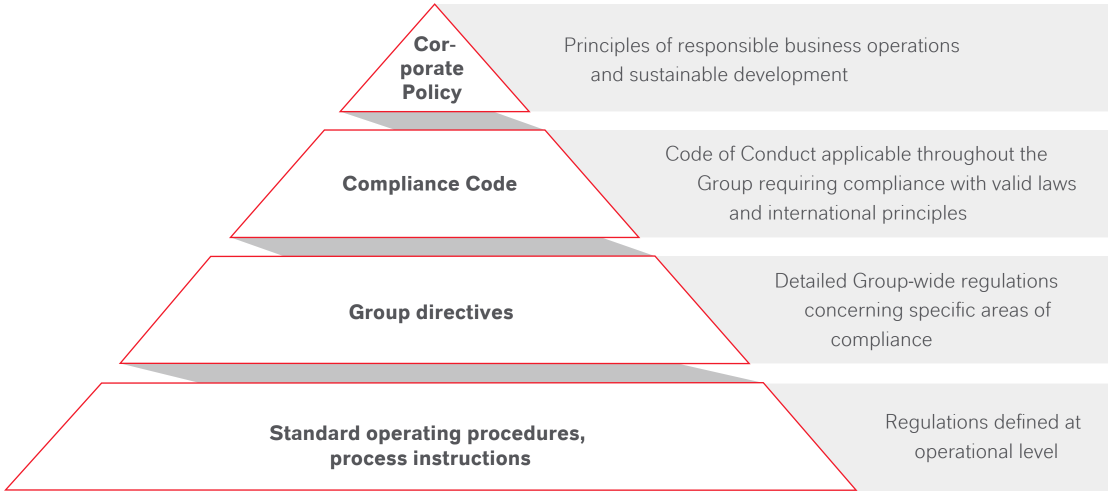
Compliance organization

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.

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.

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

Human rights

In line with our values and operational guidelines, we are committed in 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 of human rights

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violations. 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 Business Partner Code of Conduct or have established their own comparable regulations and management systems in line with the U.N. Global Compact.

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 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

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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 structures in place to follow up individual indications of rights violations as part of our established processes.

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. In the reporting year, the existing guideline on incentives was revised and replaced with the new Group-wide anti-corruption standard. This defines organizational measures and regulations for setting up the compliance management system as well as responsibilities for implementation, support and continuous monitoring of the system. 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 standard 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. It is one of LANXESS's basic principles not to support any political parties or groups. 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 require approval from the Corporate Communications central function – depending on the value – 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 individuals making the reports.

The Corporate Audit function examines the implementation of and adherence to our compliance principles in the LANXESS Group. This also includes reviewing the measures to prevent corruption. The annual audit planning, which covers all business units, follows a risk-based approach, which also considers the exposure to corruption.

In fiscal year 2022, 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 works consistently to be a sustainable and enduringly successful chemicals company. Our success is based on the personal commitment of each individual employee and 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 it 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. Another major driver of change is the consistent digitalization of our business processes. The continued M&A activities in the reporting year also required our employees to deal with organizational, cultural and personal changes.

LANXESS HR Strategy

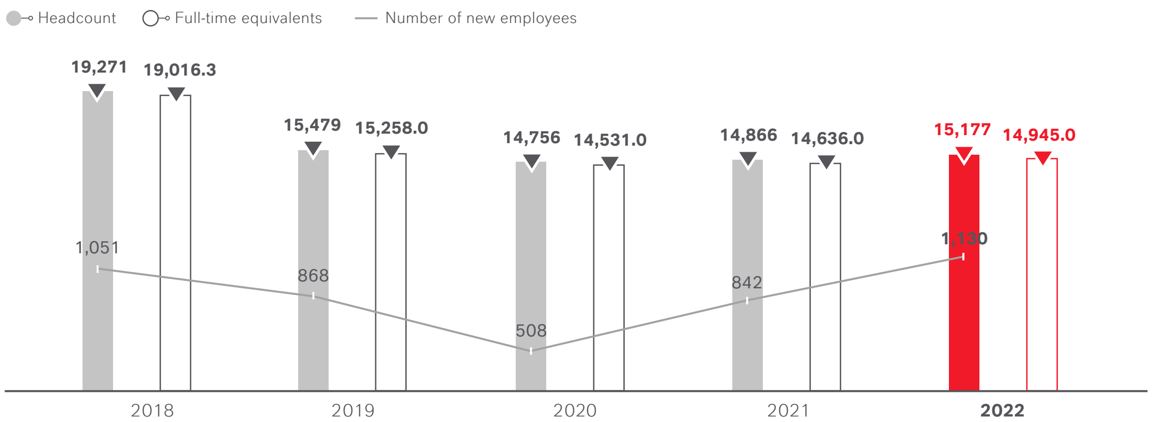
Enabling growth	Developing employees and managers	Making HR work more efficient	Acting as partners
Support for sustainable growth through long-term and strategic workforce planning as well as a global recruiting strategy and systemically supported recruiting activities.	Promotion of cross-functional 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.

In times of constant change, a strong corporate culture is especially important. The motto for “Performance Culture Day 2022” was “We Win as a Team” – because we can only master the growing challenges together. The activities were intended to highlight the important role of diversity and inclusion, openness to other perspectives and feedback, and cross-divisional and cross-hierarchical communication (see page 51).

This communication is exemplified by the LANXESS women’s network WInX (Women Initiative LANXESS), which was established internationally in the reporting year after the successful pilot phase in Germany in 2021 (see also page 43). Health was another priority for HR work in 2022. Numerous activities and offerings were devoted to the topic online and offline (see also page 52).

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

Number of Employees



The figures for 2022 in this table and below include the High Performance Materials business unit. For 2019, the discontinued operations of the Leather business unit are included. All figures relate to the core workforce. The figures for 2018 include ARLANXEO.

Diversity and inclusion

We value diversity and regard it as a strategic advantage. Therefore, we aim to enhance diversity at LANXESS and use its positive effects for our company and employees. A corporate 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.

We continued to follow our strategic "Diversity & Inclusion" (D&I) concept for promoting diversity, equal opportunities and inclusion in 2022. 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 particularly campaigned to raise awareness of unconscious bias. For example, we initiated various learning opportunities that look at unconscious patterns of thought and offered "Unconscious Bias e-Learning" in various languages.

Our second "Global Diversity & Inclusion Day," which we hosted in November to mark the International Day for Tolerance, was mainly about raising awareness of the needs of employees with disabilities. The program included a talk by motivation expert Janis McDavid on the topic of inclusion.

Ratio of Disabled Employees at German Companies

	2018	2019	2020	2021	2022
Ratio in %	5.7	5.9	6.2	6.2	**6.8**

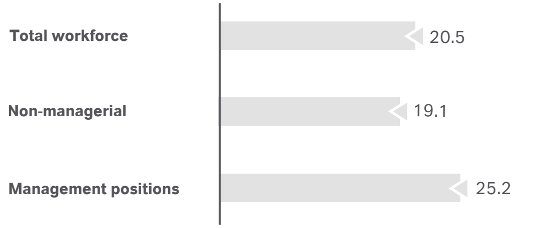
Gender diversity remains an important focus topic for us – with the clear target of increasing the proportion of women in the company. In addition, the German Act on Equal Participation of Women and Men in Executive Positions in the Private and the Public Sector commits us to set targets in Germany for 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.

The targets set in 2017, which were supposed to be achieved by June 30, 2022, stipulated female representation of at least 15% on the first level below the Board of Management and 25% on the second level. Both targets were achieved: With female representation of 22.0% at the first management level and 25.2% at the second management level, we actually exceeded our own targets.

Dr. Stephanie Coßmann resigned as a member of the Board of Management and Labor Relations Director of LANXESS AG as of March 31, 2022, having been on the Board of Management since January 1, 2020. Contrary to the original target, which had already been achieved in the interim, the Board of Management therefore had no female members as of the reporting date on June 30, 2022. However, the company's Supervisory Board decided in November 2022 to appoint Frederique van Baarle as another female member of the Board of Management of LANXESS AG with effect from no later than April 1, 2023.

In April of the reporting year, the Board of Management adopted new targets for the proportion of women at the two management levels below the Board. By June 30, 2027, the proportion of female employees must therefore amount to at least 25% at the first level and 28% at the second level below the Board of Management.

Proportion of Women
%



We have also set further targets above and beyond the legal requirements: Among other things, we want the proportion of women in management positions to be at least 30% by the end of 2030. At the end of 2022, the proportion of women in management was 25.2% (previous year: 24.0%).

Further D&I targets can be found in the targets table on page 18.

Networks can make an important contribution to the promotion of diversity, equal opportunities and inclusion. WInX – our global "Women Initiative LANXESS" – connects women LANXESS across national borders. As part of this initiative, participants were able to network at virtual, hybrid and in-person events around the world. With a "Male Ally Workshop," the German women's network showed that the engagement of male employees is also important for gender diversity and equality. The workshop gave rise to the "HeForWInX" network group for men who are committed to supporting the women's network in the future.

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

Proportion of women[1]	2018	2019	2020	2021	2022[2]	Goal	Target date
First level below the Board of Management	13.8%	20.9%	16.7%	18.2%	**22.5%**	25%	June 30, 2027
Second level below the Board of Management	19.2%	25.1%	23.4%	25.7%	**24.8%**	28%	June 30, 2027
Board of Management (number of women)	0	0	1	1	**0**	–[3]	June 30, 2027

1) Figures as of December 31 of the respective reporting year.
2) Year when new target was set.
3) The Second Act on Equal Participation of Men and Women in Management Positions applies here, according to a target is no longer required for the Board of Management and the statutory requirement applies instead.
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

Recruiting

In the reporting year, we again saw an intensification of the competition for talent in our core markets. The significant development toward an employees' market and the demographic challenges make recruiting an important strategic issue. We have therefore further reinforced our recruiting teams and focused on active sourcing. Specialized LANXESS recruitment teams work in the U.S., China, India and Europe. In order to approach interesting candidates in both an active and a targeted manner, we have our own pool of active sourcing specialists, with whom we largely replaced external HR service providers in the reporting year.

Our recruitment process is highly digitalized. The software platform covers all processes from onboarding to the signing of employment contracts. It helps to make approaching and acquiring new talent standardized, transparent and candidate-focused. In EMEA, a video application tool was also piloted in the reporting year.

We continue to invest in a clear employer brand in order to highlight the advantages of LANXESS as a global and socially responsible employer. Our employer brand centers on authenticity and diversity. We communicate this brand 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 various functions. In the reporting year, we ran over 40 social media campaigns.

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	45	30	107	24	69	15	15	19	40	**376**
30–49	30	66	61	180	24	117	12	13	35	82	**620**
≥ 50	3	13	5	28	23	53			3	1	**129**
Total	**45**	**124**	**96**	**315**	**71**	**239**	**27**	**28**	**57**	**123**	**1,125**
Region total	**169**		**411**		**310**		**55**		**180**		
%											
Age group	**f**	**m**	**f**	**m**	**f**	**m**	**f**	**m**	**f**	**m**	
< 30	33.1	21.2	14.0	12.7	42.1	41.8	32.6	25.9	51.0	33.9	**21.0**
30–49	13.8	9.0	9.3	7.3	12.5	15.7	8.9	3.2	10.0	6.7	**8.7**
≥ 50	2.1	1.8	0.9	0.9	8.9	6.4			4.5	0.3	**2.1**
Total	**11.3**	**7.4**	**6.6**	**5.0**	**14.0**	**13.8**	**13.0**	**4.6**	**12.5**	**7.5**	**7.5**
Region total	**8.2**		**5.3**		**13.8**		**6.7**		**8.6**		

Disclosures apply to the core workforce not including conversion of temporary to permanent employees and acquisitions. The total in the table deviates slightly from the figure stated in the text because the table only includes employees of male or female gender. In 2022, we hired five people who indicated their gender as "other/undeclared/unknown." Including temporary employees, the number of new employees increases to 1,714 (all genders included).

Despite the difficult labor market situation, we thus filled a record number of vacancies in the reporting year. A total of 1,130 new employees joined the Group in the reporting year (1,714 including temporary employees). The new employees predominantly filled technical positions.

Our international graduate trainee program is a fundamental tool for securing talent in Germany. Exceptionally well qualified master's graduates are prepared for challenging specialist and managerial tasks and can gather valuable experience in Germany and abroad. In addition to an engineering orientation, LANXESS also offers attractive areas of activity for economics graduates. Our young talent receive diverse practical learning opportunities as well as targeted training and opportunities for internal networking. In 2022, we acquired 21 new talents (10 women, 11 men) despite the challenging situation on the apprenticeship market.

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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.

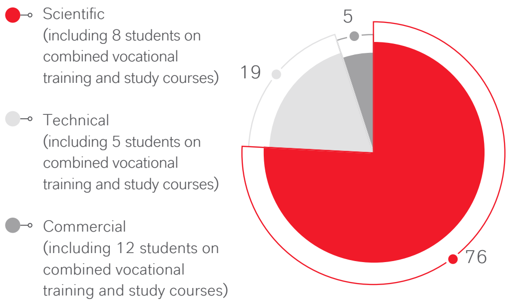
It is our aim to retain at least 80% of our apprentices after successful completion of their training. We reached this target again in the reporting year with a retention ratio of 85% (previous year: 83%).

182 apprentices on eight technical, scientific and commercial career paths and young talent in seven dual-study programs started their apprenticeships at LANXESS Deutschland GmbH on September 1, 2022. The proportion of female career starters was 7% in the reporting year (previous year: 6%). Taking the new intake into account, 615 apprentices are employed at LANXESS Deutschland GmbH (as of December 31, 2022). The proportion of female apprentices across all years is around 7.5%. We invested around €22 million (previous year: €23 million) in the vocational training of young talent in 2022.

Training will remain a key pillar of our HR policy in the years ahead. We are importantly demonstrating this with new, modern offerings. For example, we initiated various special campaigns to recruit apprentices. Candidates were able to sample working in LANXESS workshops at the "Technik Check" event and then complete the hiring process within a day. For the first time in a pilot project in 2022, two apprentices were hired as part-time industrial management assistants. This offering is aimed at people who cannot take on a full-time apprenticeship – e.g. because they have children or act as a relative's career. The apprenticeship can be completed at a reduced 30 hours a week, without the duration of the apprenticeship increasing.

Apprentices by Career Path[1)]

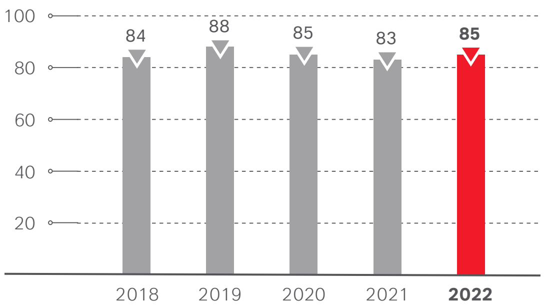
%



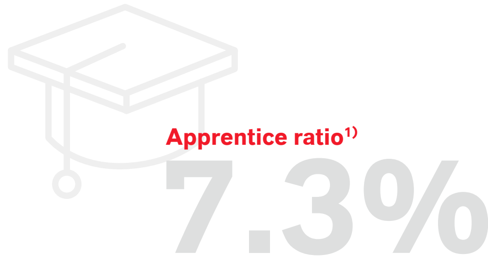
1) LANXESS in Germany

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

%



1) LANXESS in Germany



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 Canada, 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 second time. Through this cooperation, we again 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 30 apprentices worked for us at the LANXESS sites in Nagda and Jhagadia in the reporting year.

15,177

LANXESS employees worldwide

Strategic workforce planning

The increasing average age of our employees in conjunction with the scarcity of young talent in some regions means that the competition for qualified employees is growing fiercer. Therefore, 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. The personnel conferences introduced in 2020 for the production and technology (P&T) workforce have become successfully established and a proven planning instrument. They take place annually and serve the purpose of strengthening rotations and development in operations in particular. In order to cater more closely to the personnel needs and challenges of P&T, various workstreams were launched in which HR and Business jointly devise solutions for talent acquisition, retention and development specifically in P&T.

In order to make the immense knowledge of our older employees available to subsequent generations, we successfully piloted a knowledge transfer program in 2021 and rolled it out in the reporting year. It aims to identify important departing knowledge carriers at an early stage, systematically record their often implicit knowledge, and ensure its structured transfer to subsequent generations – in both analog and digital format. The knowledge transfer program comprises various measures such as expert debriefings, learning tandems and a digital, plant-specific knowledge database. This "Plant Wiki+" was launched at a LANXESS plant for the first time in 2022 and is available to all employees of this plant as an intuitive reference work.

We use our global strategic HR planning process to simulate the long-term development of our global workforce. We use a planning tool to simulate the development of our workforce given various assumptions, from which we derive our requirement for new staff. The analysis includes data on retirements as well as voluntary turnover, with the data used for the analysis varying country by country. Our aim is always to identify staff shortages at an early stage. We also engaged with other qualitative aspects in the reporting year. For example, there was a workshop in which managers from P&T discussed the skills that employees will need in the future in order to tailor our learning and development offerings accordingly.

Further information on learning and development can be found on page 51–56.

Employees by Age Group, Gender and Region[1)]

	EMEA (excl. Germany)		Germany		North America		Latin America		Asia-Pacific		**Total**
Age group	**f**	**m**	**f**	**m**	**f**	**m**	**f**	**m**	**f**	**m**	
< 30	37	218	213	844	62	176	47	56	45	115	**1,813**
30–49	218	746	684	2,512	204	756	137	402	359	1,237	**7,254**
≥ 50	149	712	584	3,006	267	830	30	143	73	314	**6,108**
Total	**404**	**1,676**	**1,481**	**6,361**	**533**	**1,762**	**214**	**601**	**477**	**1,666**	**15,175**
Region total	**2,080**		**7,842**		**2,295**		**815**		**2,143**		

1) In total, we had 15,177 employees in the reporting year. The difference of two employees is because two employees indicated their gender as "other/undeclared/undefined."

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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. The remuneration ratio of women and men is reviewed regularly and analyzed including other factors.

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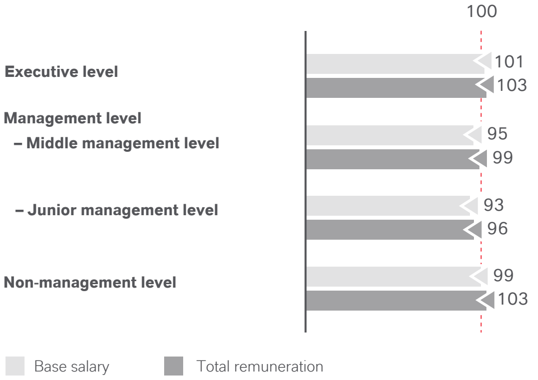
Remuneration Ratio of Women to Men
%



The difference between the average remuneration for men and women at LANXESS is less than ± 7% 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 even smaller. The clear 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: 86%) of LANXESS employees worldwide participated in our variable compensation systems.

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 2022, we shared around €136 million of our profits for fiscal year 2021 with our employees worldwide.

With the Individual Performance Payment (IPP), managers can also reward employees' extraordinary individual achievements during the year in a prompt and unbureaucratic way. Around €11 million was awarded in fiscal year 2022, around €8 million of which in Germany. At present, around 84% 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. and India. The Long-Term Stock Performance Plan (LTSP) consists of four tranches commenced each year and tracks the performance of the LANXESS share compared with FTSEurofirst 300 Eurozone Chemicals Index, over a period of four years in each case. In addition, there is a Share Ownership Guideline (SOG) for the Board of Management and our top-level managers in order to emphasize trust in the strategy and long-term success of LANXESS (see "Compensation Report," page 14). 100% of those eligible participated in the current LTSP program in 2022.

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% of employees participate in the supplementary component of the current pension plan. Other offerings facilitate the transition into retirement, such as the long-term account for pay-scale employees in Germany. The participation rate here remained at a high level of around 90%.

Working 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, 2022, this was 93% (previous year: 94%) 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	404	1,676	1,481	6,361	533	1,762	214	601	477	1,666	**15,175**
Full-time	339	1,554	992	5,065	526	1,762	214	601	471	1,666	**13,190**
Part-time	65	122	489	1,296	7				6		**1,985**
Temporary contract	23	35	139	721	6	10	26	28	15	51	**1,054**
Full-time	22	34	104	680	3	7	17	22	13	50	**952**
Part-time	1	1	35	41	3	3	9	6	2	1	**102**
Total	**427**	**1,711**	**1,620**	**7,082**	**539**	**1,772**	**240**	**629**	**492**	**1,717**	**16,229**

1) In total, we had 16,237 employees in the reporting year (including temporary employees). The difference of eight employees is because eight employees indicated their gender as "other/undeclared/undefined." In fiscal year 2022, we also employed a total of 122 temporary staff members (28 women, 93 men and one person "undeclared") at our German companies.

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 back 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 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 up 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, in 2021. In 2022, additional countries (e.g. India and CEE) adjusted their guidelines on remote working on the basis of the global statement. Countries in which no LANXESS guidelines on remote working previously existed, such as Korea and Australia, have also published internal guidelines.

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. Flexitime has been available to all non-pay-scale employees since the start of 2021. In 2022, there were 179 participants, of which 49 in senior management.

NFR

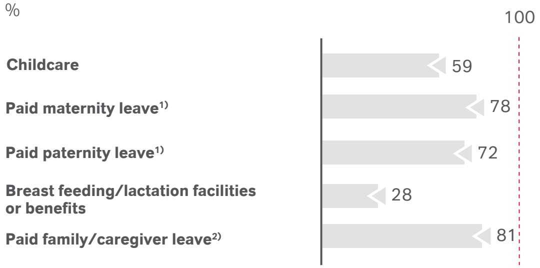
These and other measures count toward our goal of deriving and implementing specific guidelines and corresponding models for flexible working from our global "Xwork" principles in 95% of all countries in which we operate by the end of 2022. At the end of 2022, the coverage ratio was 96% (previous year: 89%), which means we have achieved our goal.

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 2022, we therefore made our employees in Germany a number of new offers regarding childcare, such as two additional daycare center locations. A total of 7% of the workforce in Germany aged between 20 and 40 were on parental leave for a time. Of this figure, 59% were fathers. 99% of the employees who ended a parental leave period in 2022 returned to a job at LANXESS, 97% of which still worked in the company at the end of 2022.

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.
2) Besides parental leave.

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 more than 100 employees in Germany since the LANXESS care model was introduced. In addition, the supplementary long-term care insurance "CareFlex" was launched in Germany in mid-2021. We thus offer our pay-scale employees additional protection against the risks and strains that arise for those affected and their families when care is required but are not covered by statutory long-term care insurance. The costs of the additional insurance cover are borne entirely by LANXESS. Since the beginning of 2022, CareFlex has also been available to our managerial employees. The support offerings for employees were presented again during "Workplace Health and Safety Week" and also promoted to the workforce during "Mental Health Week."

Commitment and loyalty

NFR

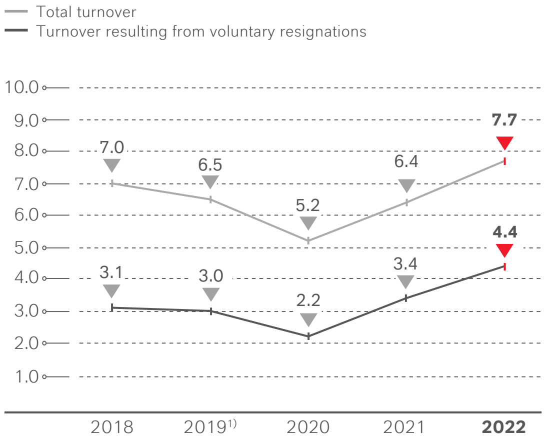
Committed and motivated employees are the key to long-term corporate success. Accordingly, we pay special attention to encouraging the commitment of our employees. Good management helps here, as do personal development prospects and company values with which the employees can identify. All these factors shape the LANXESS corporate culture, which we actively strengthen and develop with regard to the constant new challenges in our markets.

Since 2021, internally trained culture coaches have made an important contribution here. They start and supervise cultural initiatives in their own area and can be involved in major change processes. Regular performance culture touchpoints serve communication on cultural issues. For example, the cross-location Performance Culture Network in Germany meets online once a month for a critical discussion of culture issues.

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. In the reporting year, we carried out surveys in several European countries as well as in Canada, India, China and Brazil.

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.

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	5.5	4.2	2.3	3.1	10.5	9.7	6.5	10.3	8.1	5.1	**4.6**	**82**
30–49	5.1	3.7	0.5	0.7	3.6	4.2	3.0	0.5	4.0	1.5	**1.9**	**134**
≥ 50		1.2		0.2	1.9	1.6				0.3	**0.6**	**34**
Total	**3.3**	**2.7**	**0.5**	**0.8**	**3.5**	**3.5**	**3.4**	**1.3**	**3.7**	**1.5**	**1.7**	**250**
Region total	**2.8**		**0.7**		**3.5**		**1.8**		**2.0**			
Region total (absolute)	**58**		**57**		**78**		**15**		**42**			

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	11.0	6.6	4.7	7.6	19.3	14.5	8.7	12.1	18.8	11.9	**8.9**	**159**
30–49	12.9	7.5	3.3	3.2	9.9	9.4	6.7	1.5	7.4	4.6	**5.2**	**370**
≥ 50	4.1	3.9	2.0	1.0	5.0	3.9		0.7	1.5	1.6	**2.1**	**128**
Total	**9.5**	**5.8**	**3.0**	**2.7**	**8.5**	**7.3**	**6.2**	**2.3**	**7.5**	**4.5**	**4.4**	**657**
Region total	**6.5**		**2.8**		**7.5**		**3.3**		**5.2**			
Region total (absolute)	**135**		**217**		**169**		**27**		**109**			

We are also seeing significantly increasing interest among our workforce in health-related offerings and internal networks as well as in the opportunity to get involved for the environment and society within the company. Accordingly, we have further expanded our health-related offerings and flexible working options around the world. In the past fiscal year, we also offered our employees new networks and, at our Performance Culture Days, the opportunity to play a role in wider society, e.g. via targeted, local environmental campaigns (see pages 49, 53 and 54).

NFR

The turnover rate on the basis of resignations is 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 4.4% (previous year: 3.4%), meaning that we unfortunately missed our target for this year. The retention of employees, especially talented ones, is a growing challenge, as the labor market is clearly becoming an employees' market. In terms of HR strategy, it is therefore increasingly important to keep specialist staff within the company. Accordingly, we are also intensifying our internal employer branding, for example by tailoring it individually to the different age groups in the company. We also inspire a strong sense of belonging among our workforce with various opportunities for internal networking, which we are increasing in a targeted manner.

In Germany, the voluntary turnover rate was 2.8% (previous year: 1.8%). The percentage of employees who left our company of their own accord within three years of being hired (early turnover) stood at an average of 1.7% worldwide in the reporting year (previous year: 1.3%).

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 Brazil, LANXESS was recognized as the best employer in the chemical and petrochemical industry for the third time in a row, while our Indian subsidiary received the prestigious "Great Place to Work" certification and the Golden Peacock HR Excellence Award. In China, we were recognized as a top employer for our HR work.

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	6	16	12	68	12	30	4	8	7	17	**180**
30–49	30	61	24	88	24	94	9	12	31	66	**439**
≥ 50	10	69	41	241	28	103	1	10	4	26	**533**
Total	**46**	**146**	**77**	**397**	**64**	**227**	**14**	**30**	**42**	**109**	**1,152**
%											
Age group	**f**	**m**	**f**	**m**	**f**	**m**	**f**	**m**	**f**	**m**	
< 30	16.6	7.5	5.6	8.1	21.1	18.2	8.7	13.8	18.8	14.4	**10.1**
30–49	13.8	8.3	3.6	3.6	12.5	12.6	6.7	3.0	8.8	5.4	**6.1**
≥ 50	6.9	9.5	7.0	8.0	10.8	12.5	3.6	6.6	6.0	8.5	**8.7**
Total	**11.5**	**8.7**	**5.3**	**6.3**	**12.6**	**13.1**	**6.7**	**4.9**	**9.2**	**6.6**	**7.7**
Region total	**9.3**		**6.1**		**13.0**		**5.4**		**7.2**		

Furthermore, we won the HR Excellence Award for our knowledge management concept (see page 46) in the reporting year.

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. In 2022, we carried out some training face-to face again, but also continued to develop virtual formats. The experience of the last few years has shown us that hybrid formats yield the best results. After its successful launch in 2021, our digital learning platform "LinkedIn Learning" was rolled out internationally in the reporting year. This means that our employees now benefit from more than 18,000 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 2022. On average, our employees again received at least 15 hours of training.

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.

NFR

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. “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. In 2022, around 50 colleagues from twelve countries met at the “eXplorer Summit” in Cologne to learn and network together. The “navigator” program is aimed at managers with the potential to lead a business unit or Group function.

NFR

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 134 participants in 2022, the proportions amounted to 28% (previous year: 25%) female and 55% (previous year: 60%) non-German participants (because the programs can last for up to 18 months, double counting cannot be ruled out). We have therefore exceeded our target regarding intercultural diversity, while missing the target for gender equality, although we improved year-on-year. In order to achieve the 30% mark in terms of equality in 2023, we are planning additional measures. These include 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. At the end of 2022, 39 employees – i. e. around 1% of our specialist and managerial staff – were deployed outside their contractual country as expatriates. Since the middle of this year, we have also offered stays abroad of up to six months as a development tool in addition to our existing deployment programs. We thus intend to make deployments available to a greater number of employees.

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, 88% of our leadership positions are currently held by local employees.

Occupational health and safety

Our occupational health management (OHM) aims to create a safe and healthy working environment, to raise all employees’ awareness of their own health and to motivate them to act on their own initiative and adopt healthy behaviors in their professional and private lives.

To mark the World Day for Safety and Health at Work in April 2022, we organized a series of health-related activities around the world, including presentations on topics such as stress management, regeneration and sleep, a cooking course for healthy nutrition, and ergonomics training. In addition, the health teams adopted global health principles as an integral part of the LANXESS corporate culture. At the same time, internal communication campaigns, videos with case studies and a dedicated intranet page with contact details and offers were also launched.

Mental health was another priority in 2022. There was therefore a global mental health week at the beginning of October, during which employees were able to try out offerings such as business yoga and breathing exercises.

In Germany, occupational health management (OHM) works in three action areas:

- Company integration management (CIM) for employees with long-term illnesses
- Division-specific OHM with structured management approach for the respective plants and departments
- Occupational health promotion with offerings for all employees

All three action areas were worked on systematically in the reporting year and strengthened in line with the company's overarching health goals. In company integration management, cooperation began with an external service provider for case management, aiming to uniform quality standards at all LANXESS locations and to provide the growing number of entitled employees with professional advice and permanent reintegration soon after recovery.

In 2022, strengthening the division-specific OHM was a particular priority. In the first year, three groups with a total of around 270 employees took part in the new, targeted program. It was aimed primarily at prevention and is intended systematically embed the improvement of health-promoting working conditions in the divisions. To this end, the current situation in the individual divisions was analyzed with the managers and employees, internal health groups established, employees trained as health promoters and initial plant-specific health measures implemented, e.g. improved ergonomics and improved stress management at the workplace.

In occupational health promotion, the priorities in 2022 were in the areas of "exercise," "mental health and addiction at the workplace" and "sleep/regeneration."

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 reporting year, the program was also adapted to the needs and the shift scheduling of the plants and piloted. Many teams were also individually supported with mindfulness-based workshops. Once again, there was also a wide range of health-related activities in the regions. For example, India organized a "stepathon challenge," mediation workshops and several dialog formats with regard to physical and mental health.

NFR

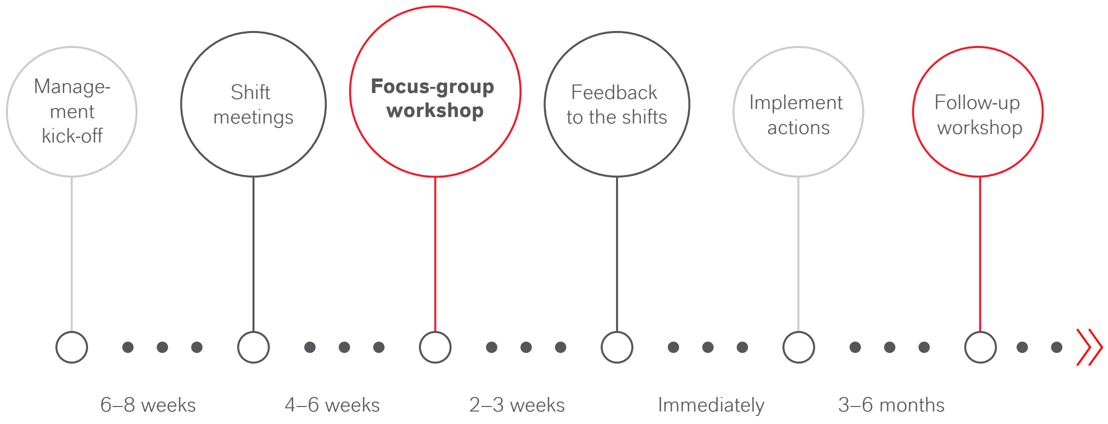
We address the topic of occupational safety with our global safety initiative Xact. It pursues the goal of gradually lifting the safety culture of LANXESS to a higher level. Starting with top management, all employees are expected to work together to improve safety in the Group. We are doing this because 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 a systematic process called the Safety Culture Development (SCD) Process, which was launched globally in 2019.

NFR

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 the respective plant and initiate targeted improvements. To boost sustainability, a follow-up workshop a few months later discusses how to implement measures at the plant. The Xact team collates and evaluates the results centrally in order to determine global, regional or department-specific trends. Internal communication, training and personal attitudes to safety are the aspects with the greatest potential for improvement.

Our Safety Culture Development Process



By the end of 2022, 59 of the roughly planned 140 focus-group workshops had been carried out in Germany, Belgium, Brazil, the U.S. and China. Thanks to strict hygiene precautions, we were able to carry out some of the events in person again. We will continue them in 2023 and roll them out to other regions, e.g. Italy.

An interim evaluation shows that our employees appreciate the fact that they can contribute personally, receive direct feedback from their colleagues and managers 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. These are:

- Safety leadership by example
- Attitude to safety/taking responsibility
- Learning and sharing/error culture
- Positive reinforcement of safe behavior
- Communication/feedback culture

The Xact initiative has summarized these cornerstones in a guidebook called “How Can Safety Culture Be Made Visible?”. It was introduced worldwide in six languages in early 2021 and is a key element of our communication about safety. In order to make the content of the Xact guidebook more visual, the global Xact-Community has developed digital flashcards in which employees present their own examples and experiences in video statements (or video messages). Knowledge is imparted and consolidated in interactive exercises. Three of a total of six digital flashcards have already been created and provided to employees in eleven languages on local e-learning platforms. More than 6,000 employees have already used this learning opportunity.

Active, ongoing communication is a top priority for us when it comes to matters relating to safety. The Xact pulse-check survey that we conducted among all LANXESS employees again in 2022 is an important tool here. It gives them an 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 – and whether supervisors set an example when it comes to the LANXESS safety culture.

Despite the strain of the pandemic, 44% of the workforce took part in the survey in the past fiscal year, for the first time including the colleagues from the new Flavors & Fragrances business unit. In addition to questions about the content of the Xact initiative, focal points in the reporting year included leadership by example and the avoid ability of accidents. The results differed, in some cases substantially, depending on the region, organizational unit and hierarchy level. The question “Do you have enough time to work safely?” was met with broad assent globally and across all areas and hierarchy levels. 70% of the participants responded with “Yes, always” and 27% with “Yes, mostly.” The majority of responses on the attitude to safety and lived safety culture at LANXESS were also positive. Topics in need of improvement included leadership by example, stress, and the implementation of HSE processes. Asked whether supervisors give positive feedback for safe work, 16% responded with “never” or “rarely.” The figure in Germany was above average at 31%. The survey results with more than 420 comments give us a good overview of the employees’ opinions.

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.

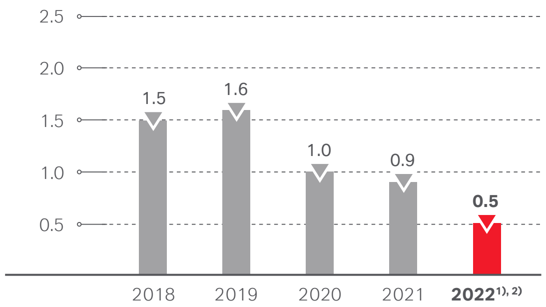
We also want to reach an improved shared understanding of occupational safety with service providers who perform technical services for us, as well as including them in our safety culture. For instance, our partners must demonstrate that they maintain their own safety management system and have carried 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 2022 was 0.5 (as of January 26, 2023) and thus lower than the already low level of the previous year and again 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 0.5 (as of January 26, 2023) in 2022 and thus below the previous year’s level of 0.7. Companies have been taking occupational safety increasingly seriously in recent years, so the number of reports of serious accidents has been declining continuously.

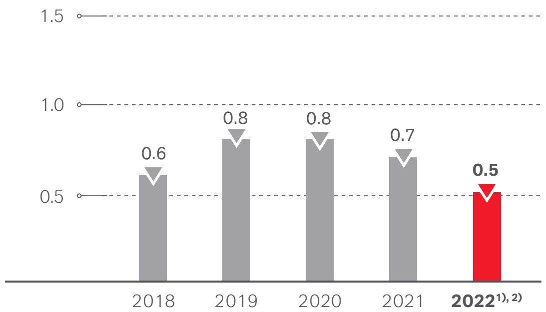
All accidents, including significant near-misses, are systematically analyzed with regard to their cause and possible preventive measures. The results of these investigations are, for instance, incorporated into safety updates that are made available to the entire organization. We regard the sharp fall in the LTIFR in recent years as evidence that the structured transfer of knowledge and the many occupational safety measures at LANXESS are having a positive effect.

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



1) Continuing operations
2) LANXESS total: 0.6

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



1) Continuing operations
2) LANXESS total: 0.6

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 fourth 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.

In 2022, a plant team from the Lubricant Additives business unit in West Hill, Canada, received the award for its improvement of the site's organization ("Fortifying the Facility"). The team worked for two years with no accidents with days lost, increased the production volumes considerably and improved employee retention. The program was started because the high turnover of young colleagues and a growing knowledge gap between experienced and new employees at West Hill was resulting in declining production volumes and potential safety risks. The program included the complete overhaul of the plant's outdated documentation, the introduction of new tools, the training of experienced colleagues as coaches, the redesign of the employee onboarding process, and the communication of the LANXESS performance culture and the Xact safety culture at the site.

In addition, teams from the High Performance Materials business unit from Uerdingen, Germany, and the Material Protection Products team in Jarinu, Brazil, were virtually congratulated as finalists by CEO Matthias Zachert for the "Knowledge is Power/Make it Safe" project and the "3D Scans for Safety Audits" project, respectively.

Employee codetermination

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 them 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. This dialog was continued in 2022, with regard to both the challenging economic situation and the further digitalization and introduction of new IT systems.

In the reporting year, the workforce in Germany elected their representatives for the Works Council and the Managerial Employees' Committee as scheduled. The large number of re-elected candidates guarantees continuity in committee work.

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 unions 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 implemented 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 sale ability 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, we especially make sure 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. Moreover, we welcome the opportunity provided by the European Commission to contribute to the planned REACH revision in a public consultation.

A statement on the REACH revision can be found here.

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 and products handled regularly – in some cases including intermediates.

Portfolio development

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. Our 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.

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.

LANXESS Product Portfolio

1 Safe and sustainable products

LANXESS Product Sustainability Monitor

2 Climate-neutral and circular products

Carbon footprint, sustainable raw materials, recyclability

3 Products for climate protection and the circular economy

Solutions that enable sustainable concepts

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. They meet our ambitious requirements for all criteria. They have 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. They meet our ambitious sustainability requirements for many criteria. 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 and targeted innovation, 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. We do not market new chemical end products in this category.

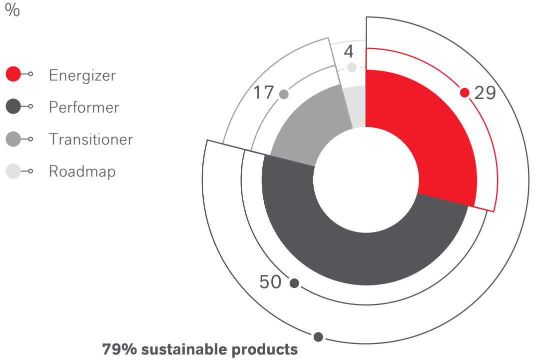
In 2022, we already generated 79% of our total sales with products that fulfill our sustainability requirements. Only 21% of our sales were attributable to products that did not (yet) completely fulfill our sustainability requirements. We generate only around 4% of our sales with roadmap products. The change in the shares is primarily due to the fact that High Performance Materials (HPM) is no longer reported under continuing operations. By 2023, we want to develop a specific action plan for all these products. As of the 2022 reporting date, the degree of target attainment was already 70% – we are therefore on track to achieve our target.

Criteria of the LANXESS Product Sustainability Monitor

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

LANXESS Product Portfolio 2022

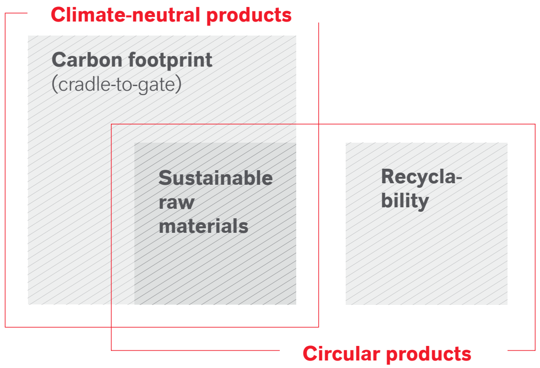
%



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"). More important for the PCF than the Scope 1 and Scope 2 emissions are often the Scope 3 emissions arising in connection with 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 the 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 comprises 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 in not only tropical but also 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.

Product innovation

In 2022, 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.

In the reporting year, we expanded our Scopeblue series with innovative products. Details can be found under "Product Portfolio."

We complemented our activities in the field of electric mobility and batteries with work on iron oxides for lithium iron phosphate electrodes (LFP). These are becoming increasingly widespread – including in Europe – as a sustainable and cost-effective alternative to cobalt- and nickel-containing active materials. Key precursors for LFP include lithium carbonate, phosphorous chemicals and technical iron oxides such as Bayoxide from LANXESS. Thanks to our world-class facility in Krefeld-Uerdingen, we are one of the world's biggest producers of iron oxides. We are also among the leading producers of phosphorus compounds. As a broad-based raw material supplier, LANXESS can therefore reliably deliver the necessary precursors in order to cover the growing European demand for LFP.

We have developed Emerald NH500 to market maturity as an innovative flame retardant. This new, phosphorus-based product has been specially designed for use in high-performance plastics and electric mobility. It exhibits very good flame-retardant properties in combination with other additives and easily passes the relevant fire safety tests. Versatile formulations ensure that the mechanical properties and other functional characteristics of the end products are maintained. In addition, the additive offers excellent thermal stability and boasts a unique morphology.

Another innovation, our natural preservative Nagardo, has now also been launched in Europe following the U.S., Australia, New Zealand, and Canada. We obtained approval for use in non-alcoholic beverages the EU in the reporting year and continue to expand the global footprint of Nagardo.

European beverage producers can now make use of a long-awaited natural preservative that not only efficiently safeguards product quality but also enables them to transform their product ranges and to meet consumers' growing demand for natural ingredients. The use of Nagardo can also help beverage producers to achieve their sustainability targets, since they can lower energy usage by switching from hot filling or tunnel pasteurization to cold filling and reduce the amount of plastic needed for packaging. Nagardo is based on glycolipids obtained from edible mushrooms, which were discovered in a comprehensive screening process encompassing more than 100,000 natural substances. It transpired that they offer the kind of effectiveness that can be found only in nature – all that is needed is a dosage as much as 50 times smaller than is the case with commonly used synthetic preservatives. Nagardo is currently the most effective natural preservative for non-alcoholic beverages on the market.

This innovation is also recognized by beverage industry professionals. For example, LANXESS received the 2022 World Beverage Innovation Award in the "Best Beverage Ingredient" category for Nagardo. These awards, launched by UK-based FoodBev Media Ltd., honored innovation and excellence across all categories in the global beverage industry for the 20th time in the reporting year.

By acquiring the Microbial Control business from U.S. corporation International Flavors & Fragrances Inc. (IFF) in 2022 and through the acquisition of specialty chemicals manufacturer Emerald Kalama Chemical, U.S., in 2021, we continued to grow our innovation portfolio and supplemented it with important areas.

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.

Our direct interaction with customers resumed in the reporting year, having been still severely restricted by the coronavirus pandemic in 2021. Customer visits and on-site care were possible again, as were face-to-face events and trade fairs. Overall, a balance has arisen between physical and virtual meetings that makes it possible to conserve resources while simultaneously maintaining all-important personal contact. Successful new formats such as webinars and technical expert sessions were continued. Although personal customer service makes a substantial contribution to our success, virtual cooperation has also proven useful thanks to higher flexibility and reach and better compatibility with customers' flexible working models, for example.

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 quarterly Marketing & Sales Community, 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 2022, for example, Polymer Additives took further steps to integrate complaints reporting from the acquisitions of Chemtura and Emerald Kalama Chemical and set up a new complaints tool, which has proven successful. In response to the persistently strained material procurement situation, the Inorganic Pigments business unit has introduced weekly update calls to keep its customers in the loop.

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. Our customer advice experts constantly 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 2022, the Saltigo, Flavors & Fragrances and Material Protection Products business units launched a LinkedIn Showcase Page called “LANXESS Personal Care & Cosmetics” in order to facilitate discussion about highly effective and sustainable ingredients in cosmetic and personal care products such as Saltidin®, Purox®B and Purox®S, KATHON™ and NEOLONE™.

The rollout of the sales software successfully introduce in 2020 continues. 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.

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 aims to evaluate LANXESS’s performance in comparison to the 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 that of our competitors. The score particularly reflects the strained economic situation of the 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 results of the latest customer satisfaction analysis, we have implemented 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 successfully retain them in the long term.

NFR

Reporting on the EU taxonomy

Introduction

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 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 and protection of water and marine resources
4. Transition to a circular economy
5. Pollution prevention and control
6. Protection and restoration of biodiversity and ecosystems

The relevance of an economic activity for one of these environmental objectives depends on how the activity influences the respective environmental objective.

NFR

In order to assess an economic activity, a two-step analysis must be performed with regard to eligibility and alignment. According to the EU Taxonomy Regulation, economic activities are taxonomy-eligible if they match the activity descriptions in Annexes I and II of the Delegated Act of June 2021 or the supplementary Delegated Act of March 2022 and potentially contribute to the achievement of one of the six environmental objectives. 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. Moreover, minimum safeguards for compliance with human rights including labor and consumer rights and in the fields of bribery and corruption prevention, taxation and fair competition must be guaranteed for each activity.

Reportable ratios

Companies that fall within the scope of the EU taxonomy must disclose the defined sales, capital expenditure (CapEx) and operating expenditure (OpEx) ratios for their share of taxonomy-eligible or taxonomy-aligned economic activities. These ratios must be itemized according to the respective taxonomy-eligible or taxonomy-aligned economic activity. The disclosures must specify the environmental objective to which this activity contributes and whether it is a transitional or enabling economic activity.

NFR

Sales

The ratio relating to the relative share of sales with taxonomy-eligible or taxonomy-aligned 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 or taxonomy-aligned 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 155 pursuant to the relevant IAS/IFRS requirements as presented in the notes to the consolidated financial statements.

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 or taxonomy-aligned products as taxonomy-eligible or taxonomy-aligned 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 Delegated Regulation.

Relevant capital expenditures comprise firstly our capital expenditures to maintain and upgrade our production plants for taxonomy-eligible or taxonomy-aligned products, including production plants added via 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.

NFR

Taxonomy-eligible activities

With regard to the environmental objectives "climate change mitigation" and "climate change adaptation," the Taxonomy Regulation covers activities of selected 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.

Activities in other economic sectors that do not materially contribute to GHG emissions in the EU are currently not covered by the Climate Delegated Act are therefore deemed "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 by the EU for organic chemicals and plastics.

In order to identify the taxonomy-eligible economic activities at LANXESS, we analyzed all economic activities at central level. The respective products and activities were assigned to the activity descriptions as specified in the Climate Delegated Act. 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.

Economic activities that LANXESS classifies as taxonomy-eligible:

- LANXESS produces high-quality **plastics** for a broad range of applications – from the automotive and electrical/electronics industries to water treatment. These products correspond to activity 3.17 "Manufacture of plastics in primary form" defined in Annexes I and II of the relevant Delegated Regulation.
- **Adipic acid** is a precursor that is in very high demand in the plastics industry, e.g. for polyamides or polyurethanes. This product is allocated to activity 3.14 "Manufacture of organic basic chemicals". All other products described there are not manufactured by LANXESS.
- LANXESS also produces **components for battery manufacturing**, which fall under activity 3.4 "Manufacture of batteries" defined in Annexes I and II of the relevant Delegated Regulation.

For reporting year 2022, economic activity 5.4 "Renewal of waste water collection and treatment" was identified as another area of activity for the recognition and allocation of taxonomy-eligible capital expenditures and operating expenditures. Since LANXESS does not pursue economic activities in connection with natural gas or nuclear energy, LANXESS does not use the special templates introduced with the Complementary Delegated Act for activities in certain energy sectors.

Taxonomy-aligned activities

From reporting year 2022, LANXESS is also required to assess the taxonomy-alignment of the economic activities, i.e. to analyze whether they make a substantial contribution to the achievement of one or more environmental objectives while doing no significant harm (DNSH) to other environmental objectives and whether they are carried out in compliance with the minimum social safeguards.

Substantial contribution

All taxonomy-eligible economic activities at LANXESS were individually assessed for compliance with the criteria for a substantial contribution to the two environmental objectives "climate change mitigation" and "climate change adaptation." The analyses performed identified economic activity 3.4 "Manufacture of batteries" as making a substantial contribution to climate change mitigation, as our battery components are intended for ion batteries, which are mainly used for electric cars. Economic activity 5.4 "Renewal of waste water collection and treatment" has a positive effect because, based on a two-year time horizon, it achieves an energy saving of more than 20% compared to the starting point.

NFR

Do no significant harm ("DNSH")

Economic activities 3.4 "Manufacture of batteries" and 5.4 "Renewal of waste water collection and treatment" were analyzed according to the DNSH criteria. To assess the "climate change adaptation" criterion, physical climate risks and climate trends were identified and their relevance for the corresponding site assessed. With regard to the supply chain, we also included the risks from goods flow and logistics for the activity. In addition, qualitative scenario analyses for 2020, 2030 and 2040 were carried out with several suitable climate projections such as Representative Concentration Pathway (RCP) 4.5 and 8.5. In order to counter the identified climate risks, measures for the relevant site were devised in line with the company's overall climate strategy (see "Climate Action and Energy Efficiency," page 32). The management of climate risks is an integral part of the LANXESS risk management system and is based on the TCFD requirements.

The economic activity was also evaluated with regard to harm to "sustainable use and protection of water and marine resources." The focus was on preserving water quality, avoiding water stress and assessing the impact on water, as addressed in the LANXESS Water Program (see "Safe and Sustainable Sites," page 26).

NFR

The production plant concerned is subject to the German Environmental Impact Assessment Act (UVPG), which includes an assessment of the impact on water in accordance with Directive 2000/60/EC. This DNSH criterion is not applicable for economic activity 5.4 "Renewal of waste water collection and treatment" at LANXESS, because the waste water is not used for irrigation.

The substances LANXESS uses to manufacture battery components are verified as part of the LANXESS product portfolio assessment process (see "Sustainable Products," page 57) and comply with statutory requirements. This strategic management tool systematically assesses and improves the sustainability performance of the LANXESS product portfolio with regard to economic, environmental and social aspects. It ensures that economic activity 5.4 does not cause a significant increase in the emissions of pollutants to air, water or land and thus fulfills the "pollution prevention and control" criteria described in Appendix C of the Delegated Act of June 2021. Accordingly, we also review the use of substances that go beyond the prohibitions of current legislation.

At LANXESS, we meet the requirement of the criterion for DNSH to "protection and restoration of biodiversity and ecosystems" by way of HSE compliance checks (health, safety and environment see also "Safe and Sustainable Sites," page 23). Our sites are certified according to ISO 14001. For the single relevant site, evidence was provided that it is not located in a biodiversity sensitive area.

NFR

The criterion for DNSH to "transition to a circular economy" does not apply to the manufactured battery components, as LANXESS does not manufacture batteries and the recycling of batteries is therefore not one of the company's economic activities. We will continue to regularly review whether it is possible to reuse battery materials and to use secondary raw materials for the manufacture of battery components.

Minimum safeguards

Requirements of minimum social safeguards generally apply Group-wide at LANXESS and are not limited to individual economic activities.

In the reporting year, we continued our work in the project group for the German Act on Corporate Due Diligence in Supply Chains, which reports to the "People & Governance" sub-committee, incorporated the requirements for minimum safeguards and formalized our processes accordingly. In the field of corporate governance, we have long-standing management systems for compliance with human rights (see "Human rights" under "Good Corporate Governance," page 38), for monitoring our supply chain (see "Procurement," page 21), for anti-corruption (see "Anti-corruption" under "Good Corporate Governance," page 40), for taxes (Tax Guideline) and for fair competition.

Further information on corporate governance at LANXESS.

NFR

Results

Sales

In the reporting year 2022, LANXESS generated 8% of its external sales with products allocable to taxonomy-eligible activities. The remaining 92% of sales relate to products that are not included in the taxonomy's activity categories. The share decreased considerably year-on-year because the taxonomy-eligible sales from the High Performance Materials (HPM) business are no longer reported under continuing operations.

As LANXESS's taxonomy-eligible sales result exclusively from production, the company's main business activity, we disclose the figures at Group level and do not otherwise present them in clusters. In the reporting year, LANXESS generating total sales of €638 million classified as taxonomy-eligible. The taxonomy-aligned sales in the reporting year were less than 1%.

Capital expenditures and operational expenditures

Apart from one investment measure for wastewater treatment (5.4. "Renewal of waste water collection and treatment"), with which we achieved significantly more energy-efficient pretreatment of a wastewater flow, capital expenditures and operational expenditures in connection with the acquisition of products or for individual measures that result in the reduction of greenhouse gas emissions are immaterial and amount less than 1% of CapEx and OpEx.

NFR

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

In the reporting year 2022, the numerator is the share of additions from these investments and business 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 189 and 191. 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 3%. Therefore, the share of taxonomy-non-eligible activities in our capital expenditures is 97%. 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 5% and now reflects the capital expenditures attributable in 2022 to plants that manufacture the taxonomy-eligible products. The share of taxonomy-eligible capital expenditures amounts to 0.5% of our capital expenditures. After adjustment for the influence of business acquisitions, the share amounts to 1.0%. All taxonomy-aligned capital expenditures comprise additions to property, plant and equipment.

NFR

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 by 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).

NFR

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 217 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.

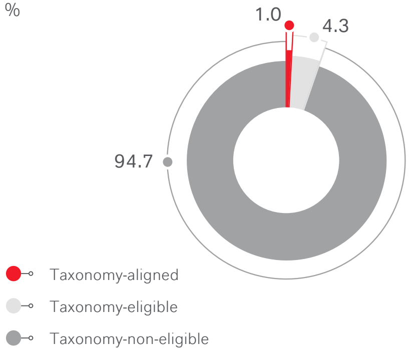
NFR

The ratio's numerator covers those expenses for the reporting year 2022 that relate to taxonomy-eligible, sales-generating 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 8% of the total operating expenditures. Therefore, the share of taxonomy-non-eligible operating expenditures is 92%. The share of taxonomy-eligible operational expenditures amounts to 0.1% of our operating expenditures.

Capital Expenditures Adjusted for M&A[1]

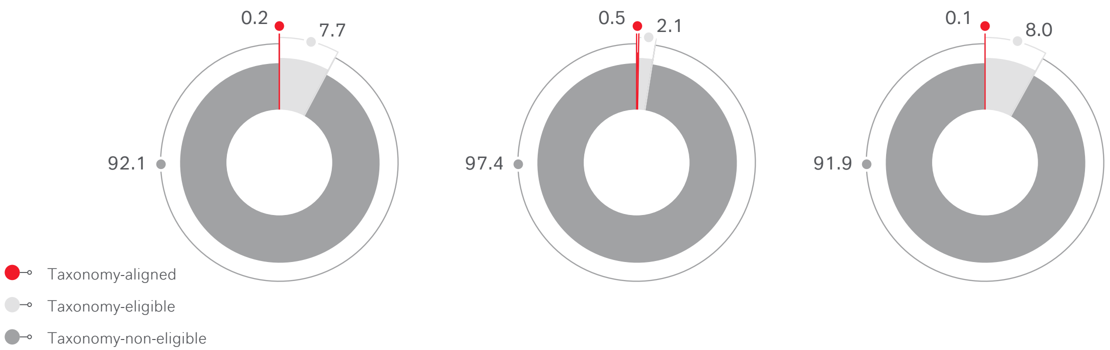
%



1) Voluntary information.

Key Data Pursuant to EU Taxonomy Regulation

%



NFR

Proportion of Sales from Products and Services Associated with Taxonomy-Aligned Economic Activities

				Substantial contribution criteria						DNSH criteria ("Do No Significant Harm")										
Economic activities (1)	**Code(s) (2)**	**Absolute net sales (3)**	**Proportion of net sales (4)**	**Climate change mitigation (5)**	**Climate change adaptation (6)**	**Water and marine resources (7)**	**Circular economy (8)**	**Pollution (9)**	**Biodiversity and ecosystems (10)**	**Climate change mitigation (11)**	**Climate change adaptation (12)**	**Water and marine resources (13)**	**Circular economy (14)**	**Pollution (15)**	**Biodiversity and ecosystems (16)**	**Minimum safeguards (17)**	**Taxonomy-aligned proportion of net sales, 2022 (18)**	**Taxonomy-aligned proportion of net sales, 2021 (19)**	**Category (enabling activity) (20)**	**Category (transitional activity) (21)**
		Currency	%	%	%	%	%	%	%	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	**%**	%	E	T
A. TAXONOMY-ELIGIBLE ACTIVITIES																				
A.1. Environmentally sustainable activities (taxonomy-aligned)																				
3.4. Manufacture of batteries	C.27.20	15,606,000	0.2%	100%	0%					Y	Y	Y	Y	Y	Y	Y	0.2%		E	
Net sales of environmentally sustainable activities (taxonomy-aligned) (A.1)		**15,606,000**	**0.2%**	**100%**	**0%**												**0.2%**		**0%**	
A.2 Taxonomy-eligible but not environmentally sustainable activities (not taxonomy-aligned activities)																				
3.14. Manufacture of other organic basic chemicals	C.20.14	92,891,390	1%																	
3.17. Manufacture of plastics in primary form	C.20.16	529,397,339	7%																	
Net sales of taxonomy-eligible but not environmentally sustainable activities (not taxonomy-aligned activities) (A.2)		**622,288,729**	**8%**														**0%**			
Total (A.1 + A.2)		**637,894,729**	**8%**														**0.2%**			
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																				
Net sales of taxonomy-non-eligible activites (B)		**7,450,334,872**	**92%**																	
Total (A+B)		**8,088,229,602**	**100%**																	

NFR

Proportion of CapEx from Products and Services Associated with Taxonomy-Aligned Economic Activities

				Substantial constribution criteria						DNSH criteria ("Do No Significant Harm")										
Economic activities (1)	**Code(s) (2)**	**Absolute CapEx (3)**	**Proportion of CapEx (4)**	**Climate change mitigation (5)**	**Climate change adaptation (6)**	**Water and marine resources (7)**	**Circular economy (8)**	**Pollution (9)**	**Biodiversity and ecosystems (10)**	**Climate change mitigation (11)**	**Climate change adaptation (12)**	**Water and marine resources (13)**	**Circular economy (14)**	**Pollution (15)**	**Biodiversity and ecosystems (16)**	**Minimum safeguards (17)**	**Taxonomy-aligned proportion of CapEx, 2022 (18)**	**Taxonomy-aligned proportion of CapEx, 2021 (19)**	**Category (enabling activity) (20)**	**Category (transitional activity) (21)**
		Currency	%	%	%	%	%	%	%	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	**%**	%	E	T
A. TAXONOMY-ELIGIBLE ACTIVITIES																				
A.1. Environmentally sustainable activities (taxonomy-aligned)																				
3.4. Manufacture of batteries	C.27.20	1,785,300	0.2%	100%	0%					Y	Y	Y	Y	Y	Y	Y	0.2%		E	
5.4. Renewal of water collection, treatment and supply systems	E.37.00	2,847,200	0.3%	100%	0%					Y	Y	Y		Y	Y	Y	0.3%			
CapEx of environmentally sustainable activities (taxonomy-aligned) (A.1)		**4,632,500**	**0.5%**	**100%**													**0.5%**		**0%**	
A.2 Taxonomy-eligible but not environmentally sustainable activities (not taxonomy-aligned activities)																				
3.14. Manufacture of other organic basic chemicals	C.20.14	1,937,634	0.2%																	
3.17. Manufacture of plastics in primary form	C.20.16	17,076,191	2%																	
CapEx of taxonomy-eligible but not environmentally sustainable activities (not taxonomy-aligned activities) (A.2)		**19,013,825**	**2%**														**0%**			
Total (A.1 + A.2)		**23,646,325**	**3%**														**0.5%**			
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																				
CapEx of taxonomy-non-eligible activites (B)		**869,663,854**	**97%**																	
Total (A+B)		**893,310,179**	**100%**																	

NFR

Proportion of OpEx from Products and Services Associated with Taxonomy-Aligned Economic Activities

				Substantial contribution criteria						DNSH criteria (“Do No Significant Harm”)										
Economic activities (1)	Code(s) (2)	Absolute OpEx (3)	Proportion of OpEx (4)	Climate change mitigation (5)	Climate change adaptation (6)	Water and marine resources (7)	Circular economy (8)	Pollution (9)	Biodiversity and ecosystems (10)	Climate change mitigation (11)	Climate change adaptation (12)	Water and marine resources (13)	Circular economy (14)	Pollution (15)	Biodiversity and ecosystems (16)	Minimum safeguards (17)	Taxonomy-aligned proportion of OpEx, 2022 (18)	Taxonomy-aligned proportion of OpEx, 2021 (19)	Category (enabling activity) (20)	Category (transitional activity) (21)
		Currency	%	%	%	%	%	%	%	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	%	%	E	T
A. TAXONOMY-ELIGIBLE ACTIVITIES																				
A.1. Environmentally sustainable activities (taxonomy-aligned)																				
3.4. Manufacture of batteries	C.27.20	340,950	0.1%	100%	0%					Y	Y	Y	Y	Y	Y	Y	0.1%		E	
5.4. Renewal of water collection, treatment and supply systems	E.37.00	4,300	0.0%	100%	0%					Y	Y	Y		Y	Y	Y	0.0%			
OpEx of environmentally sustainable activities (taxonomy-aligned) (A.1)		**345,250**	**0.1%**	**100%**													**0.1%**		**0%**	
A.2 Taxonomy-eligible but not environmentally sustainable activities (not taxonomy-aligned activities)																				
3.14. Manufacture of other organic basic chemicals	C.20.14	3,958,413	1%																	
3.17. Manufacture of plastics in primary form	C.20.16	33,570,558	7%																	
OpEx of taxonomy-eligible but not environmentally sustainable activities (not taxonomy-aligned activities) (A.2)		**37,528,971**	**8%**														**0%**			
Total (A.1 + A.2)		**37,874,221**	**8%**														**0.1%**			
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																				
OpEx of taxonomy-non-eligible activites (B)		**430,341,390**	**92%**																	
Total (A+B)		**468,215,611**	**100%**																	

LANXESS ON THE CAPITAL MARKET

€1.05
Dividend per share

€59.04
LANXESS share: high for 2022

LANXESS on the Capital Market

The stock market year 2022 continued to characterized by the effects of the coronavirus pandemic and by massive price increases for raw materials, energy and logistics. With the exception of trading up to around mid-February, our share was under considerable pressure until the end of the third quarter and saw marked price declines.

The LANXESS share slightly outperformed the benchmark indices until mid-February but then performed significantly weaker than the material benchmark indices – DAX, MDAX and MSCI World Chemicals. Stock markets around the world collapsed following the start of the Russian war of aggression on Ukraine on February 24, 2022. Uncertainty increased not only with regard to the future supply of energy in Europe but also in light of fears of supply chain disruption. There was also increasing criticism of Germany's past energy policy and the associated dependence of the German economy on Russian gas imports. Particularly energy-intensive sectors such as the chemical industry took center stage in the discussions among politics, business and society. China continued its rigid COVID policy and at the end of March imposed strict lockdowns in certain cities, which led to further massive logistics restrictions around the world. Against this backdrop, the share prices of companies in the European chemical industry came under considerable pressure. There was no let-up as the year went on. The negative influencing factors grew stronger and the volatility on the capital markets increased. Driven by high raw material and energy prices, there was a significant rise in inflation, to which the central banks responded with more restrictive monetary policy. Interest rates were raised several times, which put additional strain on the stock markets. While the U.S. Federal Reserve responded swiftly, the European Central Bank (ECB) hesitated. As a result, the U.S. dollar appreciated significantly against the euro.

In line with the political and economic developments, the LANXESS share reached its annual high of €59.04 (intraday Xetra) on January 7, 2022, and was unable to decouple itself from the weak performance of the market as a whole over the rest of the year. The share price did not rise again until the final quarter. Starting from the annual low of €28.16 (intraday Xetra) marked on September 29, 2022, the LANXESS share recovered somewhat and closed the stock market year at €37.70 on December 30, 2022. This equates to a 30.8% price decline as against the end of 2021. The LANXESS share thus performed similarly to the share prices of German chemical companies from the reference group. There was also similar development in the MDAX, which closed at 25,118 points, a drop of 28.5%. The DAX fell by 12.3% to 13,924 points, and MSCI World Chemicals by 17.2% to 370 points.

LANXESS Stock at a Glance

		2019	2020	2021	**2022**
Capital stock/no. of shares[1]	€/no. of shares	87,447,852	87,447,852	86,346,303	**86,346,303**
Market capitalization	€ billion	5.23	5.49	4.71	**3.26**
High/low[1]	€	64.58/39.47	64.86/25.68	67.38/50.46	**59.04/28.16**
Closing price	€	59.82	62.76	54.50	**37.70**
Earnings per share adjusted for exceptional items and amortization of intangible assets[2]	€	4.73[3]	3.50[3]	3.60[3]	**3.75[3]**
Dividend per share	€	0.95	1.00	1.05	**1.05[4]**

1) As of end of year (intraday Xetra): December 31, 2019; December 31, 2020; December 31, 2021; December 31, 2022.
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) Only continuing operations, from 2021 not including High Performance Materials business unit.
4) Dividend proposal to the Annual Stockholders' Meeting on May 24, 2023.

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 Global Small Cap Index, Dow Jones Sustainability Index (DJSI) World and Europe, FTSE4Good-Index, among others
Investment grade ratings	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 24, 2023, 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 2022, the percentage of such investors was unchanged at around 92%. The remaining roughly 8% of LANXESS stocks are held by private investors.

In 2022, share in LANXESS were again predominantly held by investors from the U.S., Germany and Great Britain. The percentage of U.S. stockholders most recently increased slightly to around 43% (previous year: 39%). As of the reporting date, the percentage of LANXESS stocks held in Germany was negligibly more than in the previous year at around 31% (previous year: 29%), while the holdings of institutional investors from Great Britain declined to around 7% (previous year: 13%).

The share of investors from elsewhere in Europe increased slightly year-on-year to around 15% (previous year: 14%). The share of investors from other regions was unchanged at around 4% (previous year: 4%).

Stockholders that hold at least 3% of the outstanding LANXESS stocks are required to report this. An overview 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 2022 and issued a bond.

The sustainability-linked financing framework complements our existing debt issuance program and creates a framework that allows us to link bonds to sustainability targets. With the bond issued in March, sustainability criteria were taken into account in the long-term capital market financing for the second time.

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

Overview of LANXESS's Main Bonds

ISIN/WKN	Volume	SLB[1]	Duration	Coupon
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%
XS2459163619	€600 million	Yes	March 22, 2022–March 22, 2028	1.750%
XS2415386726	€600 million	Yes	December 1, 2021–December 1, 2029	0.625%

1) Sustainability-linked bond

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.

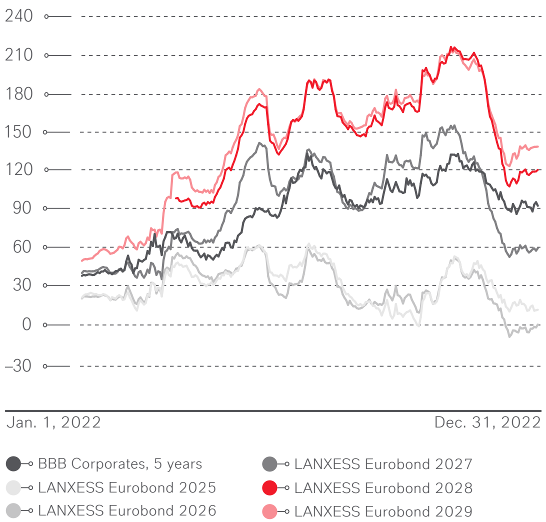
The risk premiums for corporate bonds were very volatile throughout the year due to the geopolitical crisis and the end of central banks' expansionary monetary policies. The development of risk premiums was particularly dominated by the uncertain gas supply situation. The LANXESS bonds largely followed this trend. The LANXESS Group 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 can be found on our website.

RATINGS

Our strategic corporate goal is to maintain an investment grade rating. LANXESS's creditworthiness has been assessed by the rating agencies Moody's Investors Service and Scope Ratings for many years already. We ended our cooperation with S&P Global Ratings in December 2022. The rating was withdrawn on January 4, 2023.

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

In the reporting year, the 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. The acquisition of the Microbial Control business from U.S. corporation International Flavors & Fragrances Inc. (IFF) was successfully completed as part of this transformation. In addition, it was announced that the High Performance Materials business unit would be transferred to a joint venture with Advent for high-performance engineering polymers. The rating agencies commented generally positively on both transactions. Moody's gives LANXESS 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 2018

Detailed information, downloadable publications, and contacts

CORPORATE GOVERNANCE

Diversity in the Supervisory Board

Corporate Governance Statement

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.

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 9, 2022, 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 7, 2021, which was updated on March 25, 2022, 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 with the exception described below.

Since the publication on June 27, 2022, of the Government Commission's recommendations as amended on April 28, 2022, LANXESS AG has complied with these recommendations 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 contracts concluded for Dr. Anno Borkowsky, Michael Pontzen and Dr. Hubert Fink in the context of their reappointments as members of the Board of Management. The new compensation system also applied to the appointment of Frederique van Baarle as a member of the Board of Management."

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 all compliance-related issues. The staff 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 instrument in the Compliance Program is the Group-wide "LANXESS Code of Conduct." It defines binding principles of conduct and provides employees with important information and guidance on compliance. The LANXESS Code of Conduct is published on our website. 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 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 U.N. 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 every single employee 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.

Since Dr. Stephanie Coßmann stepped down as of March 31, 2022, the Board of Management of LANXESS has consisted of four members, namely Matthias Zachert (Chairman), Dr. Anno Borkowsky, Dr. Hubert Fink and Michael Pontzen. Frederique van Baarle, who is currently head of the High Performance Materials business unit, will join the Board of Management as a new member with effect from April 1, 2023, at the latest. 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. It also deals with sustainability issues. 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 2022 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 individual committees fulfill their tasks. An externally supported self-assessment was carried out again in fiscal year 2022 for the first time since fiscal year 2019. The results were presented to the Supervisory Board, which discussed opportunities for improvement and recommendations for action thus derived.

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. In addition, the Presidial Committee prepares the Supervisory Board resolution on the compensation system for the Board of Management including the implementation of this system in the Board of Management contracts, the setting of targets for variable compensation and the assessment and review of the appropriateness of the total compensation of the individual Board of Management members. The Presidial Committee is chaired by Dr. Matthias L. Wolfgruber. Since the departure of Theo H. Walthie as a member of the Supervisory Board at the end of the Annual Stockholders' Meeting on May 25, 2022, the other members of the Presidial Committee are Birgit Bierther, Manuela Strauch, Hans van Bylen, Ralf Sikorski and, since July 1, 2022, Dr. Rainier van Roessel.

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. The Audit Committee also prepares the separate non-financial report. As of December 31, 2022, 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. Under German stock corporation law, at least one member of the Audit Committee must have expertise in the field of accounting and at least one other member of must have expertise in the field of auditing ("financial experts"). In accordance with the recommendations of the GCGC, the Chairman or Chairwoman of the Audit Committee must also have expertise in at least one of these two areas and be independent. Ms. Knapp as Chairwoman of the Audit Committee fulfills these requirements because of her earlier professional practice. She has held various management positions in the financial field during her professional career, most recently as CFO of a listed company where her responsibilities included the Accounting, Controlling and Treasury divisions. Ms. Knapp therefore has in-depth knowledge and many years of experience in the application of accounting principles, in the field of auditing and with regard to internal control and risk management systems, and also expertise in the field of sustainability reporting.

Mr. van Bylen, among others, also has a business management background and during his career has been a long-term member and most recently chairman of the management board of a large, international, publicly traded corporation. In this role, Mr. van Bylen has gained extensive experience in the application of accounting principles as well as various aspects of sustainability reporting, which he actively contributes to the Supervisory Board and the Audit Committee. The same applies to Larry A. Rosen, who has spent many years of his professional career as the CFO of several listed companies. Ms. Knapp, Mr. van Bylen and Mr. Rosen therefore meet the relevant statutory requirements for "financial experts."

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, since July 1, 2022, Dr. Heike Hanagarth.

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

SETTING AND IMPLEMENTATION OF TARGETS FOR FEMALE REPRESENTATION ON THE BOARD OF MANAGEMENT AND IN MANAGERIAL POSITIONS PURSUANT TO SECTIONS 76, PARAGRAPHS 3A AND 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 of the company originally defined a target for the Board of Management that it must have at least one female member by June 30, 2022. Since the Second Act on Equal Participation of Men and Women in Management Positions (FüPoG II) entered into force on August 11, 2022, companies like LANXESS that are listed on the stock exchange and subject to equal codetermination 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 and observe this requirement in the event of (re-)appointments of Board of Management members.

The company's Board of Management already had a female member in Dr. Stephanie Coßmann from January 1, 2020, until her departure as of March 31, 2022. After Dr. Coßmann's departure, the Supervisory Board immediately initiated an internal and external selection process to fill the vacancy in line with the above requirements and the diversity concept for the Board of Management. However, the Board of Management did not yet have another female member at the end of the reporting date on June 30, 2022. The selection process initiated by the Supervisory Board led to the Supervisory Board resolution on November 8, 2022, to appoint the head of the LANXESS High Performance Materials business unit, Frederique van Baarle, as a new female member of the Board of Management with effect from April 1, 2023, at the latest. Given the time constraints and the particular requirements for a meticulous and balanced selection process, the Supervisory Board finds the current transitional situation on the Board of Management acceptable.

In fiscal year 2017, the Board of Management set relevant targets for female representation on the management levels below the Board of Management of 15% for the first level below the Board of Management and 25% for the second level below the Board of Management. Both targets were to be achieved within an implementation period ending June 30, 2022, at which time they were exceeded with representation of 22.0% and 25.2%, respectively. In April 2022, the Board of Management then adopted new targets in the company's continued interest in increasing the number of women in management positions. By June 30, 2027, the proportion of female employees must therefore amount to at least 25% at the first level and 28% at the second level below the Board of Management. At the end of fiscal year 2022, these figures amounted to 22.5% and 24.8%, respectively.

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. In accordance with the statutory requirements in Sections 76, Paragraph 3a of the German Stock Corporation Act, the Supervisory Board also aims – as described above – to have at least one female member on the company's Board of Management. For the reasons given above, this was temporarily not the case at the end of fiscal year 2022. The Board of Management will soon have a female member again in Frederique van Baarle.

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. The future Board of Management member Frederique van Baarle is a Dutch citizen. However, we do not mean international 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 composition of the Board of Management of LANXESS AG will comply entirely with the diversity concept once Ms. Frau van Baarle takes up her position as a new Board of Management members.

Goals for composition, diversity concept and qualification matrix 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, risk management, digitalization/IT and 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.

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. Only one member of the Supervisory Board – Dr. Rainier van Roessel – is a former member of the company's Board of Management. In line with the recommendations of the GCGC, Dr. van Roessel was not appointed to the Supervisory Board until two years had elapsed since his departure from the Board of Management.

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.

In line with recommendation C.1 GCGC, the table below provides an overview of the Supervisory Board members' qualifications on the basis of the targets for the composition of the Supervisory Board:

Qualification Matrix

		Stockholder representatives						Employee representatives					
		Dr. Matthias L. Wolfgruber	**Hans van Bylen**	**Dr. Heike Hanagarth**	**Pamela Knapp**	**Lawrence A. Rosen**	**Dr. Rainier van Roessel**	**Birgit Bierther**	**Armando Dente**	**Dr. Hans-Dieter Gerriets**	**Ralf Sikorski**	**Iris Schmitz**	**Manuela Strauch**
Length of membership	Member since	2015	2020	2016	2018	2015	2022	2019	2020	2014	2015	2021	2015
Personal suitability	Independence	●	●	●	●	●	●	●	●	●	●	●	●
	Not overboarded	●	●	●	●	●	●	●	●	●	●	●	●
Diversity	Gender	Male	Male	Female	Female	Male	Male	Female	Male	Male	Male	Female	Female
	Nationality	German	Belgian	German	German	American	Dutch	German	German	German	German	German	German
Professional aptitude	Management of major international companies	●	●	●	●	●	●						
	Chemical sector	●	●				●	●	●	●	●	●	●
	Production, marketing and sale of chemical products	●	●				●	●		●		●	●
	Corporate governance (compliance)	●	●	●	●	●	●				●		
	M&A	●	●	●	●	●	●						
	Corporate financing				●	●							
	Accounting		●		●	●			●	●	●	●	
	Risk management		●		●	●			●	●	●	●	
	Digitalization/IT			●				●			●	●	●
	Sustainability/ESG	●		●			●		●	●	●		
International experience		●	●	●	●	●	●		●	●	●		

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, election of the stockholder representatives to the Supervisory Board, the compensation system for the members of the Board of Management and the Supervisory Board, and the approval of the Board of Management's compensation report. 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 2022 Annual Stockholders' Meeting on May 25, 2022, 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. In accordance with Section 120a AktG, it was approved at the Annual Stockholders' Meeting on May 25, 2022, by a majority of 88.79%. The most recent Board of Management resolution on the compensation of the Supervisory Board in accordance with Section 113, Paragraph 3, Sentence 1 AktG of May 19, 2021, is also available.

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, 2022, was still 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 2022 was audited by the auditor Pricewaterhouse-Coopers GmbH Wirtschaftsprüfungsgesellschaft (PwC). The condensed financial statements and interim management report included in the 2022 half-year financial report were also reviewed by PwC. PwC was appointed following an external tender procedure, which took place in 2016. Folker Trepte has been the responsible auditor since 2022. In preparation for the external rotation of the auditor in fiscal year 2024, the Supervisory Board's Audit Committee proactively conducted another tender procedure for the engagement of the auditor in 2022.

On this basis, the Supervisory Board selected KPMG AG Wirtschaftsprüfungsgesellschaft ("KPMG") by resolution dated November 8, 2022. As a result, the Supervisory Board will propose that the 2023 Annual Stockholders' Meeting appoint KPMG as auditor for fiscal year 2024. 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 2023

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, 2022)

Member of the Board of Management	External offices	Offices within the LANXESS Group
Matthias Zachert Chairman of the Board of Management	• Member of the Supervisory Board of Siemens AG, Berlin and Munich	• Chairman of the Executive Board of LANXESS Deutschland GmbH
Dr. Anno Borkowsky Member of the Board of Management		• Member of the Executive Board of LANXESS Deutschland GmbH • Chairman of the Board of Directors of LANXESS Hong Kong Ltd. • Chairman of the Board of Directors of LANXESS Corp. • Chairman of the Board of Directors of LANXESS Chemical (China) Co. Ltd. • Chairman of the Board of Directors of LANXESS India Private Ltd.
Dr. Hubert Fink Member of the Board of Management		• Member of the Executive Board of LANXESS Deutschland GmbH • Chairman of the Supervisory Board of Saltigo GmbH • Executive member of the Board of Administration of Performance Materials N.V. • Member of the Board of Administration of LANXESS Belgium N.V. • Chairman of the Supervisory Board of LANXESS Performance Materials GmbH (member since July 1, 2022; Chairman since December 14, 2022)
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. • Member of the Board of Directors of Emerald Performance Materials, LLC

SUPERVISORY BOARD OF LANXESS AG

Serving Members

Dr. Matthias L. Wolfgruber (Chairman)
- Self-employed consultant
- Former Chairman of the Management Board of ALTANA AG

Further offices:
- LANXESS Deutschland GmbH, Cologne[1)] (Chairman)
- ALTANA AG, Wesel[1)] (Chairman of the Supervisory Board)
- 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)]
- Akzo Nobel N.V., Amsterdam, Netherlands (since April 23, 2022)
- Etex NV, Luchthaven Brussel Nationaal, Belgium
- Ontex Group NV, Erembodegem (Aalst), Belgium (Chairman)
- SN Airholding NV, Brussels, Belgium (resigned December 15, 2022)

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)]
- Martur Fompak International/Automotive Seating Systems AS, Istanbul, Turkey
- NXT Boardroom GmbH, Munich (member of the Advisory Board)
- Rivean Capital Advisory GmbH, Frankfurt am Main (member of the Advisory Board – formerly Gilde Buy Out Partners BV)

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 (member of the Supervisory Board and Chairwoman of the Audit Committee)
- Compagnie de Saint-Gobain S.A., Courbevoie, France (member of the Board of Directors – Conseil d'Administration – and Chairman of the Audit Committee)
- HKP Deutschland GmbH, Frankfurt am Main (member of the Advisory Board)

Dr. Rainier van Roessel (appointed May 25, 2022)
- Self-employed consultant
- Former member of the Board of Management and Labor Relations Director of LANXESS AG

Further offices:
- LANXESS Deutschland GmbH, Cologne[1] (since May 25, 2022)
- K+S Aktiengesellschaft, Kassel[1]
- K+S Minerals and Agriculture GmbH, Kassel[1]

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

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, resigned April 4, 2022)

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
- Chairwoman of the LANXESS Central Works Council and Chairwoman of the LANXESS Works Council at the Leverkusen site
- Vice Chairwoman of the LANXESS Group Works Council

Further offices:
- LANXESS Deutschland GmbH, Cologne[1] (since October 1, 2022)
- Saltigo GmbH, Leverkusen[1]

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

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

1) Statutory supervisory boards.

Report of the Supervisory Board

DEAR STOCKHOLDERS,

In fiscal year 2022, LANXESS systematically continued on its chosen path to strategic advancement in difficult times for global politics.

Midway through the year, the Consumer Protection segment was strengthen again with the conclusion of the acquisition of the Microbial Control business from IFF. In addition, LANXESS announced that it would establish a world-leading joint venture for high-performance engineering plastics together with private equity investor Advent International. With this step, LANXESS is further honing its business portfolio and consistently gearing itself toward specialty chemicals. At the same time, we are already in a much more stable position thanks to our focus on less cyclical specialty chemicals.

This progress was achieved in an environment of considerable disruption, especially the war in Ukraine and the resulting geopolitical, energy policy and economic upheavals. The headwind from rising raw material and especially energy prices dominated the past year and was strengthened by the threat of recession at the end of the year. In this difficult environment, we successfully generated a stable result.

LANXESS also achieved important milestones with regard to sustainability and especially climate change mitigation. As early as 2019, we said we would become climate neutral in terms of direct emissions in production (Scope 1) and of energy sources (Scope 2) by 2040. In 2022, this target was expanded to include emissions from the upstream and downstream supply chains. We likewise wish to make these climate neutral by 2050. In line with the climate-neutrality strategy, various cooperations were concluded in the reporting year, which include the supply of raw materials based on sustainable sources, for example. LANXESS's diverse efforts for a sustainable transformation have once again been endorsed by top placements in external sustainability ratings.

For fiscal year 2023, we expect a continuingly strained environment with political uncertainties. At least in the first half of the year, we also anticipate weaker demand due to a recessionary environment and persistently high raw-material and energy costs. As a result of the transformation of recent years, we are confident of overcoming these challenges. Our focus for 2023 lies on the integration of the acquired business, the realization of synergies and the improvement of our operating cash flow.

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

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

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

PRINCIPAL TOPICS DISCUSSED BY THE SUPERVISORY BOARD

The Supervisory Board met a total of 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 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, the energy supply at LANXESS sites in Germany, investment and acquisition plans, the effects of the Ukraine war on LANXESS's business activities, and sustainability issues. The Supervisory Board addressed the following important issues:

The focus of the Supervisory Board's financial statements meeting held on March 10, 2022, was the review of the annual financial statements and consolidated financial statements for fiscal year 2021 and the proposal for use of the distributable profit. We discussed and approved the non-financial Group report 2021, 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 is to be held in virtual format once again, including the approval of the compensation report. The Board of Management then presented the internal control and risk management 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 2021 on the basis of the identified target attainment and on the payout of the 2018 LTSP tranche. After the meeting, the Supervisory Board resolved upon the mutually agreed termination of Dr. Stephanie Coßmann's appointment as a member of the Board of Management and as Labor Relations Director of LANXESS AG with effect from March 31, 2022.

At the meeting on May 4, 2022, 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. It also informed us about the go-live of the FIT project in Germany. FIT is a Group-wide program to redefine the end-to-end processes across all business units by introducing a global standard embedded in an integrated system landscape. In connection with a Board of Management personnel decision, we furthermore resolved to reappoint Michael Pontzen as a member of the Board of Management of LANXESS AG with effect from April 1, 2023.

At an extraordinary meeting of the Supervisory Board on May 30, 2022, the Board of Management gave us a detailed presentation on the project with the private equity investor Advent International to establish a global joint venture for high-performance plastics. The joint venture, to which LANXESS will contribute its High Performance Materials business unit, will acquire the Engineering Materials business of the Dutch group Royal DSM. The Supervisory Board conducted a thorough discussion of the opportunities and risks of the transaction and the effects on LANXESS. As a result, we resolved to approve the joint venture with Advent International as proposed by the Board of Management.

At the meeting on August 3, 2022, the Board of Management gave us an update on the FIT project, on which it had already reported at the meeting in May. Moreover, we discussed LANXESS's latest M&A transactions in detail with the Board of Management. The Board of Management first informed us about the status of the preparations for the completion of the joint venture with Advent International and the necessary global carve-out of LANXESS's HPM business into separate companies. In addition, the Board of Management informed us about the status of the integration and synergy measures of the acquisitions of Emerald Kalama and of the Microbial Control business from IFF. Finally, the Board of Management informed us about the status of the Group's sustainability projects and ESG targets.

At the meeting on November 8, 2022, we first addressed the early tender procedure for the appointment of the auditor for fiscal year 2024, which was led by the Audit Committee. On the basis of our decision, we will nominate KPMG AG Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, to the Annual Stockholders' Meeting for election as auditor of the annual and consolidated financial statements and as the auditor for the review of the condensed financial statements and interim management report included in the 2024 half-year financial report. Another principal topic at the meeting was the review of the Supervisory Board's efficiency, which was again conducted with external support. We listened to an explanation of the results and discussed them at length. The review reaffirmed the excellent and constructive cooperation within the Supervisory Board and with the Board of Management. Suggestions for improvement were taken on board. The Board of Management also gave us a report on LANXESS's research and development activities. Finally, we attended to a human resources matter on the Board of Management and resolved, following Dr. Stephanie Coßmann's departure from the Board of Management, to appoint Frederique van Baarle as a new female member of the Board of Management with effect from April 1, 2023, at the latest.

At its meeting on December 9, 2022, the Supervisory Board reviewed in full and approved the corporate planning for 2023 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 defined the conditions for the Board of Management's variable compensation components and target total compensation for fiscal year 2023. In connection with a further personnel decision, we furthermore resolved to reappoint Dr. Hubert Fink as a member of the Board of Management of LANXESS AG with effect from October 1, 2023.

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. At its meetings, the Supervisory Board also regularly met without the Board of Management.

The members of the Supervisory Board autonomously undertake the training necessary for their duties and are supported in their efforts by the company. New members of the Supervisory Board can meet members of the Board of Management and specialist managers for an exchange on fundamental and current topics, thus obtaining an overview of the relevant topics for the company (onboarding). The company also offers training sessions.

The attendance at meetings of the Supervisory Board and its committees was 99.5%. The meeting in March and the extraordinary meeting on May 30, 2022, were held virtually; the others were held in person. 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 2022

Supervisory Board members	Supervisory Board		Presidial Committee		Audit Committee		Total	
	Attendance	%	Attendance	%	Attendance	%	Attendance	%
Dr. Matthias L. Wolfgruber, Chairman	6/6	100	5/5	100			11/11	100
Ralf Sikorski, Vice Chairman	6/6	100	5/5	100			11/11	100
Birgit Bierther	6/6	100	5/5	100			11/11	100
Hans van Bylen	5/6	83.3	5/5	100	4/4	100	14/15	93.3
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	10/10	100
Iris Schmitz	6/6	100			4/4	100	10/10	100
Manuela Strauch	6/6	100	5/5	100			11/11	100
Theo H. Walthie (until May 25, 2022)	2/2	100	2/2	100			4/4	100
Rainier van Roessel (from May 25, 2022)	4/4	100	3/3	100			7/7	100

WORK OF THE COMMITTEES

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

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

The Audit Committee met four times during the year. The Audit Committee dealt in particular with the annual financial statements of LANXESS AG, the consolidated financial statements and the combined management report for fiscal year 2021, the quarterly statements issued during fiscal year 2022, and the condensed consolidated financial statements and interim management report included in the 2022 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 2021. Another key issue of the committee work was the early implementation of a tender and selection procedure for the 2024 audit in accordance with Article 16 (3) of the Audit Regulation. 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 2022 financial statements. Utilization of production capacity was another regular topic. The Committee also found out about the Group's liquidity management, strategies to hedge currency risks, the EU taxonomy and the recent audit of OTC derivatives contracts pursuant to Section 32 of the German Securities Trading Act. Finally, there was detailed discussion of the energy supply at LANXESS sites in Germany and the development of energy and raw material prices. The external auditor reported on the auditing activities at two of the four Audit Committee meetings.

The Nomination Committee did not meet in fiscal year 2022. 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 2022 were audited by PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, the auditor appointed by the Annual Stockholders' Meeting on May 25, 2022, 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. For the first time, the auditor responsible for the audit was Folker Trepte.

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

The audit reports and the documents relating to the financial statements were discussed at length with the Board of Management and the auditor at the Audit Committee meeting held on March 13, 2023. They were also discussed in detail on the basis of the required documents and notes at the Supervisory Board's financial statements meeting held on March 14, 2023. 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 2022. Long-standing member Theo H. Walthie left the Board at the end of the Annual Stockholders' Meeting on May 25, 2022. The Annual Stockholders' Meeting elected Dr. Rainier van Roessel as a new member of the Supervisory Board.

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 2022.

Cologne, March 14, 2023

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 Corporation, Wilmington, U.S.	Production and sales	Consumer Protection/ Specialty Additives/ Advanced Intermediates
LANXESS Deutschland GmbH, Cologne, Germany	Production and sales	Consumer Protection/ Specialty Additives/ Advanced Intermediates
Saltigo GmbH, Leverkusen, Germany	Production and sales	Consumer Protection
MC (US) 3 LLC, Wilmington, U.S.	Sales organiza-tion	Consumer Protection
LANXESS India Private Limited, Thane, India	Production and sales	Consumer Protection/ Specialty Additives/ Advanced Intermediates
Emerald Kalama Chemical B.V., Rotterdam, Netherlands	Production and sales	Consumer Protection
LANXESS N.V., Antwerp, Belgium	Production and sales	Specialty Additives
LANXESS Sales Netherlands B.V., Venlo, Netherlands	Sales organiza-tion	Specialty Additives
Emerald Kalama Chemical LLC, Cuyahoga Falls, U.S.	Production and sales	Consumer Protection
LANXESS S.r.l., Milan, Italy	Production and sales	Consumer Protection/ Specialty Additives/ Advanced Intermediates

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

Material Changes in the Group Portfolio and Business Organization

On May 31, 2022, LANXESS and Advent International ("Advent") signed a contract for the acquisition of the Engineering Materials business of the Dutch group Royal DSM. This business and the LANXESS High Performance Materials business unit are to be merged within a company for high-performance engineering polymers, which represents total annual sales of approximately €3 billion and is to be divided into three global business units. The transaction has been approved by the anti-trust authorities. We currently anticipate closing by no later than the beginning of April 2023.

Advent will hold around 60% of the new company. LANXESS will receive a payment of at least €1.1 billion and a share of about 40% in the future company. LANXESS will have a first opportunity to offer its shares in the newly founded company for sale to Advent after three years.

After contributing the High Performance Materials business unit, LANXESS will include its minority interest in the new company in the LANXESS consolidated financial statements using the equity method. Since the transaction is expected to be completed within twelve months, the High Performance Materials business unit was already reported as a discontinued operation in accordance with IFRS 5 as of June 30, 2022. The earnings contributions for 2021 and 2022 have been removed from income from continuing operations in the income statement and shown in a single line item as income from discontinued operations. The High Performance Materials business unit's intangible assets and property, plant and equipment are not subject to further amortization or depreciation and are recognized at the lower of carrying amount and fair value less costs to sell. No adjustments have been made to the statement of financial position for reporting dates prior to June 30, 2022. In the disclosures below, we have generally omitted any additional indication that prior-year figures have been adjusted relating to this.

On July 1, 2022, LANXESS acquired the Microbial Control business from U.S. corporation International Flavors & Fragrances Inc. Microbial Control is one of the leading providers of antimicrobial active ingredients and formulations for material protection, preservatives and disinfectants. As part of the acquisition, LANXESS took over two production plants in St. Charles, Louisiana, and Institute, West Virginia, U.S., as well as around 240 employees. The business also has a large network of partners including active ingredient manufacturers and formulators. The business was integrated into the Material Protection Products business unit of the Consumer Protection segment.

Given the transactions in the current fiscal year and in the previous year, we have adjusted the segment order in line with our new focus. The LANXESS Group now comprises three separate reporting segments: Consumer Protection, Specialty Additives and Advanced Intermediates. The Engineering Materials segment has been wound up and the Urethane Systems business unit, which was previously included together with the High Performance Materials business unit, is recognized under "All other segments." As a result of the described changes, the new segment structure is as follows:

Dr. Stephanie Coßmann left the Board of Management as of March 31, 2022. Her successor, Frederique van Baarle, will take office no later than April 1, 2023. She will assume responsibility for the Human Resources Group function and take over the role of Labor Director from Dr. Anno Borkowsky, who took on this role on a transitional basis. Frederique van Baarle will also assume Board of Management responsibility for the Americas region from the second half of 2023 onwards. The Chairman of the Board of Management, Matthias Zachert, has assumed responsibility for the Legal and Compliance Group function.

New Segment Structure

ORDER ADJUSTED

Consumer Protection	Specialty Additives	Advanced Intermediates
Material Protection Products	Polymer Additives	Advanced Industrial Intermediates
Flavors & Fragrances	Lubricant Additives Business	Inorganic Pigments
Saltigo	Rhein Chemie	
Liquid Purification Technologies		

The Segments in Brief

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

Consumer Protection

Business units	Material Protection Products
	Flavors & Fragrances
	Saltigo
	Liquid Purification Technologies
Sites	Descalvado, Jarinu, Brazil
	Bitterfeld, Dormagen, Krefeld-Uerdingen, Leverkusen, Wietmarschen, Germany
	Laval, France
	Sudbury, Hull, Widnes, Great Britain
	Jhagadia, Nagda, India
	Rotterdam, Netherlands
	Singapore, Singapore
	Institute, Kalama, Memphis, Pittsburgh, St. Charles, U.S.
Applications	Agrochemicals
	Flavors and fragrances
	Disinfection, preservation and material protection products
	Products for water treatment
	Pharmaceuticals

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
	Lipetsk, Russia
	Kaohsiung, Taiwan
	Bushy Park, Chardon, Charleston, East Hanover, El Dorado, Fords, Little Rock, U.S.
Applications	Colorants, polymer additives
	Lubricants and lubricant additives
	Phosphorous-based or brominated flame retardants

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, U.S.
Applications	Agrochemicals
	Automotive
	Construction
	Aromas and flavors
	Color pigments
	Semiconductors and photovoltaics

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. 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 portfolio strategy continues to bank on safety and sustainability as growth drivers. The three segments – Consumer Protection, Specialty Additives and Advanced Intermediates – make up a portfolio that is less cyclical and exhibits the necessary resilience and high potential for sustainable growth. Our strategic guidelines provide a framework not only for evaluating our own portfolio, but also for acquisitions and investments. We successfully integrated previous acquisitions in 2022, an important step. For details, please see "Business organization and material changes in the Group portfolio" in this management report.

The strategic portfolio restructuring in recent years for the transformation into a specialty chemicals manufacturer is thus essentially complete. The task now is to realize synergies, fully utilize the earnings potential and, in the medium term, restructure the entire portfolio in a climate-neutral manner.

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 Firmly Anchored in the Strategy

LANXESS intends to drive the structural change and thus be part of the solution as a sustainable chemicals company with long-term success. We have clearly formulated this ambition in our climate protection targets: We intend to be climate neutral in terms of Scope 1 and Scope 2 greenhouse gas emissions by 2040 and in terms of Scope 3 greenhouse gas emissions by 2050. The strategy for climate neutrality along the entire value chain is based on three pillars – sustainable raw materials, green logistics and climate-neutral products.

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" 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 March 2022, we also successfully placed our second Eurobond of €600 million on the European capital market, which is based on sustainability criteria.

Financial Targets

Under persistently challenging conditions, our EBITDA margin pre exceptionals amounted to 11.5% in the reporting year. The year-on-year decline is due to rising inflation. In addition to the EBITDA margin pre exceptionals, we will also keep focusing on a continuous, solid cash flow and are now working on its further improvement following the conclusion of recent acquisitions.

We will of course continue to invest in attractive projects when we are convinced that they can create value for our stockholders and the company. Furthermore, we aim to retain our sound investment grade rating.

VALUE MANAGEMENT AND CONTROL SYSTEM

Financial Performance Indicators

		2018	2019	2020	2021	2022
EBITDA pre exceptionals[1]	€ million	986	1,019	862	815	930
EBITDA margin pre exceptionals[1]	%	14.4	15.0	14.1	13.4	11.5
Capital employed[2]	€ million	5,204	5,588	5,272	7,606	8,254
ROCE	%	11.4	10.0	7.5	6.6	4.7
Days of sales in inventory (DSI)	Days	68.6	65.7	64.1	70.6	84.9
Days of sales outstanding (DSO)	Days	46.0	42.3	44.6	45.4	39.1
Net financial liabilities	€ million	1,923	2,522	1,012	2,345	3,814
Net financial liabilities after deduction of short-term money market investments and securities	€ million	1,381	1,742	1,012	2,245	3,814
Net financial debt ratio		1.4x	1.7x	1.2x	2.2x	4.1x
Investment ratio[1]	%	7.0	7.5	7.5	6.9	5.0

1) Figures not including the Leather business unit and from 2021 not including the High Performance Materials business unit.
2) Capital employed 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. After 2,039 thousand metric tons in the previous year, CO_2e emissions in continuing operations came to 1,994 thousand metric tons in fiscal year 2022 and we achieved an LTIFR of 0.5, compared to 0.8 in the previous year.

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

Earning Power

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

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 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 and energy prices are a hallmark of our industry and their fluctuation throughout the year impacts our selling prices. This influences sales and, in turn, relative margins. Other than through short-term alignment effects, however, this generally has no impact on the absolute earnings contributions that are key to earning power. 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 planning process delivers key values for the Group's earning power and our ability to finance operations from our own funds as the starting point for steering the company. This information is used, for example, to make financing and capital expenditure decisions. To ensure a timely response to changes in market conditions and the competitive environment, we prepare operational forecasts twice each fiscal year as the basis for updating the full-year budget and the associated key values 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 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 liabilities.” In addition, we use a simplified variant of ROCE, called “business ROCE,” to evaluate the contribution of our business units.

In the 2022 reporting year, ROCE was 4.7% and thus below 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 6.6%. The capital employed of the reporting year was adjusted for an amount of €1,354 million. This resulted from assets allocated to discontinued operations in the statement of financial position and investments in shares of money market funds that can be sold at any time. The capital employed of fiscal year 2021 was adjusted for an amount of around €591 million. This resulted from investments in shares of money market funds that can be sold at any time and from time deposits.

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 2022, DSI was at 84.9 days (previous year: 70.6 days) and DSO at 39.1 days (previous year: 45.4 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 €3,814 million. The near-cash assets included in this item amounted to €79 million. No further short-term money market investments and securities were held. After deduction of short-term money market investments and securities, net financial liabilities at the end of 2022 therefore also amounted to €3,814 million. In the previous year, short-term money market investments in the form of time deposits of €100 million also had to be taken into account. Adjusted for these, the comparative figure as of December 31, 2021, was €2,245 million. The rise in the reporting year essentially reflected the acquisition of the Microbial Control business from U.S. Corporation International Flavors & Fragrances Inc., as well as the higher amount of capital tied up in net working capital as a result of significant increases in raw material and energy 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 and securities, the net financial debt ratio rose to 4.1 as of December 31, 2022, after 2.2 at the previous year's reporting date. The net financial debt ratio as of December 31, 2022, was inflated on account of the earnings contribution of the Microbial Control business, which has been included only since July 1, 2022, and the contribution of the High Performance Materials business unit, which is not to be reported in continuing operations.

At Group level, we also consider provisions for pensions and other post-employment benefits to be components of debt. Compared with the end of 2021, they decreased by €510 million to €367 million. Including this additional component of debt, adjusted for related deferred tax assets of €65 million (previous year: €239 million) and reduced by the receivables relating to pension obligations recognized under other non-current assets of €24 million (previous year: €12 million), the total net debt ratio in relation to EBITDA pre exceptionals was 4.4, compared with 2.8 at the previous year's reporting date.

Net Financial Liabilities

€ million	2018	2019	2020	2021	2022
Non-current financial liabilities	2,686	2,777	2,265	2,829	3,417
Current financial liabilities	59	66	566	675	830
Less:					
Liabilities for accrued interest	(25)	(25)	(25)	(25)	(30)
Cash and cash equivalents	(797)	(296)	(271)	(643)	(324)
Near-cash assets	0	0	(1,523)	(491)	(79)
Net financial liabilities	1,923	2,522	1,012	2,345	3,814
after deduction of short-term money market investments and securities	(542)	(780)	0	(100)	0
Net financial liabilities after deduction of short-term money market investments and securities	**1,381**	**1,742**	**1,012**	**2,245**	**3,814**

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, energy 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. The availability of logistics capacity remained restricted in the reporting period, especially in China on account of the coronavirus pandemic.

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 2022 included BASF, BP, Covestro, Enterprise Products, Evonik, ExxonMobil, INEOS, Olin, OQ Chemicals, Sasol, Shell and Total.

Among the most important strategic raw materials for our production operations in fiscal year 2022 were aniline, benzene, chlorine and caustic soda, cyclohexane, nitric acid and toluene. In total, strategic raw materials accounted for a procurement volume of approximately €2.2 billion in fiscal year 2022 (previous year: approximately €1.8 billion). This equates to around 65% of our total procurement spend for raw materials and goods in 2022, which amounted to approximately €3.4 billion (previous year: €2.6 billion). The higher procurement volume was largely due to increased raw material prices. Acquisitions of Emerald Kalama Chemical and the Microbial Control business also increased the procurement volume. Our total procurement spend in 2022 was around €5.7 billion (previous year: around €4.4 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 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, Charleston, El Dorado and Kalama, U.S.; Elmira, Canada; Jhagadia and Nagda, India; and Nantong, Ningbo and Qingdao, 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 85 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 57 of our own production sites in 18 countries. Wherever possible, customers are supplied from production sites in the same region, yielding advantages in terms of time and costs.

Sales Markets

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

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

Shares of Sales by Industry Sector

%	2022
Chemical industry	~ 20
Mobility[1]	~ 10
Agriculture and animal health	~ 20
Nutrition, health and consumer goods	~ 20
Energy, natural resources and industrial applications	~ 20
Construction	~ 10

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

In fiscal year 2022, our top ten customers accounted for about 22% of total sales, as in the previous year. None of our customers accounted for more than 5% of Group sales. Far higher sales driven by raw material and energy prices also pushed up the number of customers with annual sales exceeding €20 million from 38 in the previous year to 61 in the current fiscal year. 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, the Uerdingen district of Krefeld and Mannheim, Germany, and in Naugatuck, Kalama and Wilmington, U.S. We also operate a pilot technical center at the site in El Dorado, U.S., and the modern Asian Application Development Center at the Shanghai Chemical Industry Park in China. At our research and development sites, we test materials such as innovative flame retardants, new and optimized ion exchange resins and sustainable lubricant additives and develop new formulations for disinfectants, fragrances and material protection, among other things.

Cost trend and employees

Research and development expenses in 2022 totaled €102 million, or 1.3% of sales (previous year: €95 million or 1.6%). The Material Protection Products, Polymer Additives, Lubricant Additives Business and Saltigo business units 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

	2018	2019	2020	2021	2022
Research and development expenses (€ million)	109	114	108	95	102
% of sales	1.6	1.7	1.8	1.6	1.3

Figures not including the Leather business unit and from 2021 not including the High Performance Materials business unit.

At the end of 2022, 490 people – against 456 in the previous year – were employed in our research and development laboratories worldwide.

Number of Employees in Research and Development

	2018	2019	2020	2021	2022
Year end	496	516	517	456	490
% of Group employees	3.5	3.6	3.6	3.5	3.7

Figures not including the Leather business unit and from 2021 not including the High Performance Materials 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 2022 was 223 compared to 209 in the previous year, 140 (previous year: 132) of which aimed to develop new products and applications or improve existing ones. The remaining 83 projects (previous year: 77) 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 2022, we submitted 21 priority applications worldwide. As of December 31, 2022, the full patent portfolio included approximately 660 patent families covering around 5,770 property rights.

Employees

As of December 31, 2022, the LANXESS Group had a total of 15,177 employees, against 14,866 at the closing date of the previous year. In continuing operations, the number of employees rose from 12,951 in the previous year to 13,126 in the reporting year, chiefly due to the acquisition of the Microbial Control business from the U.S. corporation International Flavors & Fragrances Inc. in the reporting period, which increased the number of employees, especially in the North America region.

Employees by Region

	2021	2022
EMEA (excluding Germany)	1,353	1,306
Germany	7,013	7,099
North America	2,123	2,224
Latin America	749	751
Asia-Pacific	1,713	1,746
	12,951	**13,126**

Personnel expenses in fiscal year 2022 totaled €1,369 million, with wages and salaries accounting for the greater part of this figure at €1,080 million.

Personnel Expenses

€ million	2021	2022
Wages and salaries	1,030	1,080
Social security contributions	170	185
Retirement benefit expenses	87	91
Social assistance benefits	10	13
	1,297	**1,369**

ECONOMIC REPORT

LEGAL ENVIRONMENT

There were no changes in the legal environment in fiscal year 2022 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 2022 was dominated primarily by the impact of the war in Ukraine, as well as the ongoing effects of the coronavirus pandemic. Major supply chain disruptions, higher raw material costs, inflation rates of over 10% in some cases, and rapidly rising energy prices significantly impacted the global economy. This impact was additionally exacerbated in some areas by continuing populist or protectionist tendencies and ongoing trade conflicts, especially between the U.S. and China. Although the economy generally recovered year-on-year in terms of gross domestic product in 2022, it did so far more slowly than originally expected.

Due to a significant economic downturn in the second half of the year, global chemical production fell short of expectations with growth of 3.0% in fiscal year 2022. Once again, the Asia-Pacific region generated the highest upturn at 4.5%, but chemical production in Europe declined after a strong previous year. Germany in particular saw a decline of 7.5%.

All regions posted an upturn, but this was less pronounced than in the previous year across the board. The weakest development was recorded by the USMCA economic area and, once again, Germany at just 2.0%, while EMEA (including Germany) and Latin America saw the highest increases in gross domestic product at 3.5% each.

GDP and Chemical Production in 2022

Change vs. prior year in real terms (%)	Gross domestic product	Chemical production
USMCA (formerly NAFTA)	2.0	1.5
Latin America	3.5	3.5
EMEA (incl. Germany)	3.5	(1.0)
Germany	2.0	(7.5)
Asia-Pacific	3.0	4.5
World	**3.0**	**3.0**

Source for 2022 growth rates: S&P Global Market Intelligence.

In the U.S., sustained high inflation and an exceptionally strained labor market resulted in a dramatic tightening of monetary policy, the effects of which included the appreciation of the U.S. dollar: One euro was worth US$1.07 at the end of 2022. The value of the U.S. currency thus increased by 5.3% from the closing price of US$1.13 at the end of 2021. The U.S. dollar was also stronger on average over the year at US$1.05 to the euro, against US$1.18 in the previous year. Due to the regional positioning of our business, a stronger U.S. dollar tends to have a positive effect on our earnings. Centralized hedging activities limit any impact that cannot be neutralized by ensuring that production and sales take place in the same currency area.

Compared with the previous year, procurement prices for raw materials and energy rose sharply. There were particularly significant increases in freight and logistics costs.

Development of Major Customer Industries

Global automobile production was up 3.0% year-on-year in the reporting year. This was chiefly attributable to the U.S. market, which grew by 8.5%, whereas EMEA (including Germany) posted only an increase of 1.0% and Germany of 2.0%. The Latin American automotive industry grew by 9.5%, but had little impact on the global market as it is less significant than other regions.

Agrochemicals again saw growth of 4.0%, driven in particular by growth in the Latin America and Asia-Pacific regions of 7.5% and 5.0%, respectively. The USMCA economic area picked up by a slight 2.0%, while Germany and EMEA (including Germany) posted declines.

The global construction industry picked up by 2.0%. This development was concentrated in the regions of Latin America, EMEA (including Germany) and Asia-Pacific. Germany and the USMCA economic area, on the other hand, fell by 1.5% and 3.5%, respectively.

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

Development of Major Customer Industries in 2022

Change vs. prior year in real terms (%)	Automotive	Agrochemicals	Construction
USMCA (formerly NAFTA)	8.5	2.0	(3.5)
Latin America	9.5	7.5	6.0
EMEA (incl. Germany)	1.0	(0.5)	2.5
Germany	2.0	(7.5)	(1.5)
Asia-Pacific	2.0	5.0	4.0
World	**3.0**	**4.0**	**2.0**

Source for 2022 growth rates: S&P Global Market Intelligence.

KEY EVENTS INFLUENCING THE COMPANY'S BUSINESS

Good business performance overall reflected our balanced product portfolio, with the operating strength of our Specialty Additives segment and the contributions from the acquisitions of the Microbial Control business from U.S. corporation International Flavors & Fragrances Inc. and Emerald Kalama Chemical in particular shoring up earnings. Far higher procurement prices for raw materials and energy, primarily due to the coronavirus pandemic and the war in Ukraine, were passed on to customers via higher selling prices, but overall this had a negative impact on our relative earnings margin. Thanks to our holdings of cash and cash equivalents and liquidity reserves in the form of undrawn credit lines, we had a sound liquidity situation as of December 31, 2022.

COMPARISON OF FORECAST AND ACTUAL BUSINESS

Comparison of Forecast and Actual Business 2022

	Forecast for 2022 in Annual Report 2021	Actual 2022
Business development: Group		
EBITDA pre exceptionals	• Significantly above the previous year's level (€1,010 million) • Previous year's figure and previous year's forecast include the High Performance Materials business unit now accounted for as a discontinued operation • Positive contribution from the acquisition of Emerald Kalama Chemical • Demand remains good in our key customer industries • Guidance accounts for an immense increase in energy costs, particularly in Europe, as well as the disruptions to global supply chains due to the coronavirus pandemic and the associated high logistics costs • Further negative effects were unclear given the war in Ukraine, which at the time was still considered a conflict	• EBITDA pre exceptionals from continuing operations: €930 million (previous year: €815 million) • EBITDA pre exceptionals far lower than expected due to accounting for the High Performance Materials business unit as a discontinued operation • Positive earnings contributions from the acquisition of the Microbial Control business in 2022 and the purchase of Emerald Kalama Chemical
Business development: segments		
Consumer Protection	• Development well above the previous year • Positive portfolio effect from the contribution of Emerald Kalama Chemical • Continued high demand for our disinfectants • Good performance in the agrochemicals business • Negative impact of high energy and logistics costs	• EBITDA pre exceptionals well up on the previous year: €363 million (previous year: €279 million) • Portfolio effects from the acquisition of the Microbial Control business in 2022 and the purchase of Emerald Kalama Chemical
Specialty Additives	• Business development well above the previous year • Demand growth in the construction industry • Higher demand for flame retardants and specialty lubricants thanks to recovery in international air traffic • Negative impact of high energy and logistics costs	• EBITDA pre exceptionals well up on the previous year's level: €479 million (previous year: €323 million)
Advanced Intermediates	• Earnings on par with previous year • Positive demand trends in diversified end markets for chemical intermediates and the inorganic pigments business thanks to growth in the construction industry • Negative impact of high energy and logistics costs	• EBITDA pre exceptionals well down on the previous year's level: €291 million (previous year: €333 million) • Weaker demand, especially from the construction sector • Negative impact of higher energy and logistics costs was passed on
All other segments	• Far lower earnings compared to the previous year • General inflation of the cost base • Recurring costs for travel and trade fairs • Higher negative effects from portfolio changes	• EBITDA pre exceptionals considerably worse than in the previous year: minus €203 million (previous year: minus €120 million) • Transfer of the Urethane Systems business unit from the discontinued Engineering Materials segment
Capital expenditures		
Cash outflows for capital expenditures	• Around €450 million to €500 million	• €407 million (previous year: €424 million) • Capital expenditures far lower than expected due to accounting for the High Performance Materials business unit as a discontinued operation
Environment and occupational health and safety		
CO_2e emissions	• At the previous year's level (2,591 thousand metric tons)	• CO_2e emissions of continuing operations: 1,994 thousand metric tons (previous year: 2,039 thousand metric tons)
Lost time injury frequency rate (LTIFR: accidents per million hours worked) for accidents with days lost	• At the previous year's level (0.9)	• LTIFR of continuing operations: 0.5 (previous year: 0.8)

Prior-year figures restated.

In the combined management report for fiscal year 2021, we expected EBITDA pre exceptionals to be well above the previous year's level (€1,010 million) in 2022. We specified our guidance over the course of fiscal year 2022 and most recently anticipated EBITDA pre exceptionals from continuing operations of between €900 million and €950 million, significantly higher than the previous year's figure of €815 million after adjustment for comparability. The actual earnings from continuing operations amounted to €930 million.

We had expected LANXESS AG's net income according to German commercial law in the reporting year to be far better than in the previous year. Primarily as a result of the profit transfer at LANXESS Deutschland GmbH, where net earnings were higher than in the previous year thanks to the contribution of the High Performance Materials business unit to LANXESS Performance Materials GmbH, net income of €1,014 million was generated after a net loss of €92 million in the prior-year period.

BUSINESS PERFORMANCE OF THE LANXESS GROUP

- Successful integration of the Microbial Control business acquired from U.S. corporation International Flavors & Fragrances Inc.
- LANXESS and Advent agree joint venture for high-performance engineering polymers business
- Sales considerably above the previous year's level in all segments
- Group sales of €8,088 million compared with €6,101 million in the previous year
- Positive earnings contribution from acquired businesses
- EBITDA pre exceptionals of €930 million, up from the previous year's figure of €815 million
- EBITDA margin pre exceptionals of 11.5% after 13.4% in the previous year; dilution by the passing on of higher raw materials and energy costs
- Earnings per share from continuing operations pre exceptionals and amortization of intangible assets increased from €3.60 to €3.75

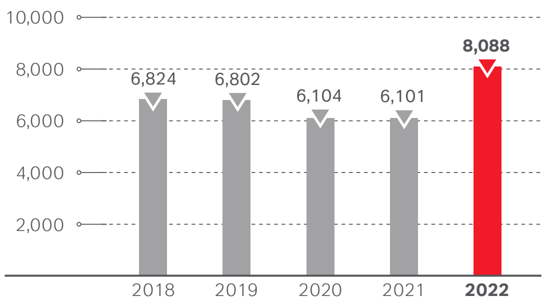
Key Financial Data

€ million	2021	2022	Change %
Sales	6,101	8,088	32.6
Gross profit	1,525	1,937	27.0
EBITDA pre exceptionals	815	930	14.1
EBITDA margin pre exceptionals	13.4%	11.5%	–
EBITDA	668	826	23.7
Operating result (EBIT) pre exceptionals	361	389	7.8
Operating result (EBIT)	211	280	32.7
EBIT margin	3.5%	3.5%	–
Financial result	(48)	(23)	52.1
Income before income taxes	163	257	57.7
Net income from continuing operations	115	184	60.0
Net income from discontinued operations	152	66	(56.6)
Net income	267	250	(6.4)
Earnings per share (€)	3.09	2.90	(6.1)
Earnings per share from continuing operations adjusted for exceptional items and amortization of intangible assets (€)	3.60	3.75	4.2

Sales

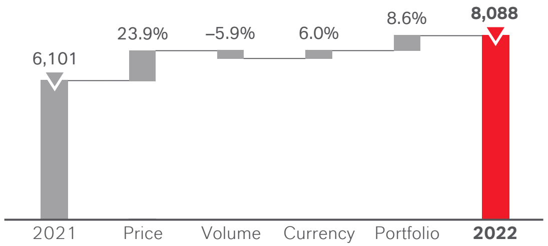
Sales of the LANXESS Group amounted to €8,088 million in the reporting period, up by €1,987 million, or 32.6%, on the previous year's figure. In the previous year, the sales amounted to €6,101 million. The sales development was influenced in particular by significantly higher selling prices driven by raw material and energy prices in the reporting year. The portfolio changes had a positive effect on sales at Group level, primarily due to the contribution from the Microbial Control business acquired at the beginning of July 2022 and the contribution from the company Emerald Kalama Chemical acquired at the beginning of August 2021. Shifts in exchange rates, especially due to a strong U.S. dollar, also boosted sales. Adjusted for currency and portfolio effects, the LANXESS Group recorded an 18.0% increase in operational sales in fiscal year 2022.

Group Sales
€ million



Figures not including the Leather business unit and from 2021 not including the High Performance Materials business unit.

Effects on Sales
€ million/%



Effects on Sales

%	2022
Price	23.9
Volume	(5.9)
Currency	6.0
Portfolio	8.6
	32.6

Sales by Segment

€ million	2021	2022	Change %	Proportion of Group sales %
Consumer Protection	1,579	2,366	49.8	29.3
Specialty Additives	2,295	2,970	29.4	36.7
Advanced Intermediates	1,949	2,413	23.8	29.8
All other segments	278	339	21.9	4.2
	6,101	**8,088**	**32.6**	**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.

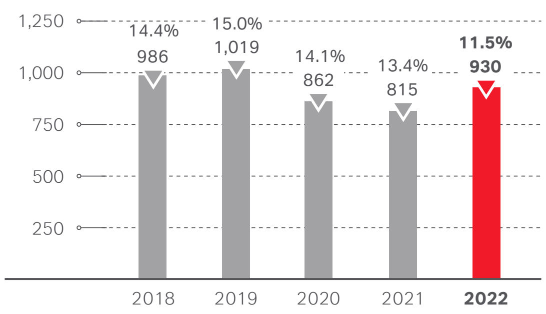
Any disclosure of the Group's order book status at a given reporting date therefore would not be indicative of the Group's short- or medium-term earning power. For this reason, no such disclosure is made in this report.

Gross Profit

The cost of sales increased by 34.4%, to €6,151 million. In the previous year, it amounted to €4,576 million. The increase resulted primarily from significantly higher procurement prices for raw materials and energy in the existing business. The integration of the Microbial Control business acquired at the start of July 2022 and of Emerald Kalama Chemical, which was acquired in 2021, also resulted in a portfolio-driven increase. Shifts in exchange rates also led to higher manufacturing costs. Capacity utilization of 69% was 8 percentage points lower than in the previous year, mainly because of a targeted reduction in our inventories at the end of the year. Gross profit was €1,937 million, up by €412 million or 27.0% against the previous year. In particular, higher selling prices resulting from increased procurement prices for raw materials and energy had a positive impact on earnings development. The portfolio and exchange rate effects also made a positive contribution to earnings. By contrast, lower sales volumes had a negative impact. The gross margin of 23.9% was slightly below the previous year's figure of 25.0%.

EBITDA Pre Exceptionals and Operating Result (EBIT)

EBITDA and EBITDA Margin Pre Exceptionals
€ million/%



Figures not including the Leather business unit and from 2021 not including the High Performance Materials business unit.

In an economic environment driven by sharp hikes in raw material and energy prices, the operating result before depreciation, amortization, write-downs and reversals (EBITDA) pre exceptionals increased by €115 million, or 14.1%, to €930 million in fiscal year 2022, after €815 million in the previous year. All segments recorded significantly higher raw material and energy prices, which were passed on to the market through a successful increase in selling prices. The Consumer Protection and Specialty Additives segments saw positive business development, with the Consumer Protection segment benefiting significantly from the portfolio contributions of the Microbial Control business acquired at the beginning of July 2022 and the U.S. company Emerald Kalama Chemical acquired at the beginning of August 2021. In the Advanced Intermediates segment, which is particularly affected by high gas prices, the lower volumes and high freight costs due to weaker demand resulted in an earnings decline. Changes in exchange rates, especially a strong U.S. dollar, had a positive influence on earnings development in all segments. Please see the table below and "Segment Information" for details on the individual segments.

EBITDA Pre Exceptionals by Segment

€ million	2021	2022	Change %
Consumer Protection	279	363	30.1
Specialty Additives	323	479	48.3
Advanced Intermediates	333	291	(12.6)
All other segments	(120)	(203)	(69.2)
	815	**930**	**14.1**

Prior-year figures restated.

All functional cost areas reported higher costs, especially due to portfolio and exchange rate effects. Due to higher freight costs, selling expenses also rose by 30.4% to €1,064 million. Research and development costs came to €102 million, compared to €95 million in the previous year. General administration expenses were €319 million after €276 million in the previous year. The Group EBITDA margin pre exceptionals came in at 11.5%, against 13.4% in the previous year.

The operating result (EBIT) of the Group totaled €280 million compared with €211 million in the previous year. Depreciation, amortization and write-downs rose by €89 million compared with the figure for the previous year to €546 million, primarily due to the recently completed acquisitions and exchange rate effects. This includes write-downs of €10 million, €5 million of which constituted exceptional items. In the previous year, depreciation, amortization and write-downs of €457 million included write-downs of €11 million, €3 million of which were exceptional items. 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 €172 million compared with minus €127 million in the previous year. Adjusted for exceptional items, it came to minus €63 million, which was negatively affected by currency hedges in connection with the development of the U.S. dollar and was €86 million lower than in the previous year.

There were net negative exceptional items of €109 million in the reporting year. Exceptional items affected EBITDA by a total of €104 million and resulted primarily from expenses in connection with strategic IT projects, digitalization projects, and M&A and integration activities relating to the recently completed acquisitions. In the previous year, net negative exceptional items of €150 million resulted from negative exceptional items of €151 million and positive exceptional items of €1 million. The exceptional items impacted EBITDA by €147 million and primarily related 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. 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	2021	2022	Change %
EBITDA pre exceptionals	**815**	**930**	**14.1**
Depreciation and amortization	(457)	(546)	(19.5)
Exceptional items in EBITDA	(147)	(104)	29.3
Operating result (EBIT)	**211**	**280**	**32.7**

Financial Result

The financial result for fiscal year 2022 amounted to minus €23 million, compared with minus €48 million for the previous year. Income from the investment accounted for using the equity method in the minority interest in Viance LLC, Wilmington, U.S., acquired as part of the acquisition of the Microbial Control business came to €3 million. As a result of higher debt, the net interest result was minus €68 million, compared with minus €53 million in the previous year. The other financial result was €42 million, compared with €5 million in the previous year. The improvement in the other financial result stemmed primarily from the settlement of interest rate hedges of €83 million. These hedges related to the no longer planned issuance to replace a corporate bond that expired in November. Due to the expected proceeds resulting from the contribution of the High Performance Materials business unit to the planned joint venture with Advent, refinancing in the planned volume is no longer necessary. This was offset by effects resulting from the market valuation of warrants for shares in the company Standard Lithium Ltd., Vancouver, Canada.

Income Before Income Taxes

Changes in operating earnings, in particular, improved income before income taxes by €94 million to €257 million. Income before income taxes in the previous year came to €163 million.

Income Taxes

Tax expenses in fiscal year 2022 came to €72 million, compared to €47 million the year before. The tax rate was 28.0%, compared with 28.8% in the prior-year period.

Net Income

Net income for the reporting year amounted to €250 million, of which €184 million was attributable to continuing operations. In the previous year, €267 million of the net income of €115 million was allocable to continuing operations. Net income from discontinued operations amounted to €66 million in the reporting year and was the result of accounting in accordance with IFRS 5, according to which the High Performance Materials business unit was reported as a discontinued operation. €103 million of the previous year’s net income from discontinued operations of €152 million related to earnings generated by the High Performance Materials business unit and €49 million to gains from the sale of the organic leather chemicals business. Non-controlling interests accounted for earnings of €1 million in fiscal year 2022, which is allocable to continuing operations. Almost no earnings were attributable to non-controlling interests in the previous year.

Reconciliation of EBIT to Net Income

€ million	2021	2022	Change %
Operating result (EBIT)	**211**	**280**	**32.7**
Income from investments accounted for using the equity method	0	3	–
Net interest expense	(53)	(68)	(28.3)
Other financial income and expense	5	42	>100
Financial result	**(48)**	**(23)**	**52.1**
Income before income taxes	**163**	**257**	**57.7**
Income taxes	(47)	(72)	(53.2)
Income after income taxes from continuing operations	**116[1]**	**185[1]**	**59.5**
Income after income taxes from discontinued operations	**151[2]**	**66**	**(56.3)**
Income after income taxes	**267**	**251**	**(6.0)**
Income attributable to non-controlling interests	0	1	>100
Net income from continuing operations	**115**	**184**	**60.0**
Net income from discontinued operations	**152**	**66**	**(56.6)**
Net income	**267**	**250**	**(6.4)**

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 €2.90, below the €3.09 recorded in the previous year. Earnings per share from continuing operations were €2.13 against €1.33 in the previous year. Earnings per share from discontinued operations were €0.77 against €1.76 in the previous year.

Net Income and Earnings per Share

	2021	2022
Net income (€ million)	**267**	**250**
from continuing operations (€ million)	115	184
from discontinued operations (€ million)	152	66
Weighted average number of shares outstanding	86,346,303	86,346,303
Earnings per share (€)	**3.09**	**2.90**
from continuing operations (€)	1.33	2.13
from discontinued operations (€)	1.76	0.77

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, earnings effects from the settlement of interest rate hedges and attributable tax effects.

Earnings per share from continuing operations adjusted for exceptional items and amortization of intangible assets were €3.75 against €3.60 in the previous year.

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

€ million	2021	2022
Net income from continuing operations	**115**	**184**
Exceptional items[1]	150	109
Amortization of intangible assets/reversals of impairment charges[1]	108	153
Income from the settlement of interest rate hedges	0	(83)
Income taxes[1]	(62)	(39)
Net income from continuing operations adjusted for exceptional items and amortization of intangible assets	**311**	**324**
Weighted average number of shares outstanding	86,346,303	86,346,303
Earnings per share from continuing operations adjusted for exceptional items and amortization of intangible assets (€)	**3.60**	**3.75**

1) Excluding items attributable to non-controlling interests.

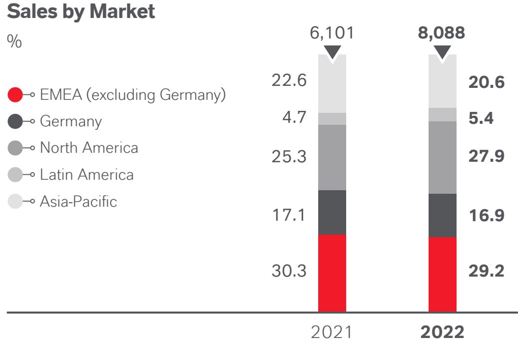
BUSINESS TRENDS BY REGION

Sales by Market

	2021		2022		Change
	€ million	%	€ million	%	%
EMEA (excluding Germany)	1,846	30.3	2,364	29.2	28.1
Germany	1,043	17.1	1,366	16.9	31.0
North America	1,546	25.3	2,254	27.9	45.8
Latin America	285	4.7	440	5.4	54.4
Asia-Pacific	1,381	22.6	1,664	20.6	20.5
	6,101	**100.0**	**8,088**	**100.0**	**32.6**

Sales by Market

%



The portfolio changes had a positive effect on sales at Group level.

The material portfolio effects result from the Microbial Control business acquired from the U.S. corporation International Flavors & Fragrances Inc. at the start of July 2022, which affected the Consumer Protection segment, and the purchase of the U.S. specialty chemicals manufacturer Emerald Kalama Chemical at the start of August last year, which had an impact on the Consumer Protection and Specialty Additives segments. The above matters affected all regions, but especially North America and EMEA (excluding Germany).

EMEA (Excluding Germany)

Sales in the EMEA region (excluding Germany) increased by €518 million, or 28.1%, to €2,364 million. After adjustment for minor currency effects and considerable portfolio effects, sales increased by 19.7%. The Advanced Intermediates and Consumer Protection segments made a considerable contribution to business development in the region, each achieving low double-digit sales growth. The Specialty Additives segment also played a part in growth in the region, with a sales increase in the low double digits. The positive development in the region resulted primarily from the business performance in Switzerland, France and Italy.

Germany

In Germany, the Group generated sales of €1,366 million, up by €323 million, or 31.0%, on the previous year. After adjustment for portfolio effects, sales increased by 28.3%. The Advanced Intermediates segment increased its sales by a low double-digit percentage and made a significant contribution to the business development in the region. The Consumer Protection and Specialty Additives segments also contributed positively to the development and posted low double-digit rates of sales growth.

North America

Sales in this region came to €2,254 million, up by €708 million, or 45.8%, on the previous year. After adjustment for considerable currency and portfolio effects, the sales growth amounted to 17.7%. The Specialty Additives segment made a significant contribution to this growth. The Advanced Intermediates and Consumer Protection segments also saw positive business development. The first two segments saw low double-digit percentage growth, whereas the Consumer Protection segment generated high single-digit growth.

Latin America

In the Latin America region, sales increased by €155 million, or 54.4%, to €440 million. After adjustment for significant currency and portfolio effects, the increase was 23.0%. The Consumer Protection and Specialty Additives segments made a significant contribution to this business expansion with growth rates of low double-digit percentages. The Advanced Intermediates segment also made a positive contribution with a low double-digit growth rate. Business expansion in the region was mainly driven by development in Brazil, Mexico and Argentina, with minor opposing influencing factors in Colombia, Uruguay and Guatemala.

Asia-Pacific

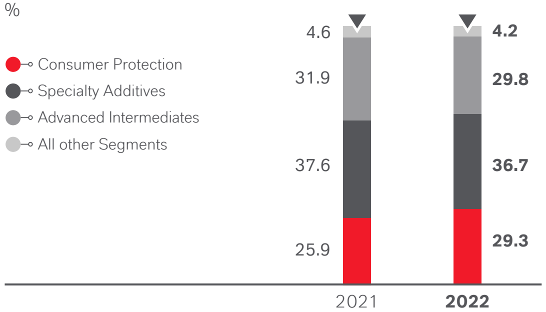
Sales in the Asia-Pacific region increased by €283 million, or 20.5%, to €1,664 million. After adjustment for significant currency and portfolio effects, growth came to 6.8%. Business performance was driven by the Specialty Additives segment with low double-digit growth. On the other hand, business in the Consumer Protection and Advanced Intermediates segments saw sales declines by low to mid-single-digit percentages. The significant positive impetus in the region came from India, Japan and China, with minor opposing influencing factors primarily in Thailand and Indonesia.

SEGMENT INFORMATION

- Consumer Protection: Successful integration of the Microbial Control business
- Specialty Additives: Good earnings performance despite weaker demand
- Advanced Intermediates: Weaker demand and sharp rise in freight costs constrain earnings

Sales by Segment

%



Prior-year figures restated.

The High Performance Materials business unit is accounted for as a discontinued operation in accordance with IFRS 5. The Engineering Materials segment has been wound up and the Urethane Systems business unit, which was previously included together with the High Performance Materials business unit, is recognized under "All other segments." The previous year's figures have been restated accordingly.

Consumer Protection

Overview of Key Data

	2021		2022		
	€ million	Margin %	€ million	Margin %	Change %
Sales	1,579		2,366		49.8
EBITDA pre exceptionals	279	17.7	363	15.3	30.1
EBITDA	266	16.8	338	14.3	27.1
Operating result (EBIT) pre exceptionals	172	10.9	195	8.2	13.4
Operating result (EBIT)	159	10.1	170	7.2	6.9
Cash outflows for capital expenditures	100		129		29.0
Depreciation and amortization	107		168		57.0
Employees (as of Dec. 31)	3,266		3,566		9.2

Prior-year figures restated in accordance with the reassignment of the business of LANXESS Distribution GmbH, Leverkusen, Germany, from "All other segments" to the Flavors & Fragrances business unit with effect from January 1, 2022.

In our Consumer Protection segment, sales amounted to €2,366 million in fiscal year 2022, up €787 million, or 49.8%, on the prior-year figure of €1,579 million. This was especially due to portfolio changes in the Flavors & Fragrances and Material Protection Products business units. The Flavors & Fragrances business unit posted higher sales from the integration of the business with specialty chemicals for the consumer goods sector of U.S. company Emerald Kalama Chemical, which was acquired at the beginning of August 2021. Sales in the Material Protection Products business unit were up on the previous year, thanks primarily to the Microbial Control business acquired as of July 1, 2022. Overall, there was a positive portfolio effect of 29.9% at segment level. All business units in the segment achieved higher selling prices, increasing the segment's sales by 19.8%. Shifts in exchange rates, especially for the U.S. dollar, also had a positive effect in all business units and boosted sales at segment level by 3.6%. Declining demand, including on account of our customers' inventory management as of the end of 2022, was one of the factors that resulted in lower sales volumes in the segment's individual business units and caused sales to contract by 3.5%. Sales in all regions were above the level of the previous year.

EBITDA pre exceptionals in the Consumer Protection segment increased by €84 million, or 30.1%, to €363 million, compared with the previous year's figure of €279 million. The contribution from the Emerald Kalama Chemical business acquired in 2021 had a positive effect on earnings. A positive earnings contribution also resulted from the integration of the Microbial Control business acquired at the beginning of July 2022 into the Material Protection Products business unit. Shifts in exchange rates, particularly of the U.S. dollar, had a positive influence in almost all business units. Higher selling prices were offset by higher raw material and energy prices, as well as soaring freight costs. Volumes were down year-on-year on account of largely weaker demand and had a negative impact on earnings. The EBITDA margin pre exceptionals decreased from 17.7% to 15.3%.

The segment recorded negative exceptional items of €25 million in the reporting year, which impacted EBITDA and essentially related to the strategic realignment of the specialty chemicals business and the associated integration of the Microbial Control business acquired in the reporting year. In the previous year, the segment recorded negative exceptional items of €13 million. This was attributable to the integration of Emerald Kalama Chemical. Please see "Notes on EBIT and EBITDA (Pre Exceptionals)" for details.

Specialty Additives

Overview of Key Data

	2021		2022		
	€ million	Margin %	€ million	Margin %	Change %
Sales	2,295		2,970		29.4
EBITDA pre exceptionals	323	14.1	479	16.1	48.3
EBITDA	306	13.3	474	16.0	54.9
Operating result (EBIT) pre exceptionals	152	6.6	290	9.8	90.8
Operating result (EBIT)	134	5.8	284	9.6	>100
Cash outflows for capital expenditures	139		125		(10.1)
Depreciation and amortization	172		190		10.5
Employees (as of Dec. 31)	3,030		2,985		(1.5)

Our Specialty Additives segment posted sales of €2,970 million in fiscal year 2022, up by 29.4% on the previous year's figure of €2,295 million. At segment level, the overall increase in sales of 22.2% resulted from higher selling prices due to the passing on of sharply higher raw material and energy prices. Shifts in exchange rates, especially for the U.S. dollar, had a positive effect on all business units and increased sales in the segment by 8.7%. In addition, a positive sales contribution of 2.3% was made by the business with specialty chemicals for industrial applications, integrated into the Polymer Additives business unit, of the U.S. company Emerald Kalama Chemical, which was acquired at the beginning of August 2021. The Lubricant Additives business unit increased its volumes, primarily due to an ongoing recovery of the aviation industry, while the segment's other two business units reported lower volumes on account of weaker demand. At segment level, sales volumes moved down by 3.8%. Sales in all regions were above the level of the previous year.

EBITDA pre exceptionals for the Specialty Additives segment was €479 million, up €156 million, or 48.3%, from the prior-year level. The strong earnings development resulted primarily from the price recovery as a result of higher raw material and energy prices. Favorable exchange rate effects also improved earnings. In addition, good demand from the aviation industry had a positive impact on earnings in the Lubricant Additives business unit. Volumes fell short of the previous year, in particular due to slightly weaker demand, and had a negative impact on earnings. A weather-related production facility shutdown and a difficult logistics situation in the first half of the year also hurt earnings in 2022. The contribution from Emerald Kalama Chemical's specialty chemicals business, acquired at the beginning of August 2021, had a slightly positive effect on earnings. The EBITDA margin pre exceptionals was 16.1%, against 14.1% in the previous year.

In fiscal year 2022, negative exceptional items totaled €6 million, €5 million of which impacted EBITDA. The exceptional items mainly related to the adjustment of the production network in the North America region. The previous year's exceptional items amounted to €18 million, of which €17 million impacted EBITDA, and mainly related to the LANXESS Group's strategic realignment. Please see "Notes on EBIT and EBITDA (Pre Exceptionals)" for details.

Advanced Intermediates

Overview of Key Data

	2021		2022		
	€ million	Margin %	€ million	Margin %	Change %
Sales	1,949		2,413		23.8
EBITDA pre exceptionals	333	17.1	291	12.1	(12.6)
EBITDA	327	16.8	291	12.1	(11.0)
Operating result (EBIT) pre exceptionals	218	11.2	172	7.1	(21.1)
Operating result (EBIT)	212	10.9	172	7.1	(18.9)
Cash outflows for capital expenditures	119		95		(20.2)
Depreciation and amortization	115		119		3.5
Employees (as of Dec. 31)	3,021		3,010		(0.4)

Our Advanced Intermediates segment recorded sales of €2,413 million in fiscal year 2022, up 23.8% on the figure for the previous year. The sales development was particularly influenced by the sharp rise in selling prices in both business units, which were above the previous year's level as much higher raw material and energy prices were passed on. Overall, there was a positive price effect on sales of 29.9% at segment level. In addition, shifts in exchange rates had a positive effect on both business units and increased the segment's sales by 4.3% in total. Lower volumes resulted in a sales decline of 10.4%. Compared with good demand in the previous year, the Inorganic Pigments business unit in particular saw declining volumes, especially from the construction industry, due to weaker demand. Sales in all regions were above the level of the previous year.

EBITDA pre exceptionals in the Advanced Intermediates segment decreased by €42 million, or 12.6%, to €291 million, compared with the previous year's figure of €333 million. In particular, weaker demand in both business units resulted in a volume-driven earnings decline. The sharp rise in freight costs also took a toll on earnings. The change in exchange rates had a slightly positive influence on earnings development in the segment. The EBITDA margin pre exceptionals was 12.1%, against 17.1% in the previous year.

The segment recorded no exceptional items that impacted EBITDA in fiscal year 2022. In the previous year, net negative exceptional items of €6 million were incurred in the operating result, resulting from negative exceptional items of €7 million 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. Please see "Notes on EBIT and EBITDA (Pre Exceptionals)" for details.

All Other Segments

Overview of Key Data

	2021	2022	
	€ million	€ million	Change %
Sales	278	339	21.9
EBITDA pre exceptionals	(120)	(203)	(69.2)
EBITDA	(231)	(277)	(19.9)
Operating result (EBIT) pre exceptionals	(181)	(268)	(48.1)
Operating result (EBIT)	(294)	(346)	(17.7)
Cash outflows for capital expenditures	66	58	(12.1)
Depreciation and amortization	63	69	9.5
Employees (as of Dec. 31)	3,634	3,565	(1.9)

Prior-year figures restated in accordance with the reassignment of the business of LANXESS Distribution GmbH, Leverkusen, Germany, to the Consumer Protection segment with effect from January 1, 2022, and on the basis of the recognition of the Urethane Systems business unit as an other segment.

The sales reported in **all other segments** mainly relate to the business of the Urethane Systems business unit, which was transferred to this category from the discontinued Engineering Materials segment. EBITDA pre exceptionals came to minus €203 million, compared with minus €120 million in the previous year, and resulted mainly from expenses for the business activities of the corporate functions. Due to the development of the U.S. dollar, there were also reductions in earnings resulting from hedging transactions in the current year. In the reporting year, negative exceptional items of €78 million were incurred, €74 million of which impacted EBITDA.

The exceptional items resulted primarily from expenses in connection with strategic IT projects and M&A activities, primarily stemming from the acquisition of the Microbial Control. business and digitalization projects. Net negative exceptional items totaling €113 million were incurred in the previous year, €110 million of which impacted EBITDA. These resulted primarily from expenses in connection with M&A activities, mainly due to the prior-year acquisitions of Emerald Kalama Chemical, INTACE S.A.S. and the Theseo Group as well as the acquisition of the Microbial Control business agreed in 2021, strategic IT projects and digitalization projects. 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 2021	EBIT 2022	EBITDA 2021	EBITDA 2022
EBIT/EBITDA pre exceptionals	**361**	**389**	**815**	**930**
Consumer Protection	**(13)**	**(25)**	**(13)**	**(25)**
Strategic realignment[1]	(13)	(25)	(13)	(25)
Specialty Additives	**(18)**	**(6)**	**(17)**	**(5)**
Strategic realignment[2]	(16)	0	(15)	0
Adjustment of the production network[3]	(2)	(6)	(2)	(5)
Advanced Intermediates	**(6)**	**0**	**(6)**	**0**
Adjustment of the production network[3]	(6)	0	(6)	0
All other segments	**(113)**	**(78)**	**(111)**	**(74)**
Strategic realignment	(1)	0	(1)	0
Strategic IT projects (SAP S/4HANA and other IT applications)	(31)	(32)	(31)	(32)
M&A costs, digitalization and other	(81)	(46)	(79)	(42)
Total exceptional items	**(150)**	**(109)**	**(147)**	**(104)**
EBIT/EBITDA	**211**	**280**	**668**	**826**

1) The exceptional items mainly related to integration activities in connection with the acquisitions in 2021 and 2022.
2) The exceptional items in the previous year mainly related to the integration of Chemtura.
3) Exceptional items in the current fiscal year and in the previous year mainly related to the successful end to production at sites in North America.

STATEMENT OF FINANCIAL POSITION AND FINANCIAL CONDITION

Assets and Liabilities

- Total assets significantly influenced by the acquisition of the Microbial Control business from the U.S. corporation International Flavors & Fragrances Inc.
- Increase in net financial liabilities after deduction of short-term money market investments and securities from €2,245 million to €3,814 million, mainly due to acquisition of the Microbial Control business
- Increase in equity ratio from 35.7% to 39.2%

Structure of the Statement of Financial Position

	Dec. 31, 2021		Dec. 31, 2022		
	€ million	%	€ million	%	Change %
ASSETS					
Non-current assets	6,139	58.3	6,432	57.0	4.8
Current assets	4,389	41.7	4,849	43.0	10.5
Total assets	**10,528**	**100.0**	**11,281**	**100.0**	**7.2**
EQUITY AND LIABILITIES					
Equity (including non-controlling interests)	3,762	35.7	4,427	39.2	17.7
Non-current liabilities	4,387	41.7	4,434	39.3	1.1
Current liabilities	2,379	22.6	2,420	21.5	1.7
Total equity and liabilities	**10,528**	**100.0**	**11,281**	**100.0**	**7.2**

Prior-year figures restated.

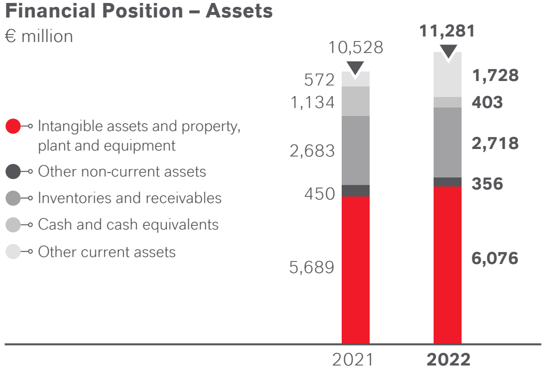
Structure of the Statement of Financial Position

As of December 31, 2022, the LANXESS Group's total assets stood at €11,281 million, €753 million or 7.2% higher than at the end of the previous year. This development was attributable in particular to the acquisition of the Microbial Control business and to shifts in exchange rates, among other things.

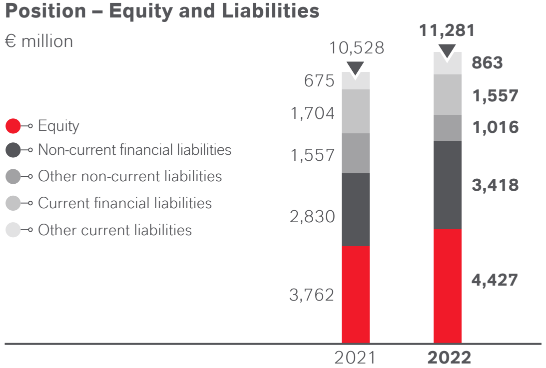
LANXESS is expected to contribute its High Performance Materials business unit to the joint venture for high-performance engineering polymers agreed with Advent by no later than the beginning of April 2023. In accordance with the provisions of IFRS 5, LANXESS is therefore reporting this business unit as a discontinued operation as of December 31, 2022. The assets and liabilities allocated to discontinued operations have been reclassified as "Assets held for sale and discontinued operations" and "Liabilities directly related to assets held for sale and discontinued operations."

Non-current assets increased by €293 million to €6,432 million. Intangible assets and property, plant and equipment increased from €5,689 million to €6,076 million. Intangible assets increased from €2,536 million to €3,326 million, particularly due to additions as part of acquiring the Microbial Control business. For further information, please refer to "Companies consolidated" in the notes to the consolidated financial statements as of December 31, 2022. Property, plant and equipment declined from €3,153 million to €2,750 million, mainly as a result of the reclassification of assets from discontinued operations. Cash outflows for purchases of property, plant and equipment and intangible assets amounted to €407 million, compared with €424 million in the previous year. At €546 million, depreciation, amortization and write-downs were higher than the previous year's figure of €457 million. In connection with the acquisition of the Microbial Control business, LANXESS acquired a minority interest in Viance LLC, Wilmington, U.S., which is included in the consolidated financial statements using the equity method. As of December 31, 2022, it was valued at €71 million. Other investments decreased from €56 million to €20 million, particularly due to the performance of the share of Standard Lithium Ltd., Vancouver, Canada. Other non-current financial assets increased by €15 million from €62 million to €77 million. This change resulted mainly from higher non-current contract assets. Deferred tax assets declined by €138 million from the previous year's figure of €192 million to €54 million, while other non-current assets increased by €7 million from €56 million to €63 million. The ratio of non-current assets to total assets declined from 58.3% to 57.0%.

Structure of the Statement of Financial Position – Assets
€ million



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



Current assets increased by €460 million, or 10.5%, compared with December 31, 2021, to €4,849 million. This rise was essentially the result of reclassifying non-current assets from discontinued operations to “Assets held for sale and discontinued operations.” The €193 million or 18.4% decline in trade receivables to €857 million was also due to this change, alongside the sale of trade receivables. Since the end of June 2022, LANXESS has been a contractual partner to a factoring agreement for the revolving sale of trade receivables. This was offset by a portfolio-driven increase from the integration of the Microbial Control business. At 39.1, days of sales outstanding (DSO) were below the previous year’s figure of 45.4 days. Inventories were up by €228 million, or 14.0%, to €1,861 million. The change in inventories was driven chiefly by the sharp rise in raw material and energy prices, as well as the integration of the Microbial Control business. The reclassification of inventories from discontinued operations had the opposite effect. At 84.9, days of sales in inventory (DSI) were above the previous year’s figure of 70.6 days. Cash and cash equivalents decreased from €643 million to €324 million. Prompted by the sale of shares of money market funds that can be sold at any time, near-cash assets declined from €491 million to €79 million. The ratio of current assets to total assets was 43.0%, compared with 41.7% as of December 31, 2021.

Equity increased by €665 million, or 17.7%, to €4,427 million compared with December 31, 2021. The increase resulted in particular from net income and the effects recognized in other comprehensive income of the remeasurement of the net defined benefit liability and from exchange differences on translation of operations outside the eurozone. The main offsetting factors in 2022 were the income taxes on other comprehensive income and the dividend payment of €91 million. The ratio of equity to the Group’s total assets was 39.2% as of December 31, 2022, compared with 35.7% in the previous year.

Non-current liabilities increased by €47 million to €4,434 million. Provisions for pensions and other post-employment benefits decreased by €510 million to €367 million. This decline resulted in particular from the increased discount rates for pension obligations.

Other non-current provisions came to €296 million, compared with €370 million in the previous year. Other non-current financial liabilities increased from €2,829 million to €3,417 million, mainly because of the issuance of a €600 million bond maturing in 2028. The ratio of non-current liabilities to total assets was 39.3%, compared with 41.7% as of December 31, 2021.

Current liabilities came to €2,420 million, up by €41 million, or 1.7%, compared with December 31, 2021. Other current financial liabilities increased from €675 million to €830 million. This upturn primarily reflected the various money market loans taken out for a total of €700 million.

The repayment of a €500 million bond and a €100 million private placement had the opposite effect. In addition, other current provisions decreased by €110 million to €382 million. Trade payables declined by a total of €299 million to €709 million, essentially driven by the reclassification of liabilities from discontinued operations and a targeted reduction in inventories. The acquisition of the Microbial Control business had the opposite effect. The ratio of current liabilities to total assets was 21.5% as of December 31, 2022, after 22.6% at the end of 2021.

At €3,814 million at the end of 2022, net financial liabilities were up from €2,345 million as of December 31, 2021. In the previous year, however, short-term money market investments in the form of time deposits of €100 million also had to be taken into account. Adjusted for these, the comparative figure as of December 31, 2021, was €2,245 million. The Group's key ratios developed as follows:

Ratios

%		2018	2019	2020	2021[2]	2022
Equity ratio	Equity[1] / Total assets	31.9	30.4	33.8	35.7	39.2
Non-current asset ratio	Non-current assets / Total assets	55.1	58.3	54.3	58.3	57.0
Asset coverage I	Equity[1] / Non-current assets	57.9	52.3	62.2	61.3	68.8
Asset coverage II	Equity[1] and non-current liabilities / Non-current assets	149.8	142.4	146.3	132.7	137.8
Funding structure	Current liabilities / Total liabilities	25.7	24.5	31.0	35.2	35.3

1) Equity includes non-controlling interests.
2) Prior-year figures restated.

Capital Expenditures

In 2022, our capital expenditures for property, plant and equipment and intangible assets amounted to €447 million, against €541 million in the previous year. Cash outflows made up €407 million of this total (previous year: €424 million). In the same period, depreciation and amortization totaled €546 million (previous year: €457 million) and included write-downs of €10 million (previous year: €11 million). The increase in depreciation and amortization resulted primarily from the recently completed acquisitions as well as exchange rate effects.

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 2022 went toward expansion or efficiency improvement measures, while the rest went to maintain existing facilities.

In regional terms, 49% of our capital expenditures in the reporting period were made in Germany, 27% in North America, 17% in the EMEA region (excluding Germany), 5% in Asia-Pacific and 2% in Latin America. Capital expenditures in Germany mostly comprised our investments to modernize facilities in all segments, but especially investments in the Advanced Industrial Intermediates, Saltigo, Inorganic Pigments and Lubricant Additives business units. In the North America region, capital expenditures related to expanding production capacity for Oxone™ mono-persulfate at the site in Memphis, U.S., by around 50%. LANXESS uses Oxone™ mono-persulfate as the main active ingredient in many of its Virkon™ and Rely+On™ disinfection products in the Material Protection Products business unit. The capacity expansion is expected to be completed in 2023. Capital expenditures in EMEA (excluding Germany) were partly attributable to modernizing and expanding a treatment plant at the site in Antwerp, Belgium. In the Asia-Pacific region, LANXESS invested in additional production capacity for Naugalube® 438L antioxidants in the Lubricant Additives business unit in Taiwan.

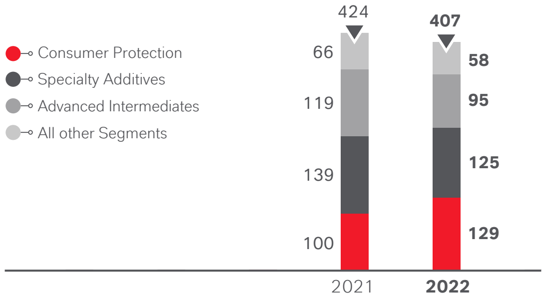
In the Consumer Protection segment, capital expenditures came to €141 million (previous year: €107 million), €129 million (previous year: €100 million) of which were cash outflows. Depreciation, amortization and write-downs increased to €168 million (previous year: €107 million), primarily due to transaction and exchange rate effects. As well as the Material Protection Products business unit's capacity expansion for Oxone™ mono-persulfate at the site in Memphis, U.S., already mentioned, the cash flows related to several capital expenditures by the Saltigo business unit in connection with contract manufacturing and the Flavors & Fragrances business unit at the site in Rotterdam, Netherlands.

Capital expenditures of €137 million were made in the Specialty Additives segment (previous year: €164 million). Cash outflows made up €125 million of this total (previous year: €139 million). By contrast, depreciation and amortization stood at €190 million (previous year: €172 million). A significant portion of the capital expenditures went toward the production network for flame retardants in the Polymer Additives business unit. LANXESS investments also included the expansion of the Lubricant Additives business unit plant at the Mannheim site in Germany to increase its production capacity for light sulfur carriers by several kilotons. LANXESS's Additin® EP light sulfur carriers are mainly used in lubricants for metal processing. To meet the growing demand, LANXESS is investing a sum in the low double-digit millions in euros. The additional volumes are to be available from mid-2023.

Capital expenditures in the Advanced Intermediates segment amounted to €106 million (previous year: €135 million). At €95 million (previous year: €119 million), cash outflows were lower than the depreciation and

Cash Outflows for Capital Expenditures by Segment

€ million



Prior-year figures restated.

amortization of €119 million (previous year: €115 million). The capital expenditures also included cash outflows in connection with the expansion of production capacity for the aromatics network in the Advanced Industrial Intermediates business unit initiated last year at the site in Leverkusen, Germany, and capital expenditures of the Inorganic Pigments business unit at the site in Krefeld-Uerdingen, Germany. In addition, LANXESS completed the conversion project to expand the Advanced Industrial Intermediates business unit's menthol production at the Krefeld-Uerdingen site in Germany at the beginning of 2022. This will significantly expand menthol production. The investment volume was an amount in the mid-double-digit millions in euros.

Financial Position

- Operating cash flow negatively influenced by the change in net working capital
- Cash flow from investing activities influenced by the acquisition of the Microbial Control business from the U.S. corporation International Flavors & Fragrances Inc.
- 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	2021	2022	Change
Income before income taxes	163	257	94
Depreciation and amortization	457	546	89
Other items	40	(145)	(185)
Net cash provided by operating activities – continuing operations before change in net working capital	**660**	**658**	**(2)**
Change in net working capital	(292)	(471)	(179)
Net cash provided by operating activities – continuing operations	**368**	**187**	**(181)**
Net cash used in investing activities – continuing operations	**(376)**	**(996)**	**(620)**
Net cash provided by financing activities – continuing operations	**393**	**617**	**224**
Change in cash and cash equivalents from continuing operations	385	(192)	(577)
Change in cash and cash equivalents from discontinued operations	(21)	(87)	(66)
Cash and cash equivalents as of December 31	**643**	**360**	**(283)**
of which continuing operations	632	324	(308)
of which discontinued operations	11	36	25

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

Cash provided by operating activities, before changes in net working capital, decreased by €2 million to

€658 million in fiscal year 2022. Income before income taxes improved from €163 million to €257 million. Depreciation and amortization, which were essentially driven by portfolio and exchange rate effects, came to €546 million, €89 million higher than the previous year's figure of €457 million. The other items in the reporting year included cash outflows for variable compensation and other provisions, which primarily related to the conclusion of a retrospective review in line with the German Renewable Energy Act (EEG), as well as effects from currency hedging of intercompany loans.

The change in net working capital against December 31, 2021, resulted in a cash outflow of €471 million after a cash outflow of €292 million in the previous year. The outflow in the reporting period resulted primarily from the reduction in trade receivables and the increase in inventories due to higher raw materials and energy prices. This was countered by the decline in trade receivables, partially the result of the sale of €130 million in receivables as part of the factoring agreement concluded in June 2022. The net cash provided by operating activities totaled €187 million, down on the previous year's figure of €368 million.

Investing activities resulted in a cash outflow of €996 million in fiscal year 2022, compared with €376 million in the prior-year period. The net cash outflow of the current year was essentially the result of cash outflows for acquiring the Microbial Control business. 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. Cash outflows for purchases of intangible assets and property, plant and equipment amounted to €407 million, down on the prior-year figure of €424 million. Interest and dividends received totaled €12 million, up €4 million from the previous year's figure of €8 million.

There was cash inflow from financing activities of €617 million, compared to €393 million the year before. One significant effect in the reporting year was the placement of a new Eurobond with a volume of €600 million maturing in 2028, which is based on sustainability criteria, and the €700 million taken out in various money market loans. There were also proceeds from interest rate hedges of €83 million. The repayment of a €500 million bond and a €100 million private placement had the opposite effect. The interest payments and other financial disbursements amounted to €65 million, compared with €63 million in the previous year. The dividend payment made to LANXESS stockholders amounted to €91 million in the reporting year, after €86 million in the previous year.

The decrease in cash and cash equivalents from continuing operations in fiscal year 2022 was €192 million, against an increase of €385 million in the previous year. After taking into account currency related and other changes of €4 million, cash and cash equivalents at the closing date amounted to €360 million, against €643 million at the previous year's closing date. On December 31, 2022, 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 €164 million to minus €220 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 2022, all three rating agencies confirmed their assessment of LANXESS's creditworthiness, although Standard & Poor's (S&P) revised its outlook to "negative." 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. The acquisition of the Microbial Control business from U.S. corporation International Flavors & Fragrances Inc. was successfully completed as part of this transformation. The rating agencies commented generally positively on this transaction. As of the reporting date, S&P gave LANXESS a "BBB" rating with a negative outlook, Moody's a "Baa2" rating with a stable outlook, and Scope Ratings a "BBB+" rating likewise with a stable outlook.

LANXESS ended its collaboration with Standard & Poor's in December 2022 as a cost-saving measure. The rating was therefore withdrawn by the rating agency in January 2023.

Financing Analysis

In fiscal year 2022, LANXESS retained a balanced financing structure and a solid liquidity position. The next maturity is for a €300 million bilateral loan in March 2023. The outstanding €500 million hybrid bond that matures in December 2076 cannot be repaid until June 2023. The existing debt issuance program allows the very flexible placement of bonds on the capital market. As of December 31, 2022, 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 €675 million in the previous year to €830 million as of December 31, 2022.

On December 31, 2022, 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 €3,479 million at the end of 2021 to €4,217 million as of December 31, 2022. This change was essentially due to taking out €700 million in various money market loans that have a maximum term of one year. As well as general company purposes, the borrowing was used to finance net working capital, which had increased on account of higher raw material and energy prices. A €600 million bond maturing in 2028 was also issued. This was offset by the repayment of a €500 million bond and a €100 million private placement.

Development of LANXESS Ratings and Rating Outlook Since 2018

	2018	2019	2020	2021	2022
Standard & Poor's	BBB/stable Oct. 16, 2018	BBB/stable Sep. 5, 2019	BBB/stable Jul. 29, 2020	BBB/stable Jul. 22, 2021	BBB/negative Sep. 15, 2022
Moody's Investors Service	Baa2/stable Aug. 23, 2018	Baa2/stable Aug. 26, 2019	Baa2/stable Aug. 31, 2020	Baa2/stable Jul. 28, 2021	Baa2/stable Jul. 14, 2022
Scope Ratings	BBB+/stable Aug. 15, 2018	BBB+/stable Jul. 23, 2019	BBB+/stable Mar. 12, 2020	BBB+/stable Aug. 4, 2021	BBB+/stable Jul. 7, 2022

Net financial liabilities – defined as total financial liabilities net of cash, cash equivalents, accrued interest and near-cash assets – amounted to €3,814 million at the end of the reporting year, up from €2,345 million as of December 31, 2021. Cash and cash equivalents amounted to €324 million on December 31, 2022 (previous year: €643 million). As of December 31, 2022, near-cash assets of €79 million were held, which were invested in shares of money market funds that can be sold at any time. No further short-term money market investments and securities were held. After deduction of short-term money market investments and securities, net financial liabilities at the end of 2022 amounted to €3,814 million. In the previous year, short-term money market investments in the form of time deposits of €100 million had to be taken into account. Adjusted for these, the comparative figure as of December 31, 2021, was €2,245 million. Of the total financial liabilities, about 80% bear a long-term fixed interest rate over the term of the financing, which is lower than in the previous year. Nevertheless, interest rate changes do not have a material effect considering the current financing structure. The proportion of loans and bonds denominated in euros was almost 100% in the reporting year, as in the previous year. The weighted average interest rate for our financial liabilities in euros was 1.5% at year-end 2022, down from the previous year's figure of 1.7%.

The following overview shows LANXESS's financing structure as of December 31, 2022, in detail, including its principal liquidity reserves.

Financing Structure

Instrument	Amount € million	Term	Interest rate %	Financial covenant
Eurobond 2018/2025 (€500 million)	501	May 2025	1.125	No
Eurobond 2016/2026 (€500 million)	498	October 2026	1.000	No
Eurobond 2021/2027 (€500 million)	496	September 2027	0.000	No
Eurobond 2022/2028 (€600 million)	604	March 2028	1.750	No
Eurobond 2021/2029 (€600 million)	594	December 2029	0.625	No
Hybrid bond 2016/2076 (€500 million)	502	December 2076	4.500	No
Private placement 2012/2027 (€100 million)	102	April 2027	3.950	No
Other loans	743	n/a	1.258	No
Finance lease	192	n/a		No
Other	15	n/a		No
Less liabilities for accrued interest	(30)			
Total financial liabilities	**4,217**			
Cash and cash equivalents	324	≤ 3 months		
Near-cash assets	79	≤ 3 months		
Total liquidity	**403**			
Net financial liabilities	**3,814**			

The other loans include the money market loans described above, bank liabilities to Chinese Group companies and a financial commitment to the "High-Tech Gründerfonds III." No refinancing risks existed at the time these financial statements were prepared.

Liquidity Analysis

In addition to cash and cash equivalents of €324 million which are partly held in companies in regulated capital markets, LANXESS holds near-cash assets of €79 million in companies with no restrictions on foreign exchange and capital transfers, 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 2022.

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 2026. The terms of the credit facility are 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 2022. 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 €1.35 billion as of December 31, 2022.

The total of liquid assets and undrawn credit lines gives us available liquidity of around €1.8 billion. In addition, LANXESS can utilize revocable loan commitments for short-term money market borrowings in the low three-digit millions in euros.

MANAGEMENT'S SUMMARY OF BUSINESS DEVELOPMENT AND THE FISCAL YEAR

The LANXESS Group's sales of €8,088 million in the reporting period were 32.6% higher than the previous year's figure of €6,101 million and primarily reflected the far higher selling prices in all segments driven by raw material and energy prices. Contributions from the acquisition of the Microbial Control business from the U.S. corporation International Flavors & Fragrances Inc. and the acquisition of Emerald Kalama Chemical also increased sales, especially in our Consumer Protection segment. Shifts in exchange rates had a positive influence on sales development in all segments.

In an economic environment driven by sharp hikes in raw material and energy prices, EBITDA pre exceptionals increased by €115 million from €815 million to €930 million in fiscal year 2022. While the Consumer Protection and Specialty Additives segments saw positive business development, with the Consumer Protection segment benefiting significantly from the portfolio contributions of the Microbial Control business and Emerald Kalama Chemical, EBITDA pre exceptionals in our Advanced Intermediates segment was down on the previous year.

Net income and earnings per share declined from €267 million to €250 million and from €3.09 to €2.90, respectively. The main reason for these declines was the development of earnings from discontinued operations. Net income from discontinued operations decreased from €152 million to €66 million. In the previous year, it also included the gain on the sale of the leather chemicals business. The decline was largely offset by the positive development of continuing operations. Net income from continuing operations amounted to €184 million after €115 million; earnings per share from discontinued operations came to €2.13 after €1.33 in the previous year. Improved net income and earnings per share were essentially thanks to operating earnings and the settlement of interest rate hedges through profit or loss.

We upheld our conservative accounting and financing policy in 2022 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 35.7% to 39.2%. Total assets increased from €10,528 million to €11,281 million

Near-cash assets declined to €79 million as a result of the sale of shares of money market funds that can be sold at any time. Additional liquidity reserves in the form of undrawn credit lines are also available. Of the total financial liabilities, about 80% bear a fixed interest rate over the term of the financing. 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 €3,814 million, higher than the previous year's figure of €2,245 million. The rise in the reporting year essentially reflected the acquisition of the Microbial Control business from U.S. Corporation International Flavors & Fragrances Inc., as well as the higher amount of capital tied up in net working capital as a result of significant increases in raw material and energy prices. In 2022, all three rating agencies confirmed their assessment of LANXESS's creditworthiness. Standard & Poor's (S&P) gives LANXESS a "BBB" rating, Moody's a "Baa2" rating, and Scope Ratings a "BBB+" rating. With the exception of S&P, which revised its outlook to "negative," all rating agencies still rate the outlook as stable.

In fiscal year 2022, we benefited from our strengths and portfolio activities in the specialty 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	2018	2019	2020	2021	2022
Earnings performance					
Sales[1]	6,824	6,802	6,104	6,101	8,088
EBITDA pre exceptionals[1]	986	1,019	862	815	930
EBITDA margin pre exceptionals[1]	14.4%	15.0%	14.1%	13.4%	11.5%
EBITDA[1]	906	910	757	668	826
EBIT pre exceptionals[1]	581	557	396	361	389
EBIT[1]	491	407	253	211	280
EBIT margin[1]	7.2%	6.0%	4.1%	3.5%	3.5%
Net income	431	205	885	267	250
Weighted average number of shares outstanding	91,522,936	88,334,641	86,587,838	86,346,303	86,346,303
Earnings per share (€)	4.71	2.32	10.22	3.09	2.90
Financial position					
Cash flow from operating activities[1]	441	634	594	368	187
Depreciation and amortization/reversals of impairment charges[1]	415	503	504	457	546
Cash outflows for capital expenditures[1]	482	508	456	424	407
Net financial liabilities	1,923	2,522	1,012	2,345	3,814
Net financial liabilities after deduction of short-term money market investments and securities	1,381	1,742	1,012	2,245	3,814
Assets and liabilities					
Total assets	8,687	8,695	8,880	10,528[2]	11,281
Non-current assets	4,786	5,065	4,823	6,139[2]	6,432
Current assets	3,901	3,630	4,057	4,389	4,849
Net working capital	1,455	1,308	1,134	1,675	2,009
Equity (including non-controlling interests)	2,773	2,647	2,999	3,762	4,427
Provisions for pensions and other post-employment benefits	1,083	1,178	1,205	877	367
Indicators					
ROCE[3]	11.4%	10.0%	7.5%	6.6%[2]	4.7%
Equity ratio	31.9%	30.4%	33.8%	35.7%[2]	39.2%
Non-current asset ratio	55.1%	58.3%	54.3%	58.3%[2]	57.0%
Asset coverage I	57.9%	52.3%	62.2%	61.3%[2]	68.8%
Net working capital/sales	20.2%	19.2%	18.6%	22.2%	24.8%
Employees (as of Dec. 31)	15,441	14,304	14,309	14,866	13,126

1) Figures not including the Leather business unit and from 2021 not including the High Performance Materials business unit.
2) Prior-year figure restated.
3) Capital employed 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	2021	2022	Change %
Sales	**5**	**6**	**20.0**
Cost of sales	(5)	(6)	(20.0)
Gross profit	**0**	**0**	**–**
General administration expenses	(50)	(48)	4.0
Other operating income	2	2	0.0
Other operating expenses	0	(1)	–
Operating result	**(48)**	**(47)**	**2.1**
Income from investments in affiliated companies	(98)	988	> 100
Income from other securities and loans held as financial assets	8	7	(12.5)
Net interest expense	20	86	> 100
Write-downs on financial assets securities classified as current assets	(4)	(4)	0.0
Miscellaneous financial expense and income	(8)	(12)	(50.0)
Financial result	**(82)**	**1,065**	**> 100**
Income taxes	38	(4)	< (100)
Income after income taxes	**(92)**	**1,014**	**> 100**
Net loss/income for the year	**(92)**	**1,014**	**> 100**
Carryforward to new account	44	11	(75.0)
Withdrawal from other retained earnings	151	0	(100.0)
Addition to other retained earnings	0	(507)	–
Offsetting against the difference from the acquisition of own shares	(1)	0	100.0
Income from the capital reduction	1	0	(100.0)
Allocation to capital reserves	(1)	0	100.0
Distributable profit	**102**	**518**	**> 100**

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 €6 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 declined year-on-year by €2 million, or 4.0%, to €48 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 €47 million, compared with minus €48 million in the previous year.

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, improved from minus €82 million to €1,065 million. This change was largely due to the profit transfer at LANXESS Deutschland GmbH, where net earnings were higher than in the previous year thanks to the contribution of the High Performance Materials business unit to LANXESS Performance Materials GmbH, Cologne, Germany, with disclosure of hidden reserves, which does not affect the tax result. The financial result was also positively influenced by the €66 million improvement in the net interest position to €86 million.

Income taxes resulted in expenses of €4 million. These comprised tax expenses of €3 million for the reporting period and €1 million for previous years.

Net income for fiscal year 2022 was €1,014 million after a net loss of €92 million in the previous year.

As of December 31, 2022, the company reported a distributable profit of €518 million taking into account the profit carryforward of €11 million and the addition to retained earnings of €507 million. In the previous year, a distributable profit of €102 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, 2021		Dec. 31, 2022		Change
	€ million	%	€ million	%	%
ASSETS					
Financial assets	997	13.9	896	9.4	(10.1)
Non-current assets	**997**	**13.9**	**896**	**9.4**	**(10.1)**
Receivables from affiliated companies	4,932	68.7	8,427	88.2	70.9
Other assets	138	1.9	44	0.5	(68.1)
Liquid assets and securities	1,085	15.1	156	1.6	(85.6)
Current assets	**6,155**	**85.7**	**8,627**	**90.3**	**40.2**
Prepaid expenses	**32**	**0.4**	**31**	**0.3**	**(3.1)**
Total assets	**7,184**	**100.0**	**9,554**	**100.0**	**33.0**
EQUITY AND LIABILITIES					
Equity	**1,831**	**25.5**	**2,754**	**28.8**	**50.4**
Provisions	**139**	**1.9**	**147**	**1.5**	**5.8**
Bonds	3,300	45.9	3,300	34.5	0.0
Liabilities to banks	25	0.4	730	7.7	> 100
Payables to affiliated companies	1,885	26.2	2,618	27.4	38.9
Liabilities	4	0.1	5	0.1	25.0
Payables	**5,214**	**72.6**	**6,653**	**69.7**	**27.6**
Total equity and liabilities	**7,184**	**100.0**	**9,554**	**100.0**	**33.0**

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 €9,554 million as of December 31, 2022, which was €2,370 million, or 33.0%, above the prior-year figure. Non-current assets decreased by €101 million to €896 million as a result of the repayment of a loan to an affiliated company. They primarily included the carrying amount of the investment in LANXESS Deutschland GmbH, which stands at €739 million, and loans to subsidiaries of €99 million. The share of non-current assets in total assets decreased from 13.9% to 9.4%. Current assets increased by €2,472 million, or 40.2%, to €8,627 million and accounted for 90.3% of total assets, compared with 85.7% in the previous year. Receivables from subsidiaries accounted for 88.2% of total assets and related principally to short-term loans and financial transactions. They increased in particular as a result of an altered intra-Group financing structure. Other receivables largely consisted of tax claims and accounted for 0.5% of total assets compared with 1.9% in the previous year. The share of bank balances and securities in total assets decreased from 15.1% to 1.6% or from €1,085 million to €156 million, primarily as a result of the financing of Group companies.

Equity rose by €923 million to €2,754 million, largely due to net income for 2022 of €1,014 million. The dividend payment for 2021 had an opposite effect. The equity ratio was 28.8%, after 25.5% at the end of 2021.

The provisions increased by €8 million to €147 million and related in particular to commitments to employees, statutory and contractual obligations, and income taxes. Liabilities increased by €1,439 million to €6,653 million. This was attributable among other things to the increase in liabilities to banks, which rose by €705 million to €730 million mainly as a result of the borrowing of various money market loans. In addition, payables to affiliated companies increased due to the altered intra-Group financing structure and were €733 million above the previous year's figure at €2,618 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, 2022, and is composed of 86,346,303 no-par bearer shares. The capital stock and the number of shares are therefore unchanged as against the end of the previous year. 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. On February 2, 2022, Capital Group Companies, Inc., based in Los Angeles, U.S., notified us that it had exceeded a total of 10% of the voting rights in the capital of LANXESS AG via 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 voting 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

On May 23, 2019, the Annual Stockholders' Meeting of LANXESS AG resolved to issue an authorization for the purchase and utilization of own shares by the Board of Management. 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) for the purpose of withdrawing them.

In total, LANXESS AG repurchased 1,101,549 shares in fiscal year 2020 on the basis of this resolution. All 1,101,549 repurchased shares were canceled in fiscal year 2021, reducing the company's capital stock by way of a simplified capital reduction in accordance with Section 71 Paragraph 1, No. 8 Sentence 6 AktG. The above authorization of the Board of Management also allows the purchase and utilization of treasury shares of up to 8.72% of the company's capital stock as of the end of fiscal year 2022 until May 22, 2024.

At this time, 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 or had taken shares in the company as a pledge.

Authorized Capital I

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, these rights can be excluded in certain cases which are defined in Section 4, Paragraph 3 of the articles of association of LANXESS AG. Authorized Capital I has not yet been utilized.

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). The authorization to issue bonds has not yet been utilized.

By way of self-commitment, the Board of Management has undertaken to perform capital measures (be it from authorized or conditional capital) 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 abide by this self-commitment until a future Annual Stockholders' Meeting again resolves to authorize the Board of Management to implement capital measures under exclusion of stockholders' subscription rights.

8. The service contracts between the company and the members of the Board of Management of LANXESS AG contain provisions regarding the potential departure of the members of the Board of Management in the context of a change of control due to a takeover. 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. The terms for a private placement with a volume of €100 million made by LANXESS Finance B.V. under the debt issuance program in fiscal year 2012 contain a corresponding change-of control clause. This placement has now 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, 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 and the bonds with a volume of €600 million (maturity 2028) issued in fiscal year 2022 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. There are also change of control clauses in four bilateral agreements for credit lines of €100 million, €150 million, €150 million and €200 million between LANXESS AG and four different banks. A further agreement for a credit line of €150 million can be terminated if the aforementioned agreement for a credit line, currently of €1,000 million, can be terminated on account of a change of control. 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 Investors 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

As well as the ongoing effects of the coronavirus pandemic, fiscal year 2022 was shaped primarily by the impact of the war between Russia and Ukraine. 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.

We expect the global economy to continue its recovery in 2023, albeit at a far lower level, driven chiefly by the Asia-Pacific region. This is because the coronavirus pandemic is transitioning into an endemic disease, although this is countered by uncertainties regarding the future of the war in Ukraine. We also assume that supply chains will improve in 2023. Nevertheless, we assume that the demand situation in Europe in particular will remain strained in the first half of the year and that the challenge of excessive energy costs – relative to other regions – will negatively impact the chemical industry.

Looking to the future, we anticipate a general weakening of global demand and, in turn, lower inflation. Contrary to this assumption, however, difficulties in predicting how energy costs will develop could limit the drop in inflation. We anticipate a slight recession for the Americas and Europe regions, although the resilience of the Asia-Pacific region looks set to prevent a global recession.

For 2023, we anticipate a slight recovery of 1.5% for the *world economy* overall, driven exclusively by Asia-Pacific. We still see China and India as the two main drivers here. For EMEA (including Germany), we expect stagnation.

The global *chemical industry* is expected to generate slight growth of 2.5%, with this too driven entirely by Asia at 4.5%, while EMEA (including Germany) and the Americas contract. For *agrochemicals*, we anticipate growth of 2.5% for 2023. In terms of global sales in the *automotive industry*, we expect to see a rise of 5.0%, more or less in line with the previous year. A further slight recovery of 1.0% – if at all – is expected for the construction industry in 2023, although the development will vary between regions. However, rising interest rates could put a stop to this.

Expected Growth in 2023

Change vs. prior year in real terms (%)[1]	Gross domestic product	Chemical production
Americas	0.5	(1.5)
EMEA (incl. Germany)	0.0	(1.5)
Asia-Pacific	4.0	4.5
World	**1.5**	**2.5**

1) Rounded to the nearest 0.5%.
Source: S&P Global Market Intelligence.

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

Expected Development of Major Customer Industries in 2023

Change vs. prior year in real terms (%)[1]	Automotive	Agrochemicals	Construction
Americas	5.0	1.0	(2.0)
EMEA (incl. Germany)	3.5	1.0	(1.0)
Asia-Pacific	5.5	3.5	3.5
World	**5.0**	**2.5**	**1.0**

1) Rounded to the nearest 0.5%.
Source: S&P Global Market Intelligence.

FUTURE PERSPECTIVES

Expected Development of the LANXESS Group

We expect earnings on par with the previous year in 2023. Here, we expect a positive contribution from the acquisition of the Microbial Control business and supporting effects from the more resilient business portfolio, which was once again improved by recent transactions. We expect the global supply chain situation to improve. For the first half of the year, we anticipate a recessionary business environment and further inventory reduction among our customers. The persistently high energy prices from the fourth quarter of the previous year will also make an impact at the start of 2023. The repercussions of the war in Ukraine and changes in raw material and energy prices remain sources of uncertainty. In addition, it is still not possible to precisely predict the impact of China easing its coronavirus policy and the economic development this will entail.

The earnings forecast relates to the forecast EBITDA pre exceptionals of the LANXESS Group.

Earnings performance

The Consumer Protection segment looks set to significantly outperform the previous year's level. In addition to the positive portfolio effect from the contribution of the Microbial Control business acquired, we anticipate good development in business with agrochemicals.

For our Specialty Additives segment, we expect business development in 2023 to be significantly lower than the very good prior-year level. This is primarily due to a weakness in the construction industry.

For our Advanced Intermediates segment, we anticipate earnings at or slightly below the previous year's level in the 2023 reporting year. In particular, sluggish demand in the construction industry will affect our inorganic pigments business here. While we are benefiting on the whole from a broadly diversified customer structure, energy costs remain a source of uncertainty.

In "All other segments," we expect earnings to improve significantly year-on-year.

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

Against the background of the expected performance of our segments, we expect that EBITDA pre exceptionals for the full year 2023 will be comparable to the previous year. EBITDA pre exceptionals amounted to €930 million in fiscal year 2022.

Liquidity situation

LANXESS will continue to pursue a forward-looking and conservative financial policy in the current year. With around €1.8 billion in cash and undrawn credit lines as of the end of 2022, 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.

We expect cash inflows from the contribution of our High Performance Materials business unit to the joint venture for high-performance engineering plastics planned with Advent International to make an additional contribution to liquidity and create an opportunity to repay financial liabilities.

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 €400 million in 2023. Up to the reporting date, orders totaling €140 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. No bonds mature in fiscal year 2023. The first redemption option for the outstanding hybrid bond that matures in 2076 is on June 6, 2023. Given our strong liquidity situation forecast, we plan to utilize the option to redeem the hybrid bond early and will decide the refinancing instrument based on the capital market environment. Short-term bank loans also fall due on a regular basis, and we decide whether to extend or repay them depending on the liquidity situation. 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 2023, we expect CO_2e emissions in continuing operations to be on a par with the previous year, in which emissions amounted to 1,994 thousand metric tons.

In fiscal year 2022, the lost time injury frequency rate (LTIFR: accidents per million hours worked) for accidents with days lost was 0.5 in continuing operations. This is a very good figure, and the strong previous year's figure of 0.8 was improved upon once again. Despite every effort, not all influencing factors can be controlled, and the LTIFR is difficult to forecast. For fiscal year 2023, we are again striving for an LTIFR less than 1.0.

Expected Earnings Position of LANXESS AG

In fiscal year 2023, we expect the annual financial statements of LANXESS AG to show a significantly poorer net result against the previous year. The net income in the reporting period was shaped primarily by high income from investments due to the contribution of the High Performance Materials business unit to LANXESS Performance Materials GmbH. 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 24, 2023, the Board of Management and Supervisory Board will propose a dividend of €1.05 per share for fiscal year 2022.

Summary of the Group's Projected Performance

We expect our business performance to be similar to the previous year.

We will be continuing the strategic realignment of the Group in 2023 with the aim of achieving a more stable and less cyclical business profile by contributing our High Performance Materials business unit to the joint venture with Advent. Another important milestone on this path will be harnessing synergies from recent acquisitions. LANXESS will also keep working continuously on optimizing its production platform and pursuing projects geared toward organic growth.

Due to the geopolitical situation, however, we must continue to take uncertainties for global economic development into account. The war in Ukraine and further developments in inflation 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 and sustainable 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.

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 (Committee of Sponsoring Organizations of the Treadway Commission) 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 and responsibilities

The organizational structure of our opportunity and risk management system is illustrated below using the three lines of defense model.

Our operating units are the *first line of defense*. These include our business units, which conduct operations with global profit responsibility. Group functions 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. Since opportunities and risks primarily arise in the operating business, they must be identified and controlled there as part of the internal control system (ICS) and the risk management system.

In line with this division of duties, we have assigned responsibilities 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 as part of the ***second line of defense***. 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.

Roles and Responsibilities in the Opportunity and Risk Management System – Three Lines of Defense Model

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 the Information Technology (IT) Group function, the Production, Technology, Safety and Environment (PTSE) Group function for Operational Technology (OT), and the Legal & Compliance Group function, as well as from Data Security, protection concepts are defined across all areas on the basis of risks.

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 Accounting Group function coordinates the Group-wide ICS self-assessment process, which is carried out once a year, for the Corporate Risk Committee and as part of the internal control system. The Accounting Group function also appoints an Internal Control Coordinator who is responsible for administering and coordinating the entire process, among other roles. For additional information, please see "Internal control system."

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.

The ***third line of defense*** is provided by the Corporate Audit Department within the Legal & Compliance Group function, which is responsible for conducting independent audits to assess the appropriateness and effectiveness of operating risk management, the internal control system set up by the operating areas and risk management and the ICS self-assessment process. A risk-based annual audit plan is drawn up for this purpose. All findings are reported to the Board of Management. Further information can be found under "Monitoring of risk management system and internal control system."

The Board of Management bears overall responsibility for the appropriateness and effectiveness of opportunity and risk management and reports to the Audit Committee or Supervisory Board on this. At the same time, the Board of Management delegates certain tasks and authorities to lower levels of management and to central special functions (e.g. the Corporate Risk Committee).

Reporting and assessing risks and opportunities

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, from cash flow or from Group net income.

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.

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.

Internal control system

The main goals of the internal control system are to ensure the effectiveness and efficiency of the company's processes and compliance with applicable legal regulations. This is also includes sustainability aspects, which are continuously developed on the basis of regulatory requirements. To this end, clear organizational, control and monitoring structures have been established. Part of the standardized, structured ICS self-assessment process performed once a year includes making statements on the appropriateness and effectiveness of the internal control system for what the Group considers material organizational units or business processes. This self-assessment process is reviewed and modified on an ongoing basis in terms of efficiency and effectiveness.

The distinctive features of the chemical industry and the risk management tools we regularly use in this regard are taken into account. This also includes the (Group) accounting process in its narrower sense, the aforementioned structured budget and forecasting process, and extensive contract management.

The IT Group function ensures the integrity, confidentiality and availability of data and information and the trouble-free operation of systems using various security and monitoring tools and access restriction and authorization systems.

However, the effectiveness and reliability of the internal control 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 issues cannot be guaranteed with full assurance.

The 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.

(Group) Accounting Aspects of the Internal Control System

The aspects of the internal control 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.

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.

Preparation of the consolidated financial statements is based on a detailed process. A fixed 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 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. A regular exchange of information with other Group functions and operating business units assists the financial reporting process.

Monitoring the Opportunity and Risk Management System

LANXESS's Corporate Audit Department within the Legal & Compliance Group function oversees whether the internal control 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 and appropriateness of the internal control system, 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 activities and findings of the Compliance function and the Corporate Audit Department as well as 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.

There are no indications that the internal control system or risk management system is not appropriate or effective.[1)]

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.

1) This disclosure constitutes information extraneous to the management report, which was not subject to the audit by PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft.

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 knowledge of our older employees available to subsequent generations, we piloted a knowledge transfer program in 2021 and rolled it out in the reporting year. It aims to identify important departing knowledge carriers at an early stage, systematically record their often implicit knowledge, and ensure its structured transfer to subsequent generations – in both analog and digital format. The knowledge transfer program comprises various measures such as expert debriefings, learning tandems and a digital, plant-specific knowledge database. This database was launched at a LANXESS plant for the first time in 2022 and is available to all employees of this plant 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, in 2021, may also limit our production capacity. Among other measures, we countered this through the establishment of alternative disposal methods and temporary 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. Waste management capacity difficulties largely eased in fiscal year 2022 and so did not have any notable negative impact on our production capacities.

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 sustainable 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 depends partially on energy costs and subsidy programs in various countries and how these are expected to develop. 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. To reflect the high importance of employee and site safety for LANXESS, the lost time injury frequency rate (LTIFR: accidents per million hours worked) for accidents with days lost is currently the non-financial performance criterion for the short-term variable compensation of the Board of Management and managers at the level below the Board of Management.

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, the redistribution of costs associated with the transition to green energy and the costs of ensuring energy security on account of the war in Ukraine could result in higher costs and in some cases substantial disadvantages in international competition. With a view to mitigating this risk, we engage in active energy management to reduce the consumption of energy and secure energy supply at competitive prices. 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. The retrospective review, initiated by the transmission system operator in connection with the German Renewable Energy Act (EEG), 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, was completed and the proceedings ended by mutual agreement.

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 measures for containment or remediation in areas with identified contamination. Additional information on our environmental provisions can be found in Note [16] "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 on occurrence 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, resilient 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. Cyber risks identified are evaluated and documented as part of corporate risk management, including the measures planned and already in place. The appropriateness and implementation of the preventive measures is reviewed on an ongoing basis.

To support and constantly improve the measures, LANXESS has established a Chief Information Security Officer function. This function is responsible for the implemented information security management system (ISMS), which defines security measures for IT, OT and information security.

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 – with the particular involvement of the IT, PTSE for OT and Legal & Compliance Group functions. The data protection organization is also represented on the ISC, with the aim of ensuring the implementation of the necessary technical and organizational measures. ISC representatives report to the Corporate Risk Committee on the current cyber risk situation twice a year.

In addition to this central committee, a separate security organization has also been established in each of the IT and PTSE Group functions, which helps define and implement the protection concepts on the ISC. All business units and Group functions have each appointed information security coordinators who support 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, cyber security has gained further significance and was included in the IT strategy's strategic goals. Our cyber security experts regularly talk to other companies, associations and specialized service providers to identify risks at an early stage and take effective countermeasures.

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

We train the users of our IT systems on IT risks, appropriate conduct and preventive measures. We raise awareness of current issues surrounding IT security among our employees on an ad hoc basis.

The LANXESS Group's service providers demonstrate an appropriate security level by way of recognized security certificates, and their activities are regularly monitored through defined service level agreements. 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 inflation, government aid programs and energy costs, as well as 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 end of China's zero-COVID strategy and the ongoing 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 at least until the end of 2023.

The volatility and cyclicality that are typical of the global chemical 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*. In the long term, for example, we expect our value chains in the chemical industry (phosphorous, fluorine, iron) to benefit from increasing demand for electric vehicles and the lithium batteries these require. 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, the exodus of chemical production from China to Southeast Asia (e.g. Vietnam) as a result of the trade war with the U.S. and the Inflation Reduction Act designed to bolster U.S. industry. 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, 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 2023. 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 2023, 2024 and 2025 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. Hedging transactions entered into in connection with refinancing planned for November 2022 were reversed and recognized in profit or loss in 2022.

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 and September 2022, the original term of the credit facility was extended by one year until December 2026. 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. As well as the syndicated credit facility, there were bilateral credit lines of €750 million, €400 million of which were drawn as of the reporting date. The Group also had short-term liquidity reserves of €324 million in the form of cash and cash equivalents. In addition to cash and cash equivalents, LANXESS holds near-cash assets of €79 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 and collection agreements 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 and sustainable 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 organizations and 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 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 Group function if they have any compliance-related questions.

Further information can be found in the “Roles and responsibilities” 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.

Significance of Opportunities and Risks and Result of Opportunity and Risk Assessment

The opportunities and risks of future and sustainable 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 and energy prices categories from the procurement markets, sales markets and IT and information security groups were considered to be of medium to high significance. Based on the scenarios applied or the assumed probability of occurrence, these categories and groups could produce a positive or negative deviation of up to 10% from our projected EBITDA pre exceptionals, which is our key controlling parameter. The Advanced Intermediates and Specialty Additives segments are the areas mainly affected here.

Summary of Overall Opportunities and Risks

As well as the impact of the war in Ukraine, global economic performance in fiscal year 2022 was still characterized by the effects of the coronavirus pandemic. Supply bottlenecks, sharp increases in energy and raw material prices and high inflation rates left their mark globally and on chemical industry markets and will continue to play a role in the future. The ongoing trade conflicts, especially between the U.S. and China, protectionist tendencies 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. Value-based, responsible and reliable action combined with clear strategic guidelines serves as the compass with which we continuously put our strategy into practice and evolve into a sustainable company. 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.

With our three segments Consumer Protection, Specialty Additives and Advanced Intermediates, we are building on a well-balanced portfolio that provides the right mix of resilience and flexibility to prevail in turbulent times and volatile markets. The extensive portfolio measures of recent years for the transformation into a specialty chemicals manufacturer are largely complete. We expect our liquidity and financial situation to improve by no later than the beginning of April this year thanks to the contribution of our High Performance Materials business unit to the joint venture for high-performance engineering plastics planned with Advent International.

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.

One major uncertainty factor for our business performance is the development of the war in Ukraine and all of the knock-on effects this has on economic relations and the economy as a whole. The continued impact of the coronavirus pandemic, which is now considered endemic, on global supply chains, the associated logistical bottlenecks and the further development of raw material and energy prices must not be overlooked.

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, 2021	Dec. 31, 2022
ASSETS			
Intangible assets[1]	(1)	2,536	3,326
Property, plant and equipment[1]	(2)	3,153	2,750
Investments accounted for using the equity method	(3)	–	71
Investments in other affiliated companies	(4)	56	20
Non-current derivative assets	(5)	28	14
Other non-current financial assets	(6)	62	77
Non-current income tax receivables	(7)	56	57
Deferred taxes	(30)	192	54
Other non-current assets	(8)	56	63
Non-current assets		**6,139**	**6,432**
Inventories	(9)	1,633	1,861
Trade receivables	(10)	1,050	857
Cash and cash equivalents		643	324
Near-cash assets	(11)	491	79
Current derivative assets	(5)	34	18
Other current financial assets	(6)	249	172
Current income tax receivables	(7)	96	35
Other current assets	(12)	193	228
Assets held for sale and discontinued operations	(13)	–	1,275
Current assets		**4,389**	**4,849**
Total assets		**10,528**	**11,281**

€ million	Note	Dec. 31, 2021	Dec. 31, 2022
EQUITY AND LIABILITIES			
Capital stock and capital reserves		1,317	1,317
Other reserves		2,401	2,955
Net income		267	250
Other equity components		(229)	(101)
Equity attributable to non-controlling interests		6	6
Equity	(14)	**3,762**	**4,427**
Provisions for pensions and other post-employment benefits	(15)	877	367
Other non-current provisions[1]	(16)	370	296
Non-current derivative liabilities	(5)	1	1
Other non-current financial liabilities	(17)	2,829	3,417
Non-current income tax liabilities	(18)	37	28
Other non-current liabilities	(19)	50	41
Deferred taxes	(30)	223	284
Non-current liabilities		**4,387**	**4,434**
Other current provisions	(16)	492	382
Trade payables	(20)	1,008	709
Current derivative liabilities	(5)	21	18
Other current financial liabilities	(17)	675	830
Current income tax liabilities	(18)	25	38
Other current liabilities	(19)	157	125
Liabilities directly related to assets held for sale and discontinued operations	(13)	1	318
Current liabilities		**2,379**	**2,420**
Total equity and liabilities		**10,528**	**11,281**

1) Prior-year figure restated.

Income Statement
LANXESS Group

€ million	Note	2021	2022
Sales	(22)	**6,101**	**8,088**
Cost of sales	(23)	(4,576)	(6,151)
Gross profit		**1,525**	**1,937**
Selling expenses	(24)	(816)	(1,064)
Research and development expenses	(25)	(95)	(102)
General administration expenses	(26)	(276)	(319)
Other operating income	(27)	74	38
Other operating expenses	(28)	(201)	(210)
Operating result (EBIT)		**211**	**280**
Income from investments accounted for using the equity method	(3)	–	3
Interest income		11	7
Interest expense		(64)	(75)
Other financial income and expense		5	42
Financial result	(29)	**(48)**	**(23)**
Income before income taxes		**163**	**257**
Income taxes	(30)	(47)	(72)
Income after income taxes from continuing operations		**116**	**185**
Income after income taxes from discontinued operations		**151**	**66**
Income after income taxes		**267**	**251**
of which attributable to non-controlling interests		0	1
of which attributable to LANXESS AG stockholders (net income)		267	250
Earnings per share (basic/diluted) (€)	(31)		
from continuing operations		1.33	2.13
from discontinued operations		1.76	0.77
from continuing and discontinued operations		**3.09**	**2.90**

Prior-year figures restated.

Statement of Comprehensive Income
LANXESS Group

€ million	2021	2022
Income after income taxes	**267**	**251**
Items that will not be reclassified subsequently to profit or loss		
Remeasurements of the net defined benefit liability for post-employment benefit plans	337	528
Financial instruments fair value measurement	37	(38)
Income taxes	(103)	(141)
	271	**349**
Items that may be reclassified subsequently to profit or loss if specific conditions are met		
Exchange differences on translation of operations outside the eurozone	312	153
Financial instruments fair value measurement	(13)	6
Financial instruments cost of hedging	0	(1)
Income taxes	4	(2)
	303	**156**
Other comprehensive income, net of income tax	**574**	**505**
Total comprehensive income	**841**	**756**
of which attributable to non-controlling interests	0	0
of which attributable to LANXESS AG stockholders	841	756
from continuing operations	643	700
from discontinued operations	198	56

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, 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		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**
Allocations to retained earnings			267	(267)				0		0
Dividend payments			(91)					(91)	0	(91)
Total comprehensive income			378	250	154	(25)	(1)	756	0	756
Income after income taxes				*250*				*250*	*1*	*251*
Other comprehensive income, net of income tax			*378*		*154*	*(25)*	*(1)*	*506*	*(1)*	*505*
Remeasurements of the net defined benefit liability for post-employment benefit plans			*528*					*528*		*528*
Exchange differences on translation of operations outside the eurozone					*154*			*154*	*(1)*	*153*
Financial instruments						*(32)*	*(1)*	*(33)*		*(33)*
Income taxes on other comprehensive income			*(150)*			*7*	*0*	*(143)*		*(143)*
Other changes			0			0		0		0
Dec. 31, 2022	**86**	**1,231**	**2,955**	**250**	**(103)**	**3**	**(1)**	**4,421**	**6**	**4,427**

Statement of Cash Flows
LANXESS Group

€ million	Note	2021	2022
Income before income taxes		**163**	**257**
Amortization, depreciation and write-downs of intangible assets and property, plant and equipment		457	546
Gains/losses on disposals of intangible assets and property, plant and equipment		(1)	3
Income from investments accounted for using the equity method		–	(3)
Financial losses (gains)		31	11
Income taxes refunded		5	4
Changes in inventories		(288)	(403)
Changes in trade receivables		(157)	62
Changes in trade payables		153	(130)
Changes in other assets and liabilities		5	(160)
Net cash provided by operating activities – continuing operations	(39)	**368**	**187**
Net cash provided by (used in) operating activities – discontinued operations		**39**	**(28)**
Net cash provided by operating activities – total		**407**	**159**
Cash outflows for purchases of intangible assets and property, plant and equipment		(424)	(407)
Cash inflows from sales of intangible assets and property, plant and equipment		3	5
Cash outflows for financial and other assets held for investment purposes		(519)	(910)
Cash inflows from financial and other assets held for investment purposes		1,447	1,420
Cash outflows for the acquisition/sale of subsidiaries and other businesses, less acquired cash and cash equivalents		(1,006)	(1,124)
Cash inflows from the sale of subsidiaries and other businesses, less acquired cash and cash equivalents		115	8
Interest and dividends received		8	12
Net cash used in investing activities – continuing operations	(39)	**(376)**	**(996)**
Net cash used in investing activities – discontinued operations		**(56)**	**(55)**
Net cash used in investing activities – total		**(432)**	**(1,051)**
Proceeds from borrowings		1,102	1,379
Repayments of borrowings		(560)	(689)
Interest paid and other financial disbursements		(63)	(65)
Proceeds from interest rate hedges		–	83
Dividend payments		(86)	(91)
Net cash provided by financing activities – continuing operations	(39)	**393**	**617**
Net cash used in financing activities – discontinued operations		**(4)**	**(4)**
Net cash provided by financing activities – total		**389**	**613**
Change in cash and cash equivalents – continuing operations		**385**	**(192)**
Change in cash and cash equivalents – discontinued operations		**(21)**	**(87)**
Change in cash and cash equivalents – total		**364**	**(279)**
Cash and cash equivalents as of January 1		271	643
Exchange differences and other changes in cash and cash equivalents – total		8	(4)
Cash and cash equivalents as of December 31	(39)	**643**	**360**
of which continuing operations		632	324
of which discontinued operations		11	36

Prior-year figures restated.

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 business register.

The consolidated financial statements of the LANXESS Group for fiscal year 2022 were prepared by the Board of Management of LANXESS AG on a going concern basis and authorized for submission to the Supervisory Board on March 1, 2023. 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, the 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, 2022, 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 2022 currently has no impact, or no material impact, on the LANXESS Group:

Standard	
IFRS 3	Amendments to IFRS 3 – Reference to the Conceptual Framework of the IFRS
IAS 16	Amendments to IAS 16 – Proceeds before Intended Use
IAS 37	Amendments to IAS 37 – Onerous Contracts – Cost of Fulfilling a Contract
Various IAS and IFRS	Annual Improvements to International Financial Reporting Standards (2018–2021 Cycle)

FINANCIAL REPORTING STANDARDS ISSUED BUT NOT YET MANDATORY

In fiscal year 2022, 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.
IAS 1	Amendments to IAS 1 – Disclosure of Accounting Policies	Feb. 12, 2021	2023	Yes
IAS 8	Amendments to IAS 8 – Definition of Accounting Estimates	Feb. 12, 2021	2023	Yes
IAS 12	Amendments to IAS 12 – Deferred Tax related to Assets and Liabilities arising from a Single Transaction	May 7, 2021	2023	Yes
IFRS 17	Insurance Contracts – including Amendments to IFRS 17	May 18, 2017 Jun. 25, 2020	2023	Yes
IFRS 17	Amendments to IFRS 17 – Initial Application of IFRS 17 and IFRS 9	Dec. 9, 2021	2023	Yes
IAS 1	Amendments to IAS 1 – Classification of Liabilities as Current or Non-Current	Jan. 23, 2020 Jul. 15, 2020 Oct. 31, 2022	2024	No
IFRS 16	Amendments to IFRS 16 – Lease Liability in a Sale and Leaseback	Sep. 22, 2022	2024	No

RESTATEMENT OF PRIOR-YEAR FIGURES

Due to the application of IFRS 5, the prior-year figures in the income statement, the statement of cash flows, the related notes and the other disclosures were restated accordingly. In addition, the purchase price allocation for the acquisition of the U.S. specialty chemicals manufacturer Emerald Kalama Chemical was completed within the restatement period in the reporting year. Intangible assets have been restated by €5 million, property, plant and equipment by €5 million and other non-current provisions by €10 million to reflect new information and findings. Finally, goodwill changed by €7 million. The figures of the consolidated statement of financial position as of December 31, 2021, were restated accordingly.

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 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 amortized cost.

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. The fair values of assets and liabilities resulting from contingent consideration contracts are also taken into account.

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.

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 582.46 points at the start of the fiscal year and 1,134.59 points at the end of the fiscal year.

For accounting purposes, the Republic of Turkey is classified as a hyperinflationary economy for reporting periods ending on or after June 30, 2022. An adjustment of non-monetary items in the statement of financial position, components of equity and items of the statement of comprehensive income to the actual price level using an appropriate price index is not made in the consolidated financial statements for reasons of materiality. The need for a possible price adjustment will be reassessed at the next reporting date.

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

Exchange Rates

1 euro		Closing rate Dec. 31, 2021	Closing rate Dec. 31, 2022	Average rate 2021	Average rate 2022
Argentina	ARS	116.36	188.92	112.45	137.12
Brazil	BRL	6.32	5.57	6.38	5.44
China	CNY	7.19	7.36	7.63	7.08
Great Britain	GBP	0.84	0.89	0.86	0.85
India	INR	84.19	88.25	87.44	82.72
Japan	JPY	130.38	140.66	129.86	138.03
U.S.	USD	1.13	1.07	1.18	1.05

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 2022 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 of any loss allowances established in 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 both to hold financial instruments until the end of their term and collect the cash flows and to resell the financial instruments during their 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 in the "hold to collect" business model are initially recognized at fair value and subsequently accounted for at amortized cost using the effective interest method. In the "hold to collect and sell" business model, trade receivables are measured at fair value. Because of their short holding period, the risk of default is the primary factor that determines their value. Since this risk is extremely small, the fair value corresponds to amortized cost. Gains or losses on subsequent measurement are recognized in other comprehensive income. For both business models, 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.

The fair value of stock warrants 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 corresponding period and are not reclassified to profit or loss in subsequent periods.

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 yields. 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." 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 remarks on "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 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 effects of currency translation, of the initial application of financial reporting standards and 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.

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 outflows in connection with contractual trust arrangements (CTA) relating to the financing of pension obligations are allocated to cash flows for operating activities, analogously to pension payments made. In previous years, corresponding cash outflows for financing of pension obligations were allocated to cash flows for investing activities. Reimbursements out of the CTA of pension payments made by LANXESS are reported in the cash flow statement as cash flows from operating activities. The application of the classification used in previous years would have resulted in a €36 million increase in cash inflow from investing activities and a respective decrease in cash inflow from operating activities.

Cash inflows from financial assets or other assets held for investment purposes are shown under investing activities, analogously to cash outflows.

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 as well as incoming and outgoing payments from interest rate hedges 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 otherwise indicate a possible impairment. This generally occurs as of September 30 at the level of the cash-generating units. 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 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 [38]).

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 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. 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 typically cover a five-year period. The perpetual annuity calculation is generally based on the last year in the planning period. Due to the increased inflation expectations, a growth rate of 1% was accounted for in the perpetual annuity for the first time in the reporting year. 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 but 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. A 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 2021 and 2022 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 particularly true in the context of the tense geopolitical situation over the war in Ukraine with all its direct and indirect societal and economic consequences in general and for the LANXESS Group specifically. Because the further course of the war remains difficult to predict, the future effects are associated with a high level of uncertainty. Another business uncertainty factor is the currently challenging macroeconomic environment, characterized among other things by increased interest and inflation rates, growing volatility in energy, raw material and selling prices in particular, and a gloomy economic outlook. The remaining effects of the coronavirus pandemic, or rather the endemic disease, global climate change and the transition to a low-carbon economy can also entail potential uncertainties for LANXESS. For example, national and international measures to combat climate change can result in increasing volatility of energy prices or generally infringe on the availability of goods and raw materials. 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.

However, the challenging geopolitical and macroeconomic environment, the impact of climate change and the remaining effects of the coronavirus pandemic, or rather the endemic disease, are still sources of uncertainty for business performance. As a result, it cannot be ruled out that the assumptions and estimates made in these consolidated financial statements may have to be adjusted in the future and that these adjustments may have an impact on the financial position or results of operations. The management sees no indications that the assumptions and estimates made do not 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 the 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 are 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 2022 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 planning assumes a recovery from the negative influences of the coronavirus pandemic, or rather the endemic disease, and of the Ukraine war in the planning period and subsequently expects a decline in energy prices and a general recovery of the business environment. Additional opportunities are seen in the transition to a low-carbon economy and the intensification of business activities in the "Green Products" sector.

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 annual impairment tests are based on a discount rate after taxes of 7.5% (previous year: 6.5%), while the impairment tests as of the end of the reporting period are based on a discount rate after taxes of 8.1% (previous year: 6.5%). The principal goodwill items are explained below.

In the reporting year, goodwill of €462 million was acquired through the acquisition of the Microbial Control business from U.S. corporation International Flavors & Fragrances Inc. The acquisition was allocated to the Material Protection Products business unit in the Consumer Protection segment. The goodwill amounted to €450 million as of the end of the reporting period. This goodwill was tested for impairment as of the end of the reporting period. A discount rate after taxes of 8.1% was used for impairment testing.

In the previous 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 previous year's reporting period. A discount rate after taxes of 6.5% was used for impairment testing. The goodwill amounted to €39 million (previous year: €38 million) as of the end of the reporting period. The change compared to the previous year is due to exchange rate differences.

In total, goodwill in the Material Protection Products business unit amounted to €650 million as of the end of the reporting period (previous year: €188 million).

In the previous year, 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 previous year's 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 €456 million (previous year: €423 million) as of the end of the reporting period.

Additional material goodwill of €343 million (previous year: €323 million) relates to the Polymer Additives business unit, €220 million (previous year: €207 million) to the Lubricant Additives business unit and €160 million (previous year: €150 million) to the Urethane Systems business unit. Other business units account for goodwill of €15 million (previous year: €33 million). The changes compared to the previous year are due to currency effects.

Information on calculating the net cash flows can be found in this section and the previous section.

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. In the long term, additional market potential is to be unlocked through organic growth. In the consumer goods business, significantly stronger growth is also expected in the long term in the end markets, especially personal and home care and flavors and fragrances. Furthermore, it is assumed that the "Green Products" sector will become much more important. On this basis, ten-year planning was used to derive a fair value less costs of disposal of the Flavors & Fragrances business unit.

The Material Protection Products business unit is a global provider of products in the fields of biosafety, industrial biocides and consumer protection. 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 planned annual sales growth of 5% (previous year: 6%), and the Flavors & Fragrances business unit planned annual sales growth of 2% (previous year: 5%).

Annual sales growth of 4% (previous year: 7%) was assumed for the Urethane Systems business unit. Annual sales growth of 4% (previous year: 5%) was assumed for the Lubricant Additives business unit and 3% (previous year: 5%) for the Polymer Additives business unit.

For the goodwill impairment test, a higher EBITDA value than in the last planning period was assumed for the steady state in the current reporting year for the Inorganic Pigments business unit in the perpetual annuity calculation. The Inorganic Pigments business unit produces iron oxide and chromium oxide pigments, which are used in the building materials and plastics industries as well as for paints and coatings. In the previous year, higher EBITDA values than in the previous planning period were assumed for the Lubricant Additives Business and

Flavors & Fragrances business units in the perpetual annuity calculation. In the Polymer Additives business unit, lower EBITDA values than in the previous detailed planning period were assumed in the perpetual annuity calculation.

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.

A sensitivity analysis for the cash-generating units to which goodwill has been allocated assumed a decline in the future net cash flows of 10%, an increase in weighted costs of capital of one percentage point or a decline in the long-term growth rate by one percentage point. Apart from the Flavors & Fragrances and Lubricant Additives Business cash-generating units, there would be no need for the recognition of impairment charges on any of the cash-generating units in these scenarios.

For the Flavors & Fragrances business unit, the recoverable amount would match the carrying amount of the cash-generating unit on the annual measurement date if the discounted net cash flows were €104 million lower, the weighted costs of capital 0.5 percentage points higher, or the long-term growth rate 0.9 percentage points lower. For the Lubricant Additives business unit, the recoverable amount would match the carrying amount of the cash-generating unit on the measurement date if the discounted net cash flows were €60 million lower, the weighted costs of capital 0.3 percentage points higher, or the long-term growth rate 0.5 percentage points lower.

As a result of the material interest rate change as of December 31, 2022, the goodwill was tested for impairment again. This showed no need for the recognition of impairment charges. Sensitivity analyses were performed for cash-generating units to which goodwill is allocated. Apart from the Flavors & Fragrances and Lubricant Additives Business cash-generating units, these would not result in the need for the recognition of impairment charges.

For the Flavors & Fragrances business unit, the recoverable amount would match the carrying amount of the cash-generating unit as of the end of the reporting period if the discounted net cash flows were €58 million lower, the weighted costs of capital 0.3 percentage points higher, or the long-term growth rate 0.6 percentage points lower. For the Lubricant Additives business unit, the recoverable amount would match the carrying amount of the cash-generating unit as of the end of the reporting period if the discounted net cash flows were €25 million lower, the weighted costs of capital 0.2 percentage points higher, or the long-term growth rate 0.2 percentage points lower.

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 2022 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 [15]).

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 [16]).

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 [38]), within Level 2 and Level 3 of the fair value hierarchy. The generally accepted measurement methodologies are essentially option pricing models to measure stock warrants. 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, 2022. 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 (excluding Germany)	Germany	North America	Latin America	Asia-Pacific	**Total**
Fully consolidated companies (incl. parent company)						
Jan. 1, 2022	35	12	8	7	23	85
Additions	18	2	6	7	15	48
Retirements	(2)	–	–	–	(2)	(4)
Mergers	–	(1)	(2)	–	–	(3)
Changes to companies consolidated	–	1	–	(1)	–	0
Dec. 31, 2022	**51**	**14**	**12**	**13**	**36**	**126**
Associates and joint operations						
Jan. 1, 2022	0	1	1	0	0	2
Additions	–	–	1	–	–	1
Dec. 31, 2022	**0**	**1**	**2**	**0**	**0**	**3**
Non-consolidated companies						
Jan. 1, 2022	2	3	0	2	3	10
Additions	–	1	–	–	–	1
Retirements	–	–	–	(1)	–	(1)
Changes to companies consolidated	–	(1)	–	1	–	0
Dec. 31, 2022	**2**	**3**	**0**	**2**	**3**	**10**
Total						
Jan. 1, 2022	37	16	9	9	26	97
Additions	18	3	7	7	15	50
Retirements	(2)	–	–	(1)	(2)	(5)
Mergers	–	(1)	(2)	–	–	(3)
Dec. 31, 2022	**53**	**18**	**14**	**15**	**39**	**139**

The Microbial Control business was acquired from U.S. corporation International Flavors & Fragrances Inc. on July 1, 2022. This involved LANXESS acquiring all shares in N&H International Holding 3 B.V., Oegstgeest, Netherlands, Nutrition & Biosciences USA 2, LLC, Wilmington, U.S., MC (US) 3 LLC, Wilmington, U.S., and their domestic and foreign subsidiaries and affiliates.

In preparation for the strategic alliance between LANXESS and the private equity investor Advent International, LANXESS Belgium NV, Kallo, Belgium, LANXESS Performance Materials UK Ltd., Manchester, Great Britain, LANXESS Performance Materials s.r.o., Bratislava, Slovakia), and LANXESS Performance Materials S.R.L., Milan, Italy, were established in the EMEA region (excluding Germany) during the reporting period.

In the North and Latin America regions, the companies LANXESS Performance Materials Holding Corp., Wilmington, U.S., LANXESS Performance Materials LLC, Wilmington, U.S., LANXESS Industria de Materiais de Performance Ltda., São Paulo, Brazil, and LANXESS Performance Materials S.A. de C.V., Mexico City, Mexico were newly established. Other newly established companies include LANXESS Performance Materials (HK) Limited, Hong Kong, Hong Kong, LANXESS Performance Materials (Korea) Limited, Seoul, Republic of Korea, and LANXESS Performance Materials (India) Private Limited, Thane, India, in the Asia/Pacific region.

The companies Neunte LXS GmbH, Cologne, Germany, and Zehnte LXS GmbH, Cologne, Germany, were also newly established.

LANXESS Distribution GmbH, Cologne, Germany, was merged into LANXESS Deutschland GmbH, Cologne, Germany, during the reporting period. Furthermore, the companies EPM Polymer Additives Holding Corp., Wilmington, U.S., and Emerald Kalama Holdings LLC, Cuyahoga Falls, U.S., were merged into LANXESS Corporation, Wilmington, U.S.

Great Lakes Chemical (Netherlands) B.V., Venlo, Netherlands, Emerald Kalama Holdings Coöperatief, U.A., Amsterdam, Netherlands, LANXESS Taiwan Ltd., Kaohsiung, Taiwan, and Chemtura Chemicals Nanjing Co. Ltd., Nanjing, China, were liquidated in the reporting period. In addition, the shares in Hidrax Ltda., Taboão da Serra, Brazil, were sold.

Rhein Chemie Uruguay S.A., Colonia, Uruguay, is in liquidation and was reclassified as a non-consolidated company in the reporting period, as it has no material influence on the financial position or results of operations 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.

In addition, Viance LLC, Wilmington, U.S., is accounted for as an associate in the consolidated financial statements using the equity method (see Note [3]). LANXESS's share in its capital is 49.99%. Given its ability to contribute to material aspects of financial and business policy decisions, LANXESS is able to exert a significant influence. The company provides wood treatment technologies and services to the wood preservation industry.

Cash transfers from companies in Argentina, Brazil, China, India, Indonesia, Colombia, the Republic of Korea, Russia, Saudi Arabia, South Africa, Thailand, Taiwan and Vietnam are subject to restrictions as a result of regulated capital markets. Please refer the notes to the statement of cash flows (see Note [39]) for further information.

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

With effect from January 1, 2022, LANXESS acquired the distribution business of a German distribution partner with around ten employees for the product Velcorin®. With this acquisition, LANXESS is expanding its distribution of cold sterilization and preservation agents for the beverage industry in Europe. The business was integrated into the Material Protection Products business unit of the Consumer Protection segment. The acquired distribution business generated sales in the low double-digit millions in euros in the previous year. The purchase price amounts to around €21 million and is mainly attributable to acquired distribution rights and customer relationships. The acquisition results in goodwill of around €7 million.

On July 1, 2022, LANXESS completed the acquisition of the Microbial Control business from U.S. corporation International Flavors & Fragrances Inc. The Microbial Control business 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. Microbial Control has around 240 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. The business was integrated into the Material Protection Products business unit of the Consumer Protection segment. The purchase price amounted to €1,169 million and was paid out of existing liquidity.

The acquisition was accounted for as a business combination in accordance with IFRS 3. For the purchase price allocation, the identifiable assets, liabilities and contingent liabilities of the business acquired were recognized at fair value. 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 €215 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, 2022, the contribution to LANXESS Group sales would have been €231 million higher, while net income would have increased by a figure in the low double-digit millions in euros. Earnings effects from the remeasurement of intangible assets were taken into account here as if this had already taken place as of January 1, 2022. The intangible assets of €362 million identified in the purchase price allocation can be broken down into customer relationships of €166 million, product registrations of €105 million and other intangible assets of €91 million. The goodwill of €462 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 Material Protection Products business unit. The gross amount of the acquired trade receivables comes to €76 million. A provision of €4 million was recognized for the risk of a potential credit loss. In connection with this acquisition, transaction costs were recognized in other operating expenses in the amount of €11 million in the reporting period and €4 million in the previous year.

The following table shows the effects of the acquisition of Microbial Control on the Group's financial position:

€ million	Fair values at first-time consolidation
Intangible assets	365
Property, plant and equipment	82
Inventories	147
Trade receivables	72
Cash and cash equivalents	47
Other assets	102
Total assets	**815**
Provisions for pensions and other post-employment benefits	1
Other non-current liabilities	43
Trade payables	49
Other current financial liabilities	2
Other current liabilities	13
Total liabilities (excl. equity)	**108**
Net acquired assets (excl. goodwill)	**707**
Cost of acquisition	**1,169**
Goodwill	**462**

Additions from acquisitions in the previous year

On March 1, 2021, LANXESS completed the acquisition of all shares in the French company INTACE S.A.S., Courbevoie, France. The acquisition of the manufacturer of special fungicides for the packaging and paper industry enhanced 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.

On April 1, 2021, LANXESS completed the acquisition of all shares in 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 more than 100 employees at its sites in Laval, France; Wietmarschen, Germany; Hull, Great Britain; and Descalvado, Brazil, was also 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. The purchase price allocations were completed within their respective measurement periods and are therefore considered final. There were no changes to the information disclosed in the notes to the consolidated financial statements for fiscal year 2021.

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.

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. The purchase price allocation was completed within the measurement period and is now considered final. Compared with the information disclosed in the notes to the consolidated financial statements for fiscal year 2021, property, plant and equipment finally increased by €5 million and other non-current liabilities by €10 million. In contrast, intangible assets decreased by €2 million. The adjustments resulted in an increase in goodwill of €7 million. The figures of the consolidated statement of financial position as of December 31, 2021, were restated accordingly.

The intangible assets of €305 million identified in the purchase price allocation can be broken down into customer relationships of €190 million, technologies of €79 million and other intangible assets of €36 million.

The goodwill of €404 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 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	305
Property, plant and equipment	255
Inventories	73
Trade receivables	55
Cash and cash equivalents	8
Other assets	32
Total assets	**728**
Provisions for pensions and other post-employment benefits	–
Other non-current liabilities	135
Trade payables	56
Other current financial liabilities	3
Other current liabilities	18
Total liabilities (excl. equity)	**212**
Net acquired assets (excl. goodwill)	**516**
Cost of acquisition	**920**
Goodwill	**404**

Discontinued operations

High Performance Materials business unit

On May 31, 2022, LANXESS and the private equity investor Advent International agreed on a strategic alliance. The transaction is expected to be completed by no later than the beginning of April 2023. In addition to signing an agreement to acquire the engineering materials business of the Dutch group Royal DSM, LANXESS is also contributing the High Performance Materials business unit to the strategic alliance with Advent International.

Upon transfer to the strategic alliance, the High Performance Materials business unit will no longer be accounted for in LANXESS's consolidated financial statements by way of full consolidation. Instead, LANXESS will hold a minority interest in the new company and include it in the LANXESS consolidated financial statements using the equity method. Since the transfer is expected to be completed within the next twelve months, the High Performance Materials business unit is reported as a discontinued operation in accordance with IFRS 5.

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 are shown in the following table:

Carrying Amounts of Reclassified Assets and Liabilities (High Performance Materials Business Unit)

€ million	Dec. 31, 2022
Property, plant and equipment and intangible assets	545
Inventories and trade receivables	637
Other assets	93
Total assets	**1,275**
Provisions	81
Trade payables	176
Other liabilities	61
Total liabilities	**318**

The intangible assets and property, plant and equipment of the High Performance Materials business unit were not subject to further amortization or depreciation from June 1, 2022.

In detail, earnings from discontinued operations are as follows:

Income Statement from Discontinued Operations (High Performance Materials Business Unit)

€ million	2021	2022
Sales	**1,456**	**1,924**
Cost of sales	(1,135)	(1,571)
Gross profit	**321**	**353**
Other functional costs	(182)	(237)
Operating result (EBIT)	**139**	**116**
Financial result	**1**	**(5)**
Income before income taxes	**140**	**111**
Income taxes	(37)	(38)
Income after income taxes	**103**	**73**

The losses from the change in currency translation differences allocable to the discontinued operations of the High Performance Materials business unit recognized in other equity components amount to €6 million, and the amounts recognized cumulatively in other reserves for the remeasurement of the net defined benefit liability include losses of €1 million.

The discontinued operations of the High Performance Materials business unit generated EBITDA pre exceptionals of €162 million (previous year: €195 million). This includes negative exceptional items of €23 million (previous year: €0 million), which impacted EBITDA. Capital expenditures amounted to €59 million (previous year: €61 million). Depreciation and amortization were recognized at €23 million (previous year: €56 million). The number of employees allocable to discontinued operations was 2,051 as of December 31, 2022 (previous year: 1,915), and the annual average was 2,017 (previous year: 1,888).

In addition, expenses from other functional costs of €9 million and income from income taxes of €2 million from subsequent matters in connection with the sale of the Leather business unit as of June 1, 2021, were reported under discontinued operations in fiscal year 2022.

Divestments and discontinued operations in the previous year

Sale of the reverse osmosis membranes business

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 fiscal year 2021 and the chrome chemicals business in fiscal year 2020, 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.

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 in fiscal year 2021. The purchase price also includes a performance-based component, which could result in cash inflows totaling up to €115 million in the coming years. The performance-based component was valued at €20 million at the date of the sale and as of December 31, 2021, and at €12 million as of December 31, 2022, 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 was 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 were recognized and measured according to the same financial reporting standards and interpretations as continuing operations.

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 were as follows:

Income Statement from Discontinued Operations (Leather Business Unit)

€ million	2021
Sales	**85**
Cost of sales	(55)
Gross profit	**30**
Other functional costs	8
Operating result (EBIT)	**38**
Financial result	**(1)**
Income before income taxes	**37**
Income taxes	(5)
Income after income taxes	**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 were 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 currency translation differences allocable to discontinued operations recognized in other equity components as of December 31, 2021, amounted to €0 million, and the amounts recognized cumulatively in other reserves for the remeasurement of the net defined benefit liability included losses of €0 million.

The discontinued operations of the Leather business unit generated EBITDA pre exceptionals of €6 million in fiscal year 2021. Capital expenditures amounted to €1 million. No depreciation or amortization was recognized. In fiscal year 2021, the annual average number of employees allocable to discontinued operations was 128. Personnel expenses attributable to employees amounted to €15 million. With the completion of the sale of the Leather business unit, no employees were allocable to discontinued operations as of December 31, 2021.

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 Global Business Services GmbH, Cologne	100
LANXESS Organometallics GmbH, Bergkamen	100
LANXESS Performance Materials GmbH, Cologne	100
LANXESS Trademark GmbH & Co. KG, Leverkusen	100
MC (Germany) GmbH, Cologne	100
Saltigo GmbH, Leverkusen	100
THESEO Deutschland GmbH, Wietmarschen	100
Zehnte LXS GmbH, Cologne	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
DDP Specialty Products Poland Sp.z.o.o., Warsaw, Poland	100
Emerald Kalama Chemical B.V., Rotterdam, Netherlands	100

Company Name and Domicile

	Interest held in %
Emerald Kalama Chemical Holdings Ltd., St. Helier, Jersey	100
Emerald Kalama Chemical Ltd., Widnes, Great Britain	100
Emerald Kalama Chemical SRL, Milan, Italy	100
EUROPIGMENTS, S.L., Barcelona, Spain	52
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 Belgium NV, Kallo, Belgium	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 Performance Materials S.R.L., Milan, Italy	100
LANXESS Performance Materials s.r.o., Bratislava, Slovakia	100
LANXESS Performance Materials UK Ltd., Manchester, Great Britain	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

Company Name and Domicile

	Interest held in %
MC (Netherlands) 1 B.V., Oegstgeest, Netherlands	100
MC (Netherlands) 2 B.V., Oegstgeest, Netherlands	100
MC Turkey Teknoloji Ltd. Şirketi, Istanbul, Turkey	100
Microbial Control (Italy) S.r.l., Milan, Italy	100
Microbial Control (Switzerland) GmbH, Freienbach, Switzerland	100
Microbial Control France SAS, Courbevoie Cedex, France	100
Microbial Control Sweden Technologies AB, Stockholm, Sweden	100
N&H International Holding 3 B.V., Oegstgeest, Netherlands	100
Nutrition & Biosciences (Finland) Oy, Helsinki, Finland	100
Nutrition & Biosciences (UK) Ltd., Manchester, Great Britain	100
Nutrition & Biosciences South Africa (Pty.) Ltd., Gauteng, South Africa	100
Nutrition & Biosciences Spain S.L.U., Asturias, Spain	100
OOO LANXESS, Moscow, Russia	100
OOO LANXESS Lipetsk, Lipetsk, Russia	100
Specialty Products FZE, Dubai, UAE	100
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 Performance Materials LLC, Wilmington (USA)	100
LANXESS Canada Co./Cie, Halifax, Canada	100
LANXESS Corporation, Wilmington, U.S.	100
LANXESS Performance Materials Holding Corp., Wilmington, U.S.	100

Company Name and Domicile

	Interest held in %
LANXESS Performance Materials LLC, Wilmington, U.S.	100
LANXESS Services US LLC, Wilmington, U.S.	100
MC (US) 3 LLC, Wilmington, U.S.	100
Nutrition & Biosciences Canada Company, Oakville, Canada	100
Nutrition & Biosciences USA 2, LLC, Wilmington, U.S.	100
Rohm and Haas Wood Treatment 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 Industria de Materiais de Performance Ltda, São Paulo, Brazil	100
LANXESS Indústria de Produtos Quimicos e Plasticos Ltda., São Paulo, Brazil	100
LANXESS Performance Materials S.A. de C.V., Mexico City, Mexico	100
LANXESS S.A., Buenos Aires, Argentina	100
LANXESS S.A. de C.V., Mexico City, Mexico	100
MC BRAZIL IMPORTAÇÃO E EXPORTAÇÃO DE MICROBIÓTICOS LTDA., Bairro Cristais, Brazil	100
Nutrition & Biosciences Argentina S.A.U., Buenos Aires, Argentina	100
Nutrition & Biosciences Chile SpA, Santiago, Chile	100
Nutrition & Biosciences Colombia S.A.S., Bogotá D.C., Colombia	100
Nutrition & Biosciences Mexico S. de R.L. de C.V., Mexico City, Mexico	100
THESEO SAÚDE ANIMAL LTDA., Descalvado, Brazil	100

Company Name and Domicile	Interest held in %
Asia-Pacific	
Chemtura China Holding Co. Ltd., Shanghai, China	100
Danisco Nutrition & Biosciences Malaysia Sdn. Bhd., Kuala Lumpur, Malaysia	100
Danisco Nutrition & Biosciences Taiwan Limited, Taipei City, Taiwan	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 Performance Materials (HK) Limited, Hong Kong, Hong Kong	100
LANXESS Performance Materials (India) Private Limited, Thane, India	100
LANXESS Performance Materials (Korea) Limited, Seoul, Republic of Korea	100
LANXESS Pte. Ltd., Singapore, Singapore	100
LANXESS Pty. Ltd., Granville, Australia	100

Company Name and Domicile	Interest held in %
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
MC (New Zealand) Technologies Ltd., Auckland, New Zealand	100
Microbial Control (Australia) Pty. Ltd., Sydney, Australia	100
Microbial Control (Hong Kong) Ltd., Hong Kong, Hong Kong	100
Microbial Control (India) Private Ltd., Delhi, India	100
Microbial Control (Thailand) Co., Ltd., Bangkok, Thailand	100
Microbial Control Japan, Tokyo, Japan	100
Microbial Control Technologies (Shanghai) Co., Ltd., Shanghai, China	100
Nutrition & Biosciences Korea Ltd., Seoul, Republic of Korea	100
Nutrition & Biosciences Singapore Pte. Ltd., Singapore, Singapore	100
PT Blue Cube Indonesia, Jakarta, Indonesia	100
Rhein Chemie (Qingdao) Limited, Qingdao, China	90
Joint operations	
Germany	
DuBay Polymer GmbH, Hamm	50
North America	
Rubicon LLC, Salt Lake City, U.S.	50

Company Name and Domicile	Interest held in %
Associate accounted for using the equity method	
North America	
Viance LLC, Wilmington, U.S.	49.99
Immaterial non-consolidated subsidiaries	
Germany	
LANXESS Middle East GmbH, Cologne	100
LANXESS Trademark Management GmbH, Leverkusen	100
Neunte LXS GmbH, Cologne	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
Rhein Chemie Uruguay S.A., Colonia, Uruguay	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

NOTES TO THE STATEMENT OF FINANCIAL POSITION

1 | Intangible Assets

Changes in intangible assets were as follows:

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	442	337	18	797
Capital expenditures	–	12	59	71
Disposals	–	(9)	0	(9)
Reclassifications	–	75	(75)	0
Adjustments in accordance with IAS 29	–	0	0	0
Exchange differences	82	73	2	157
Cost of acquisition or construction, Dec. 31, 2021	**1,339**	**1,642**	**132**	**3,113**
Accumulated depreciation and write-downs, Dec. 31, 2020	(7)	(440)	0	(447)
Adjustments according to IFRS 5	–	(5)	–	(5)
Depreciation in 2021	–	(110)	0	(110)
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	**1,331**	**1,072**	**133**	**2,536**

Prior-year figures restated.

Changes in Intangible Assets in 2022

€ million	Acquired goodwill	Other intangible assets	Advance payments	Total
Cost of acquisition or construction, Dec. 31, 2021	1,339	1,642	132	3,113
Adjustments according to IFRS 5	(18)	(35)	(1)	(54)
Acquisitions	463	365	–	828
Capital expenditures	–	24	37	61
Disposals	–	(36)	0	(36)
Reclassifications	6	75	(81)	0
Adjustments in accordance with IAS 29	0	1	–	1
Exchange differences	62	35	1	98
Cost of acquisition or construction, Dec. 31, 2022	**1,852**	**2,071**	**88**	**4,011**
Accumulated depreciation and write-downs, Dec. 31, 2021	(8)	(570)	1	(577)
Adjustments according to IFRS 5	–	25	–	25
Depreciation in 2022	–	(156)	0	(156)
of which write-downs	–	0	–	0
Disposals	–	36	–	36
Reclassifications	–	0	0	0
Adjustments in accordance with IAS 29	–	(1)	–	(1)
Exchange differences	0	(13)	1	(12)
Accumulated depreciation and write-downs, Dec. 31, 2022	**(8)**	**(679)**	**2**	**(685)**
Carrying amounts, Dec. 31, 2022	**1,844**	**1,392**	**90**	**3,326**

The adjustments in accordance with IFRS 5 result from the presentation of the High Performance Materials business unit as a discontinued operation. In the previous year, the adjustments in accordance with IFRS 5 related to the recognition of the sale of the Leather business unit. They also included the depreciation and amortization allocable to the High Performance Materials business unit.

The changes from acquisitions in fiscal year 2022 relate to the acquisition of the Microbial Control business from U.S. corporation International Flavors & Fragrances Inc.

In the previous year, the changes from acquisitions 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 were also recognized here.

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 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	71	159	7	27	264
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	**1,616**	**6,281**	**383**	**575**	**8,855**
Accumulated depreciation and write-downs, Dec. 31, 2020	(838)	(4,240)	(257)	(3)	(5,338)
Adjustments according to IFRS 5	(8)	(41)	(5)	–	(54)
Depreciation in 2021	(57)	(257)	(32)	(1)	(347)
of which write-downs	(1)	(9)	0	(1)	(11)
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	**715**	**1,771**	**96**	**571**	**3,153**

Prior-year figures restated.

Changes in Property, Plant and Equipment in 2022

€ 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, 2021	1,616	6,281	383	575	8,855
Adjustments according to IFRS 5	(256)	(913)	(49)	(105)	(1,323)
Acquisitions	50	28	3	1	82
Capital expenditures	18	91	21	256	386
Disposals	(22)	(146)	(15)	(1)	(184)
Reclassifications	40	248	9	(297)	0
Adjustments in accordance with IAS 29	9	6	2	0	17
Exchange differences	4	47	1	7	59
Cost of acquisition or construction, Dec. 31, 2022	**1,459**	**5,642**	**355**	**436**	**7,892**
Accumulated depreciation and write-downs, Dec. 31, 2021	(901)	(4,510)	(287)	(4)	(5,702)
Adjustments according to IFRS 5	140	666	35	0	841
Depreciation in 2022	(67)	(290)	(34)	1	(390)
of which write-downs	(1)	(10)	0	1	(10)
Disposals	15	110	14	0	139
Reclassifications	0	0	0	0	0
Adjustments in accordance with IAS 29	(6)	(3)	(1)	–	(10)
Exchange differences	0	(22)	1	1	(20)
Accumulated depreciation and write-downs, Dec. 31, 2022	**(819)**	**(4,049)**	**(272)**	**(2)**	**(5,142)**
Carrying amounts, Dec. 31, 2022	**640**	**1,593**	**83**	**434**	**2,750**

The adjustments in accordance with IFRS 5 result from the presentation of the High Performance Materials business unit as a discontinued operation. The depreciation and amortization allocable to the High Performance Materials business unit are recognized in the previous year.

The changes from acquisitions in fiscal year 2022 relate to the acquisition of the Microbial Control business from U.S. corporation International Flavors & Fragrances Inc.

In the previous year, the changes from acquisitions 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.

In fiscal year 2022, write-downs were recognized primarily due to other value-decreasing events. As in the previous year, these primarily related to impairments of technical equipment and machinery.

Directly attributable borrowing costs of €2 million (previous year: €2 million) were capitalized. An annual average cost of debt for the LANXESS Group of 1.7% (previous year: 2.0%) was used for capitalization.

3 | Investments Accounted for Using the Equity Method

In fiscal year 2022, Viance LLC, Wilmington, U.S., was acquired as part of the acquisition of the Microbial Control business from U.S. corporation International Flavors & Fragrances Inc. The company is accounted for using the equity method.

The following tables show the main items of the income statement, statement of comprehensive income and statement of financial position restated for adjustments from the purchase price allocation and subsequent measurement:

Data from the Income Statement and Statement of Comprehensive Income

€ million	Jul.–Dec. 2022
Sales	66
Operating result (EBIT)	7
Income after income taxes	7
Other comprehensive income, net of income tax	–
Total comprehensive income	**7**

Data from the Statement of Financial Position

€ million	Dec. 31, 2022
Non-current assets	63
Current assets	15
Total assets	**78**
Non-current liabilities	1
Current liabilities	32
Total liabilities	**33**
Net assets	**45**

The table below shows the reconciliation to the recognized carrying amount:

Reconciliation to Carrying Amount

€ million	Dec. 31, 2022
Net assets as of July 1	47
Total comprehensive income	7
Dividend payments	(9)
Net assets as of December 31	**45**
Group share in %	49.99
Group share	22
Goodwill	49
Carrying amount as of December 31	**71**

4 | Investments in Other Affiliated Companies

Investments in other affiliated companies of €20 million (previous year: €56 million) include shares in the listed company Standard Lithium Ltd., Vancouver, Canada, of €17 million (previous year: €54 million). In addition, this item contains interests in additional affiliated companies totaling €3 million (previous year: €2 million).

5 | Derivative Financial Instruments

The derivative financial instruments held by the LANXESS Group comprise forward exchange and forward commodity contracts as well as derivatives not designated as hedging instruments. Unlike in the previous year, no forward interest rate contracts were recognized as of December 31, 2022. At LANXESS, derivative financial instruments are chiefly 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 2022 at a total fair value of €32 million (previous year: €62 million). Instruments with a negative fair value totaling €19 million (previous year: €22 million) are recognized as derivative liabilities.

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)**

Derivative Financial Instruments

€ million	Dec. 31, 2022 Nominal amount	Dec. 31, 2022 Positive fair values	Dec. 31, 2022 Negative fair values
Current forward exchange contracts	2,165	18	(18)
Current forward commodity contracts	8	0	0
Non-current forward exchange contracts	194	8	(1)
Non-current forward interest rate contracts	–	–	–
Non-current derivatives not designated as hedging instruments	–	6	–
	2,367	**32**	**(19)**

Non-current derivatives not designated as hedging instruments in the amount of €6 million (previous year: €25 million) include options for shares in the company Standard Lithium Ltd., Vancouver, Canada.

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 planned procurement volumes are based on 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. In fiscal year 2022, the interest rate hedges concluded in the preceding fiscal year 2021 for a financing volume of €500 million were settled through profit or loss due to the abandonment of planned refinancing intention. The derecognition from other comprehensive income resulted in income in the financial result of €83 million.

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/liabilities	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.

Forward Exchange, Forward Commodity and Forward Interest Rate Contracts in 2022

€ 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	–	–	–	–	–	–
EUR/USD	486	13	(9)	Current and non-current derivative assets/liabilities	(7)	7
USD/BRL	–	–	–	–	–	–
Forward commodity contracts	8	0	0	Current derivative assets/ liabilities	0	0
Forward interest rate contracts	–	–	–	–	–	–
	494	**13**	**(9)**		**(7)**	**7**

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

Maturities and Average Prices 2021

	2022		> 2022	
	Nominal amount € million	Average rate[1] €	Nominal amount € million	Average rate[1] €
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.

Maturities and Average Prices 2022

	2023		> 2023	
	Nominal amount € million	Average rate[1] €	Nominal amount € million	Average rate[1] €
Forward exchange contracts				
EUR/JPY	–	–	–	–
EUR/USD	293	1.10	193	1.06
USD/BRL	–	–	–	–
Forward commodity contracts	8	843.50	–	–
Forward interest rate contracts	–	–	–	–
	301		**193**	

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

The hedged cash flows will be realized within the next three years for the forward exchange contracts and within the next fiscal year for the forward commodity contracts (previous year: both within the next two years).

Hedge Accounting Reconciliation Other Comprehensive Income (Before Taxes) 2021

€ million	Cash flow hedges				Cost of hedging			Sum other comprehensive income
	Currency hedging contracts	Forward commodity contracts	Forward interest rate contracts	Total	Forward-to-Forward	Spot-to-Spot	Total	
January 1	11	0	0	**11**	(1)	1	**0**	**11**
Changes other comprehensive income	(17)	0	4	**(13)**	1	(1)	**0**	**(13)**
of which reclassification to profit or loss	2	–	0	**2**	–	–	**–**	**2**
December 31	**(6)**	**0**	**4**	**(2)**	**0**	**0**	**0**	**(2)**

Prior-year figures restated.

Hedge Accounting Reconciliation Other Comprehensive Income (Before Taxes) 2022

€ million	Cash flow hedges				Cost of hedging			Sum other comprehensive income
	Currency hedging contracts	Forward commodity contracts	Forward interest rate contracts	Total	Forward-to-Forward	Spot-to-Spot	Total	
January 1	(6)	0	4	**(2)**	0	0	**0**	**(2)**
Changes other comprehensive income	10	0	(4)	**6**	(1)	0	**(1)**	**5**
of which reclassification to profit or loss	37	–	(83)	**(46)**	–	–	**–**	**(46)**
December 31	**4**	**0**	**0**	**4**	**(1)**	**0**	**(1)**	**3**

The LANXESS Group expects that, of the unrealized gains of minus €4 million on currency hedges recognized in other comprehensive income up to the reporting date in fiscal year 2023, €5 million will be reclassified from equity to profit or loss in fiscal year 2024 and €3 million in fiscal year 2025 (previous year: reclassification of unrealized losses of €5 million in fiscal year 2022 and €1 million in fiscal year 2023).

The unrealized gains recognized on interest rate hedges as of the reporting date will be reclassified to profit or loss by fiscal year 2028.

In fiscal year 2022, currency hedges of €43 million in connection with the payment of the purchase price for the Microbial Control business were reclassified from other comprehensive income to “Goodwill” in the statement of financial position as of the acquisition date.

Information on the maturity structure of derivative assets and liabilities is given in Note [38].

6 | Other Non-Current and Current Financial Assets

Other Financial Assets

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

Other Financial Assets

€ million	Dec. 31, 2022		
	Non-current	Current	Total
Contract assets	70	153	223
Financial assets	–	–	–
Other financial receivables	7	19	26
	77	**172**	**249**

In the previous year, financial assets mainly comprised 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. Other current and non-current financial assets are reduced by expected credit losses in the amount of €5 million (previous year: €5 million).

Change in Contract Assets

€ million	2021	2022
January 1	80	143
Adjustments according to IFRS 5	–	(11)
Cumulative catch-up adjustments to revenues	5	58
Additions	118	132
(Reversals of) impairment losses	(1)	0
Reclassifications to trade receivables	(59)	(98)
Exchange differences	0	(1)
December 31	**143**	**223**

The adjustments in accordance with IFRS 5 result from the presentation of the High Performance Materials business unit as a discontinued operation.

€88 million (previous year: €1 million) of the cumulative catch-up adjustments to revenues relate to earlier periods. 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.

7 | Non-Current and Current Income Tax Receivables

The non-current income tax receivables of €57 million (previous year: €56 million) essentially comprise uncertain tax positions where reimbursement is considered probable.

The current income tax receivables of €35 million (previous year: €96 million) essentially include tax prepayments. The decrease is mainly due to reimbursements.

8 | Other Non-Current Assets

Other non-current assets of €63 million (previous year: €56 million) essentially include receivables in connection with pension obligations, periodic accruals and other reimbursement claims. The increase resulted primarily from receivables in connection with pension obligations.

Other non-current assets are generally carried at amortized cost less any write-downs. No write-downs were made in fiscal years 2021 or 2022.

9 | Inventories

The inventories of the LANXESS Group comprise:

Inventories

€ million	Dec. 31, 2021	Dec. 31, 2022
Raw materials and supplies	421	418
Work in progress, finished goods and merchandise	1,212	1,443
	1,633	**1,861**

Inventories of €260 million (previous year: €118 million) are recognized at net realizable value. The year-on-year increase in inventories primarily resulted from a significant increase in raw material and energy prices as well as the acquisition of the Microbial Control business from U.S. corporation International Flavors & Fragrances Inc. The presentation of the High Performance Materials business unit as a discontinued operation had the opposite effect.

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	2021	2022
January 1	(80)	(67)
Adjustments according to IFRS 5	(3)	10
Additions charged as expenses	(8)	(68)
Reversals/utilization	25	22
Exchange differences	(1)	1
December 31	**(67)**	**(102)**

Prior-year figures restated.

The adjustments in accordance with IFRS 5 result from the presentation of the High Performance Materials business unit as a discontinued operation.

10 | Trade Receivables

All trade receivables – totaling €857 million (previous year: €1,050 million) – are due within one year. The decrease compared with the previous year results primarily from the classification of the High Performance Materials business unit as a discontinued operation and the sale of receivables under a factoring agreement. The acquisition of the Microbial Control business from the U.S. corporation International Flavors & Fragrances Inc. had the opposite effect.

Since the end of June 2022, LANXESS has been a contractual partner to a factoring agreement for the revolving sale of trade receivables up to a maximum volume of €200 million. The agreement has a minimum term until 2023 and contains a one-year extension option. LANXESS can freely decide whether and to what extent the revolving nominal volume is utilized. The relevant risks for the disposal of the receivables are credit risk and the risk of late payment. As part of the program, the credit risk is fully and the late payment risk partially transferred. As of December 31, 2022, this allocation of opportunities and risks resulted in a recognized continuing involvement of €2 million. In connection with the factoring agreement, LANXESS recognized expenses of €1 million in fiscal year 2022. The volume of receivables sold was not subject to any material fluctuations during the fiscal year. As of December 31, 2022, receivables of €130 million had been sold under the new factoring agreement.

Loss allowances of €14 million were recognized as of the end of the reporting period (previous year: €10 million). The underlying gross receivables amount to €14 million (previous year: €10 million). The loss allowance for trade receivables and the maturity structure classes for the loss allowance in fiscal years 2021 and 2022 are shown under “Credit risk management” in Note [38].

11 | Near-Cash Assets

Near-cash assets include shares of money market funds that can be sold at any time in the amount of €79 million (previous year: €491 million).

12 | Other Current Assets

Other current assets totaling €228 million (previous year: €193 million) are generally carried at amortized cost less any write-downs. The increase in the reporting year resulted in particular from the acquisition of the Microbial Control business from U.S. corporation International Flavors & Fragrances Inc. The other current assets essentially comprise miscellaneous claims for tax refunds, mainly for VAT, of €141 million (previous year: €132 million). €123 million (previous year: €124 million) of this amount is expected to be refunded within one year and €18 million (previous year: €8 million) at a later date. Furthermore, there are other reimbursement claims from goods and service transactions of €48 million (previous year: €47 million). This item included write-downs of €3 million (previous year: €4 million) as of December 31, 2022.

13 | Assets and Liabilities Held for Sale and Discontinued Operations

In the current reporting year, the High Performance Materials business unit is reported as a discontinued operation. In the previous year, there were liabilities from discontinued operations in connection with the sale of the chrome ore business in the Leather business unit. Detailed information on this can be found under “Companies consolidated”.

14 | Equity

Capital stock

The capital stock of LANXESS AG amounts to €86,346,303 as of December 31, 2022, and is composed of 86,346,303 no-par bearer shares. The capital stock and the number of shares are therefore unchanged as against the end of the previous year. 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, 2022:

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 I is utilized. However, these rights can be excluded in certain cases which are defined in Section 4, Paragraph 3 of the articles of association of LANXESS AG. Authorized Capital I has not yet been utilized.

Conditional capital

Conditional capital was composed as follows as of December 31, 2022:

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). The authorization to issue bonds has not yet been utilized.

By way of self-commitment, the Board of Management has undertaken to perform capital measures (be it from authorized or conditional capital) 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 abide by this self-commitment until a future Annual Stockholders' Meeting again resolves to authorize the Board of Management to implement capital measures under exclusion of stockholders' subscription rights.

Treasury shares and their purchase and utilization

As of December 31, 2022, 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 or had taken shares in the company as a pledge.

On May 23, 2019, the Annual Stockholders' Meeting of LANXESS AG resolved to issue an authorization for the purchase and utilization of own shares by the Board of Management. 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. The Board of Management utilized this authorization when, in fiscal year 2020, a total of 1,101,549 shares or 1.26% of the company's capital stock at that time were repurchased and the company's capital stock was then reduced accordingly in fiscal year 2021 through withdrawal by way of a simplified capital reduction in accordance with Section 71, Paragraph 1, No. 8, Sentence 6 AktG. The above authorization of the Board of Management also allows the purchase and utilization of treasury shares of up to 8.72% of the company's capital stock as of the end of fiscal year 2022 until May 22, 2024.

Capital reserves

The capital reserves of LANXESS AG are unchanged year-on-year at €1,230,828,913.

Other reserves

The €554 million increase in other reserves to €2,955 million is mainly due to the increase in retained earnings from €2,243 million to €2,797 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, 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 2022. 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.

15 | 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 2022 totaled €41 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 €19 million (previous year: €22 million) to Bayer-Pensionskasse. Contributions of about the same amount are expected for fiscal year 2023.

Bayer-Pensionskasse is a legally independent private insurance company and is therefore subject to the German Insurance Supervision Act. As the obligations of the participating entities are not confined to payment of the contributions for the respective fiscal year, Bayer-Pensionskasse constitutes a defined benefit multi-employer plan and therefore would generally have to be accounted for pro rata as a defined benefit plan.

Bayer-Pensionskasse is financed not on the principle of coverage for individual benefit entitlements, but on the actuarial equivalence principle, based on totals for the whole plan. This means that the sum of existing plan assets and the present value of future contributions must be at least equal to the present value of the future benefits payable under the plan. The LANXESS Group is therefore exposed to the actuarial risks of the other entities participating in Bayer-Pensionskasse. Thus no consistent or reliable basis exists for allocating the benefit obligation, plan assets and costs that would enable LANXESS to account for Bayer-Pensionskasse as a defined benefit plan in accordance with IAS 19. As contributions are based on future coverage of the total obligation, all participating entities pay contributions at the same rates based on the employee income levels on which social security contributions are payable. Bayer-Pensionskasse is therefore accounted for as a defined contribution plan and not as a defined benefit plan.

There are no minimum funding requirements, nor is there any information that could be used to estimate the future contributions on the basis of current under- or over-funding. The statutes do not provide for the sharing of any surplus or shortfall in the event that Bayer-Pensionskasse is dissolved or LANXESS ceases to participate.

LANXESS's share of the total contributions to Bayer-Pensionskasse is 14% (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 2022, total expenses of €61 million (previous year: €59 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	**2021**	**2022**	**2021**	**2022**
Operating result				
Current service cost	42	41	1	1
Past service cost	0	5	0	0
Administration expenses/taxes	3	3	0	0
Actuarial gains and losses	–	–	1	(2)
Financial result				
Net interest	9	9	3	4
Amounts recognized in profit or loss	**54**	**58**	**5**	**3**

Prior-year figures restated.

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	**2021**	**2022**	**2021**	**2022**
Return on plan assets excluding amounts included in interest	166	(139)	5	(7)
Actuarial gains/losses from changes in demographic assumptions	0	(2)	1	0
Actuarial gains/losses from changes in financial assumptions	184	642	7	18
Actuarial gains/losses from experience adjustments	(15)	(36)	(6)	3
Changes in effects of the asset ceiling	(6)	16	(5)	6
Amounts recognized in other comprehensive income	**329**	**481**	**2**	**20**

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	**2021**	**2022**	**2021**	**2022**
Net defined benefit liability, Jan. 1	1,077	753	115	112
Adjustments according to IFRS 5	5	(56)	–	(4)
Amounts recognized in profit or loss	54	58	5	3
Amounts recognized in other comprehensive income	(329)	(481)	(2)	(20)
Employer contributions	(18)	(18)	(1)	(1)
Benefits paid	(40)	(6)	(11)	(11)
Acquisitions	0	2	0	0
Other addition	1	2	–	–
Exchange differences	3	3	6	7
Net defined benefit liability, Dec. 31	**753**	**257**	**112**	**86**
Amounts recognized in the statement of financial position				
Receivables from pension obligations and other post-employment benefits	(12)	(24)	0	0
Provisions for pensions and other post-employment benefits	765	281	112	86
Net defined benefit liability, Dec. 31	**753**	**257**	**112**	**86**

Prior-year figures restated.

The adjustments in accordance with IFRS 5 result from the presentation of the High Performance Materials business unit as a discontinued operation.

The acquisitions in fiscal year 2022 relate to the acquisition of the Microbial Control business from U.S. corporation International Flavors & Fragrances Inc. and the acquisition of the distribution business of a German distribution partner for the product Velcorin®.

The expected cash outflows for employer contributions and benefit payments in fiscal year 2023 are €15 million and €22 million, respectively, based on year-end 2022 exchange rates. In the previous year, the expected cash outflows for employer contributions and benefit payments in fiscal year 2022 were €19 million and €59 million, respectively, based on exchange rates at the end of fiscal year 2021.

The components of the reconciliation of the net recognized liability are explained in the following tables, which show the development of the defined benefit obligation, the external plan assets and the effects of the asset ceiling and explain the major changes.

The defined benefit obligation developed as follows:

Changes in Defined Benefit Obligation

	Pension plans		Other post-employment benefit plans	
€ million	**2021**	**2022**	**2021**	**2022**
Defined benefit obligation for pension commitments				
Defined benefit obligation, January 1	2,622	2,490	129	126
Adjustments according to IFRS 5	5	(88)	0	(6)
Current service cost	42	41	1	1
Interest expense	27	37	3	4
Actuarial gains/losses from changes in demographic assumptions	0	2	(1)	0
Actuarial gains/losses from changes in financial assumptions	(184)	(642)	(7)	(20)
Actuarial gains/losses from experience adjustments	15	36	7	(3)
Past service cost	0	5	0	0
Settlements	–	–	0	–
Employee contributions	1	1	0	0
Benefits paid	(82)	(82)	(13)	(13)
Acquisitions	0	5	0	0
Other additions	1	2	–	–
Administration expenses/taxes	(1)	(1)	0	0
Exchange differences	44	6	7	7
Defined benefit obligation, December 31	**2,490**	**1,812**	**126**	**96**

Prior-year figures restated.

The adjustments in accordance with IFRS 5 result from the presentation of the High Performance Materials business unit as a discontinued operation.

Of the defined benefit obligation for pensions, Germany accounts for 75% (previous year: 74%), Great Britain for 11% (previous year: 12%) and the U.S. for 11% (previous year: 10%).

The other post-employment benefit obligations comprise €76 million (previous year: €93 million) for the reimbursement of health care costs and €20 million (previous year: €33 million) for miscellaneous other benefit commitments.

In the past fiscal year, actuarial gains and losses from changes in demographic assumptions resulted from the updated demographic assumptions due to the application of the adopted CMI 2021 (previous year: CMI 2020) mortality improvement tables in Great Britain. In the U.S., actuarial losses resulted in the previous year from the application of the newly published and adopted MP2021 mortality improvement tables, which assumed higher future mortality improvement. In Great Britain, actuarial gains resulted in the previous year 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 and the adjustment of interest rates for inflation.

In the reporting year, the actuarial gains/losses from experience adjustments in the defined benefit plans include effects of the adjustments of the pension trend in Germany.

The past service cost for pension obligations result from the defined benefit plans in Great Britain.

The acquisitions in fiscal year 2022 relate to the acquisition of the Microbial Control business from U.S. corporation International Flavors & Fragrances Inc. of €4 million in the defined benefit pension obligations. Due to the acquisition of the distribution business of a German distribution partner for the product Velcorin®, the defined benefit pension obligations increased by €1 million.

The exchange differences pertaining to defined benefit obligations mainly resulted from changes in the exchange rates for the U.S. dollar and the British pound.

The change in external plan assets is shown in the following table:

Changes in External Plan Assets

	Pension plans		Other post-employment benefit plans	
€ million	**2021**	**2022**	**2021**	**2022**
Plan assets at fair value				
Plan assets, January 1	1,563	1,763	35	43
Adjustments according to IFRS 5	0	(32)	–	(2)
Interest income	18	28	1	1
Return on plan assets excluding amounts included in interest	166	(139)	5	(7)
Employer contributions	18	18	1	1
Employee contributions	1	1	0	0
Benefits paid	(42)	(76)	(2)	(2)
Acquisitions	–	3	–	–
Administration expenses/taxes	(4)	(4)	0	0
Exchange differences	43	2	3	2
Plan assets, December 31	**1,763**	**1,564**	**43**	**36**

Prior-year figures restated.

The adjustments in accordance with IFRS 5 result from the presentation of the High Performance Materials business unit as a discontinued operation.

Of the plan assets, Germany accounts for 72% (previous year: 64%), Great Britain for 13% (previous year: 19%) and the U.S. for 11% (previous year: 12%).

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. The change in benefits paid in fiscal year 2022 is primarily based on reimbursements received from LANXESS Pension Trust e.V.

The acquisitions in fiscal year 2022 relate to the acquisition of the Microbial Control business from U.S. corporation International Flavors & Fragrances Inc. of €3 million in the defined benefit pension obligations.

The exchange differences pertaining to plan assets mainly resulted from changes in the exchange rates for the U.S. dollar and the British pound.

Changes in the effects of the asset ceiling are shown in the following table:

Changes in Effects of the Asset Ceiling

	Pension plans		Other post-employment benefit plans	
€ million	**2021**	**2022**	**2021**	**2022**
January 1	**18**	**26**	**21**	**29**
Interest expense	0	0	1	1
Additions (+)/ reversals (–)	6	(16)	5	(6)
Exchange differences	2	(1)	2	2
December 31	**26**	**9**	**29**	**26**

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 2022, 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	**2021**	**2022**
Cash and cash equivalents	27	21
of which quoted in an active market	27	21
Equity instruments	556	407
of which quoted in an active market	556	407
Government bonds	160	120
of which quoted in an active market	160	120
Corporate bonds	603	584
of which quoted in an active market	603	584
Investment funds	112	159
of which quoted in an active market	57	57
Real estate	17	20
of which quoted in an active market	17	20
Insurance contracts	316	229
of which quoted in an active market	218	152
Other	15	60
of which quoted in an active market	14	59
	1,806	**1,600**

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: 2%) 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	
%	**2021**	**2022**	**2021**	**2022**
Discount rate	1.49	4.07	3.22	5.93
Germany	1.20	3.70	0.80	3.70
U.S.	2.80	5.50	2.81	5.51
Great Britain	1.90	4.80	–	–

The following weighted measurement assumptions were used for the other parameters:

Valuation Assumptions as of December 31

	Pension plans		Other post-employment benefit plans	
%	**2021**	**2022**	**2021**	**2022**
Expected salary increases	2.6	2.6	4.5	5.1
Expected benefit increases	1.7	2.2	–	–
Expected increases in medical costs	–	–	6.3	6.9
Expected long-term increases in medical costs	–	–	5.0	5.2

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 six 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	
%	**2021**	**2022**	**2021**	**2022**
Discount rate				
+0.5% pt	(8.0)	(6.3)	(4.7)	(3.8)
–0.5% pt	9.2	7.1	5.2	4.1
Expected salary increases				
+0.25% pt	0.2	0.0	0.5	0.3
–0.25% pt	(0.2)	0.0	(0.5)	(0.3)
Expected benefit increases				
+0.25% pt	4.8	3.7	–	–
–0.25% pt	(4.5)	(3.6)	–	–
Mortality				
–10%	3.9	3.2	2.3	2.6
Expected increases in medical costs				
+1% pt	–	–	4.7	4.2
–1% pt	–	–	(3.9)	(3.6)

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 15 years (previous year: 18 years). This figure was based on weighted average durations of 16 years (previous year: 20 years) for Germany, 9 years (previous year: 11 years) for the U.S. and 14 years (previous year: 19 years) for Great Britain. The weighted average duration of the defined benefit obligations for other post-employment benefits was 9 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	**2021**	**2022**	**2021**	**2022**
Funded status				
Defined benefit obligation for funded plans	1,865	1,714	21	13
External plan assets	(1.763)	(1.564)	(43)	(36)
Underfunding/overfunding of funded plans	**102**	**150**	**(22)**	**(23)**
Defined benefit obligation for unfunded plans	625	98	105	83
Funded status, December 31	**727**	**248**	**83**	**60**

16 | Other Non-Current and Current Provisions

On December 31, 2022, the LANXESS Group had other current provisions of €382 million (previous year: €492 million) and other non-current provisions of €296 million (previous year: €370 million). The maturity structure of other provisions is shown in the following table:

Other Provisions

	Dec. 31, 2021				Dec. 31, 2022			
€ 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	220	34	26	280	142	26	16	184
Environmental protection	27	44	115	186	32	43	99	174
Trade-related commitments	102	1	0	103	111	1	0	112
Asset retirement obligations	9	12	96	117	8	12	61	81
Restructuring	16	19	2	37	9	16	1	26
Miscellaneous	118	10	11	139	80	12	9	101
	492	**120**	**250**	**862**	**382**	**110**	**186**	**678**

Prior-year figures restated.

In total, other provisions decreased from €862 million to €678 million in fiscal year 2022. The changes in other provisions were as follows:

Changes in Other Provisions in 2022

€ million	Jan. 1, 2022	Adjust-ments accord-ing to IFRS 5	Acquisi-tions	Addi-tion	Interest effect	Utiliza-tion	Release	Exchange differences, reclassi-fications	Dec. 31, 2022
Personnel	280	(26)	2	135	0	(203)	(5)	1	184
Environmental protection	186	(9)	0	17	3	(12)	(18)	7	174
Trade-related commitments	103	(5)	–	94	0	(70)	(11)	1	112
Asset retirement obligations	117	0	–	4	(1)	(5)	(36)	2	81
Restructuring	37	–	–	1	0	(11)	(1)	0	26
Miscellaneous	139	(7)	0	50	0	(75)	(9)	3	101
	862	**(47)**	**2**	**301**	**2**	**(376)**	**(80)**	**14**	**678**

Prior-year figures restated.

The adjustments in accordance with IFRS 5 result from the presentation of the High Performance Materials business unit as a discontinued operation.

An amount of €1 million was reclassified from personnel related provisions to provisions for pensions and other post-employment benefits in fiscal year 2022.

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 existing Long-Term Stock Performance Plans (LTSP) were introduced in fiscal years 2010, 2014, 2018 and 2022.

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 period for the 2013 tranche of the LTSP 2010–2013 compensation program was extended by two years, so the full term of this tranches is 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. 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.

The LTSP 2022–2025 program introduced in fiscal year 2022 is essentially identical to the LTSP 2018–2021. Unlike the previous compensation program, awards under LTSP 2022–2025 are based on the performance of LANXESS stock relative to the FTSEurofirst 300 Eurozone Chemicals.

Obligations arising from the stock-based compensation are valued on the basis of the following principal parameters:

Principal Parameters as of December 31

%	2021	2022
Expected share price volatility	34.0	40.0
Expected dividend payment	2.0	2.0
Expected volatility of Dow Jones STOXX 600 Chemicals℠	19.0	–
Correlation between LANXESS stock and Dow Jones STOXX 600 Chemicals℠	74.0	–
Expected volatility of MSCI World Chemicals Index	19.0	20.0
Correlation between LANXESS stock and MSCI World Chemicals Index	72.0	69.0
Expected volatility of FTSEurofirst 300 Eurozone Chemicals Index	–	22.0
Correlation between LANXESS stock and FTSEurofirst 300 Eurozone Chemicals Index	–	76.0

The relevant risk-free interest rate in the reporting year was 2.50% (previous year: minus 0.56%).

The expected volatilities of the share and the correlation with the index are based on the prices and index values of 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				LTSP 2022–2025
	2013 tranche	**2017 tranche**	**2018 tranche**	**2019 tranche**	**2020 tranche**	**2021 tranche**	**2022 tranche**
Duration	9 years	7 years	4 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, 2020	Dec. 31, 2021	Dec. 31, 2022	Dec. 31, 2023	Dec. 31, 2024	Dec. 31, 2025
Initial LANXESS share price	€63.25	€64.84	€66.90	€42.57	€59.39	€63.01	€55.30
Initial Dow Jones STOXX 600 Chemicals^{SM} price	665.98 points	–	–	–	–	–	–
Initial MSCI World Chemicals Index price	–	276.04 points	337.09 points	280.46 points	326.83 points	376.38 points	–
Initial FTSEurofirst 300 Eurozone Chemicals Index price	–	–	–	–	–	–	4,907.86 points
Fair value per right as of Dec. 31, 2021	€0.00	€0.04	€0.68[1]	€0.85[1]	€0.51[1]	€0.63[1]	–
Fair value per right as of Dec. 31, 2022	–	€0.00	–	€0.74[1]	€0.35[1]	€0.47[1]	€0.77[1]
Change in number of outstanding rights							
Outstanding rights as of Jan. 1, 2022	6,376,653	8,217,808	11,065,331	12,306,340	13,356,386	14,408,683	–
Rights granted	–	–	–	88,720	150,181	174,478	15,849,043
Rights exercised	–	–	11,048,961	65,094	60,581	51,354	13,653
Rights compensated	114,480	163,581	–	813,649	421,129	425,777	800,138
Rights forfeited	6,262,173	398,236	16,370	70,886	749,287	767,429	115,402
Adjustments according to IFRS 5	–	295,172	–	516,380	606,642	649,036	774,028
Outstanding rights as of Dec. 31, 2022	**–**	**7,360,819**	**–**	**10,929,051**	**11,668,928**	**12,689,565**	**14,145,822**

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

The adjustments in accordance with IFRS 5 result from the presentation of the High Performance Materials business unit as a discontinued operation.

LANXESS shares were trading at €37.70 (previous year: €54.50) as of the end of 2022. The MSCI World Chemicals benchmark index stood at 370.08 points (previous year: 446.73) while FTSEurofirst 300 Eurozone Chemicals was at 4,002.54 points. The Dow Jones STOXX 600 Chemicals^{SM} benchmark index stood at 1,366.92 points in the previous year.

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 2022 was €4 million (previous year: net expense of €3 million). A provision of €16 million existed as of December 31, 2022 (previous year: €21 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, 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 particularly because of many uncertainties concerning the legal requirements and the information available about conditions in the various countries and at specific sites. This is especially true because global climate change and the transition to a low-carbon economy mean that new legal requirements to protect the environment and combat climate change can be introduced at any time. 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 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 €26 million (previous year: €37 million) as of December 31, 2022, comprising €20 million (previous year: €29 million) for environmental protection measures, €5 million (previous year: €6 million) for human resources measures and €1 million (previous year: €2 million) for demolition work required to fulfill environmental obligations and other expenses.

Miscellaneous provisions

In particular, miscellaneous provisions comprise provisions for onerous contracts, for legal disputes and for other obligations.

17 | 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, 2021

	Current	Non-current					
€ million	**2022**	**2023**	**2024**	**2025**	**2026**	**> 2026**	**Total non-current**
Bonds[1]	624	–	–	496	496	1,676	2,668
Liabilities to banks	3	–	–	–	–	–	–
Lease liabilities	47	36	28	23	20	51	158
Other primary financial liabilities[1]	1	1	–	2	–	0	3
	675	**37**	**28**	**521**	**516**	**1,727**	**2,829**

1) Prior-year figures restated.

Other Financial Liabilities as of December 31, 2022

	Current	Non-current					
€ million	**2023**	**2024**	**2025**	**2026**	**2027**	**> 2027**	**Total non-current**
Bonds	29	–	497	497	595	1,679	3,268
Liabilities to banks	741	–	–	–	–	–	–
Lease liabilities	45	35	28	23	18	43	147
Other primary financial liabilities	15	0	1	–	–	1	2
	830	**35**	**526**	**520**	**613**	**1,723**	**3,417**

In the LANXESS Group, the following bonds were outstanding on December 31, 2022:

Bonds

Issuance	Nominal amount € million	Carrying amount € million	Interest rate %	Maturity
April 2012	100	102	3.950	April 2027
October 2016	500	498	1.000	October 2026
December 2016	500	502	4.500	December 2076
May 2018	500	501	1.125	May 2025
September 2021	500	496	0.000	September 2027
December 2021	600	594	0.625	December 2029
March 2022	600	604	1.750	March 2028

Lease installments of €213 million (previous year: €236 million) are payable to the respective lessors in subsequent years. The interest component included amounts to €21 million (previous year: €31 million).

Accrued interest amounts to €30 million (previous year: €25 million), of which €29 million (previous year: €25 million) is included in the carrying amounts of the bonds.

Information on the fair values of financial liabilities and the contractually agreed payments, especially interest payments, is given in Note [38].

18 | Non-Current and Current Income Tax Liabilities

The non-current income tax liabilities of €28 million (previous year: €37 million) essentially comprise uncertain tax positions for ongoing tax proceedings. The decrease resulted primarily from completed audits.

Current income tax liabilities of €38 million (previous year: €25 million) essentially include taxes incurred for the fiscal year but not yet paid.

19 | 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, 2021	Dec. 31, 2022
Asset subsidies granted by third parties	26	15
Contract liabilities	8	12
Social security liabilities	7	7
Payroll liabilities	0	0
Miscellaneous liabilities	9	7
	50	**41**

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, 2021	Dec. 31, 2022
Other tax liabilities	61	50
Social security liabilities	20	16
Payroll liabilities	15	11
Contract liabilities	17	10
Miscellaneous liabilities	44	38
	157	**125**

Other tax liabilities include not only Group companies' own tax liabilities, but also taxes withheld for payment to the authorities on behalf of third parties. Social security liabilities include, in particular, social insurance contributions that had not been paid by the closing date. Miscellaneous liabilities essentially comprise accruals for outstanding invoices relating to the reporting period.

Contract liabilities are recognized in accordance with IFRS 15 primarily for advance consideration received for which performance has not yet been rendered.

Contract Liabilities

€ million	2021	2022
January 1	23	25
Adjustments according to IFRS 5	–	(1)
Cumulative catch-up adjustments to revenues	1	(9)
Additions	22	31
Revenue recognized that was included in the beginning balance	(21)	(24)
Exchange differences	0	0
December 31	**25**	**22**

The adjustments in accordance with IFRS 5 result from the presentation of the High Performance Materials business unit as a discontinued operation.

Minus €9 million (previous year: minus €16 million) of the cumulative catch-up adjustments to revenues relate to earlier periods. 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.

20 | Trade Payables

In fiscal year 2022, trade payables amounted to €709 million (previous year: €1,008 million) and were due within one year, as in the previous year. The decrease compared with the previous year results primarily from the classification of the High Performance Materials business unit as a discontinued operation and a targeted reduction of inventories. The acquisition of the Microbial Control business from U.S. corporation International Flavors & Fragrances Inc. had the opposite effect.

21 | Further Information on Liabilities

€1,732 million of total liabilities (previous year: €1,738 million) have maturities of more than five years.

NOTES TO THE INCOME STATEMENT

22 | Sales

Sales, which amount to €8,088 million (previous year: €6,101 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 [40]).

Type of Revenues

€ million	2021	2022
Sales of goods	5,991	7,919
Services	110	169
	6,101	**8,088**

Prior-year figures restated.

Revenue Recognition

€ million	2021	2022
Point in time	5,582	7,430
Over time	519	658
	6,101	**8,088**

Prior-year figures restated.

The sales recognized over time relate to the business model of manufacturing customer-specific products on the basis of long-term sales contracts with contractually defined minimum purchase requirements of €489 million (previous year: €409 million) and to services rendered over time of €169 million (previous year: €110 million).

For information on the effects of changes in contract assets and contract liabilities on sales, please refer to the respective reconciliations in Notes [6] and [19].

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 €2,235 million as of December 31, 2022 (previous year: €2,231 million). The associated sales are expected to be as follows:

Maturity Structure of Revenues

€ million	2021	2022
Up to 1 year	574	652
1 to 2 years	340	404
2 to 3 years	260	284
3 to 4 years	225	243
4 to 5 years	216	205
Over 5 years	616	447
	2,231	**2,235**

Prior-year figures restated.

23 | Cost of Sales

Cost of Sales

€ million	2021	2022
Expenses for raw materials and merchandise	2,535	3,535
Direct manufacturing and other production costs	2,041	2,616
	4,576	**6,151**

Prior-year figures restated.

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.

24 | Selling Expenses

Selling Expenses

€ million	2021	2022
Marketing costs	476	593
Outward freight charges and other selling expenses	340	471
	816	**1,064**

Prior-year figures restated.

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.

25 | Research and Development Expenses

The research and development expenses of €102 million (previous year: €95 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.

26 | General Administration Expenses

The general administration expenses, amounting to €319 million (previous year: €276 million), comprise costs not directly related to operational business processes and the costs for the country organizations.

27 | Other Operating Income

Other Operating Income

€ million	2021	2022
Income from non-core business	8	7
Income from the reversal of provisions	7	4
Exceptional items	1	0
Miscellaneous operating income	58	27
	74	**38**

Prior-year figures restated.

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 €0 million (previous year: €1 million) allocated to the cost of sales and €0 million (previous year: €0 million) allocated to general administrative expenses.

28 | Other Operating Expenses

Other Operating Expenses

€ million	2021	2022
Exceptional items	151	109
Expenses for hedging with derivative financial instruments	2	37
Expenses for non-core business	7	8
Loss allowance on trade receivables and other current assets	1	3
Miscellaneous operating expenses	40	53
	201	**210**

Prior-year figures restated.

In fiscal year 2022, exceptional items include costs for strategic IT projects of €32 million. In addition, there were exceptional items for the strategic realignment of €25 million, which also included exceptional items in connection with the integration of the Microbial Control business. There were also exceptional items of €6 million for restructuring measures to adapt the production network and of €46 million for M&A activities, digitalization and other measures.

Of the exceptional items of €109 million in fiscal year 2022 (previous year: €151 million), €6 million (previous year: €36 million) related to the cost of sales in line with its economic relevance, while €103 million (previous year: €115 million) related to general administration expenses.

Exceptional items in the previous year 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.

29 | Financial Result

The financial result breaks down as follows:

Financial Result

€ million	2021	2022
Income from investments accounted for using the equity method	**–**	**3**
Interest income	11	7
Interest expense	(64)	(75)
Net interest expense	**(53)**	**(68)**
Interest expense from compounding interest-bearing provisions	(15)	(15)
Net exchange gain/loss	6	5
Miscellaneous financial expense and income	14	55
Dividends and income from other affiliated companies	0	(3)
Other financial income and expense	**5**	**42**
Financial result	**(48)**	**(23)**

Prior-year figures restated.

The change in interest income essentially relates to the decline in interest on income tax receivables. Interest expense includes in particular payments of bond interest adjusted for capitalized borrowing costs of €1 million (previous year: €2 million). Interest expense also includes the interest portion of the lease payments under leases, amounting to €3 million (previous year: €3 million). The increase in other financial expenses and income results primarily from the settlement of interest rate hedges through profit or loss of €83 million. These hedges relate to the no longer planned issuance to replace a corporate bond that expired in November. Due to the expected proceeds resulting from the contribution of the High Performance Materials business unit to the strategic alliance with Advent International, refinancing in the planned volume is no longer necessary. Other financial expenses and income include expenses of €20 million (previous year: income of €26 million) from the measurement of financial instruments in connection with the company Standard Lithium Ltd., Vancouver, Canada. In addition, this item includes the monetary loss of €6 million (previous year: €4 million) from restating the price level in the context of financial reporting in hyperinflationary economies, as well as expenses from the measurement of near-cash financial assets at fair value of €2 million (previous year: €4 million).

30 | 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	2021	2022
Current taxes	(11)	(20)
Deferred taxes		
temporary differences	(14)	(42)
statutory changes in tax rates	(11)	(2)
loss carryforwards	(11)	(8)
Income taxes	**(47)**	**(72)**

Prior-year figures restated.

The actual tax expense for fiscal year 2022 was €72 million (previous year: €47 million). This was €3 million (previous year: €0 million) less than the expected tax expense of €75 million (previous year: €47 million).

In calculating the expected tax expense for the LANXESS Group, the aggregated income tax rate of 29.3% (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	2021	2022
Income before income taxes	163	257
Aggregated income tax rate of LANXESS AG	29.1%	29.3%
Expected tax result	(47)	(75)
Tax difference due to differences between local tax rates and the hypothetical tax rate	16	23
Reduction in taxes due to tax-free income and reduction of tax bases	2	3
Increase in taxes due to		
non-tax-deductible expenses	(8)	(7)
unrecognized deferred taxes on tax losses and temporary differences	(11)	(7)
Other tax effects	1	(9)
Actual tax result	**(47)**	**(72)**
Effective tax rate	28.8%	28.0%

Prior-year figures restated.

As in the previous year, the other tax effects of minus €9 million (previous year: €1 million) primarily include taxes for previous years and reversals of impairment on deferred taxes, which had the opposite effect.

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

Deferred Taxes

	Dec. 31, 2021		Dec. 31, 2022	
€ million	Less deferred tax assets	Deferred tax liabilities	Less deferred tax assets	Deferred tax liabilities
Intangible assets	5	236	19	245
Property, plant and equipment	5	259	4	258
Inventories	26	11	32	10
Receivables and other assets	48	81	70	90
Pension provisions	239	–	65	0
Other provisions	94	0	64	0
Liabilities	49	1	32	1
Loss carryforwards	91	–	88	–
	557	**588**	**374**	**604**
of which non-current	340	498	176	508
Set-off	(365)	(365)	(320)	(320)
	192	**223**	**54**	**284**

Deferred Taxes The change in deferred taxes is calculated as follows:

Changes in Deferred Taxes

€ million	2021	2022
Deferred taxes, January 1	**213**	**(31)**
Adjustments according to IFRS 5	(30)	3
Tax income/expense recognized in the income statement	(36)	(52)
Changes in companies consolidated	(77)	(6)
Deferred taxes recognized in other comprehensive income	(97)	(142)
Exchange differences	(4)	(2)
Deferred taxes, December 31	**(31)**	**(230)**

Prior-year figures restated.

The adjustments in accordance with IFRS 5 result from the presentation of the High Performance Materials business unit as a discontinued operation. In this context, only the deferred taxes that will be disposed of when the interest is sold were reclassified. The deferred taxes allocable to the share disposals of the High Performance Materials business unit are recognized here in the previous year.

The deferred taxes recognized in other comprehensive income comprised minus €149 million (previous year: minus €92 million) relating to remeasurements of the net defined benefit liability for post-employment benefit plans and €7 million (previous year: minus €5 million) relating to financial instruments. In addition, other comprehensive income contains current taxes of minus €1 million (previous year: minus €2 million).

Deferred tax assets of €11 million (previous year: €171 million), which exceed the reversal of taxable temporary differences, relate to tax jurisdictions in which losses were incurred in fiscal year 2022 or the previous year. No deferred taxes assets are attributable to the German tax group (previous year: €159 million, which primarily resulted 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 €3 million (previous year: €9 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 €88 million (previous year: €91 million) were recognized on the €274 million (previous year: €315 million) in tax loss carryforwards that represent income likely to be realized in the future. This amount included deferred taxes of €54 million (previous year: €12 million) on loss carryforwards with an unlimited carryforward period.

Deferred taxes were not recognized for €871 million (previous year: €889 million) of tax loss carryforwards. Of this amount, €124 million (previous year: €157 million) can theoretically be used over more than five years. No deferred tax assets were recognized in fiscal year 2022 for tax-deductible temporary differences of €80 million (previous year: €163 million). Accordingly, deferred taxes on loss carryforwards of €220 million (previous year: €224 million) and deferred tax assets on tax-deductible temporary differences of €21 million (previous year: €41 million) were not recognized.

31 | Earnings and Dividend per Share

Earnings per share for fiscal year 2022 amount to €2.90, consisting of €2.13 from continuing operations and €0.77 from discontinued operations. The values were calculated by dividing net income by the weighted average number of LANXESS shares outstanding during the reporting period. As of December 31, 2022, 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 [14].

Earnings per Share

	2021	2022
Net income (€ million)	267	250
from continuing operations	115	184
from discontinued operations	152	66
Weighted average number of shares outstanding	86,346,303	86,346,303
Earnings per share (basic/diluted) (€)	**3.09**	**2.90**
from continuing operations	1.33	2.13
from discontinued operations	1.76	0.77

Prior-year figures restated.

LANXESS AG reported a distributable profit of €518 million for fiscal year 2022 (previous year: €102 million). The dividend payment made to stockholders of LANXESS AG for fiscal year 2021 amounted to €1.05 per share (previous year: €1.00 per share).

32 | Personnel Expenses

The breakdown of personnel expenses is as follows:

Personnel Expenses

€ million	2021	2022
Wages and salaries	1,030	1,080
Social security contributions	170	185
Retirement benefit expenses	87	91
Social assistance benefits	10	13
	1,297	**1,369**

Prior-year figures restated.

The increase in personnel expenses in fiscal year 2022 is primarily attributable to the acquisition of the Microbial Control business from U.S. corporation International Flavors & Fragrances Inc. Expenses in connection with performance-related compensation had the opposite effect. 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 [29]).

OTHER INFORMATION

33 | Employees

The average number of employees in the LANXESS Group in 2022 was 13,023 (previous year: 12,661). The year-on-year increase in headcount mainly resulted from the acquisition of the Microbial Control business from U.S. corporation International Flavors & Fragrances Inc. and from organic growth in the Germany region.

Employees by Function

	2021	2022
Production	8,955	9,182
Administration	1,912	1,953
Marketing and sales	1,354	1,420
Research and development	440	468
	12,661	**13,023**

Prior-year figures restated.

34 | 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, 2022, contingent liabilities to third parties totaled €13 million (previous year: €14 million). The majority of these related to the sale of the chrome ore business in South Africa in the previous year.

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 €140 million (previous year: €137 million). All of these payments are due in fiscal year 2023.

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.

35 | 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.

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 2022. Information on the compensation of the Board of Management and Supervisory Board can be found in the next section.

36 | 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 criterion is EBITDA (operating earnings before depreciation, amortization, write-downs and reversals) pre exceptionals and the non-financial performance criterion 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 and 2022–2025 assessment periods 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 2022, total compensation of €10,763 thousand (previous year: €15,059 thousand) was paid to the members of the Board of Management of LANXESS AG, comprising €7,279 thousand (previous year: €10,211 thousand) in short-term compensation (fixed annual salary, APP, benefits in kind and other) and other long-term compensation components of €1,130 thousand (previous year: €2,647 thousand) as part of the LTPB. The total also includes compensation paid under the LTSP. A total of 2,354,022 (previous year: 2,201,250) compensation rights were granted to the members of the Board of Management in fiscal year 2022. The fair value of these rights at the grant date was €2,354 thousand (previous year: €2,201 thousand). In fiscal year 2022, the LTSP resulted in an expense of €761 thousand (previous year: income of €126 thousand).

Dr. Stephanie Coßmann left office as a Board of Management member early as of March 31, 2022. In connection with the mutually agreed termination of Dr. Coßmann's appointment as a member of the Board of Management, a settlement payment totaling €1,475 thousand was also made. In fiscal year 2022, this resulted in an expense of €1,159 thousand.

In addition, service costs of €1,828 thousand (previous year: €2,547 thousand) relating to defined benefit pension plans were incurred in fiscal year 2022 for members of the Board of Management in office as of December 31, 2022, as part of their compensation package. The present value of the defined benefit obligation was €20,208 thousand as of December 31, 2022 (previous year: €25,591 thousand). The service costs in accordance with IFRS for Dr. Coßmann, who left the Board of Management, amount to €290 thousand.

In accordance with IAS 24, the total net expense for the compensation of the members of the Board of Management in fiscal year 2022 was €13,152 thousand (previous year: €15,673 thousand). The balances outstanding to members of the Board of Management as of December 31, 2022, totaled €10,572 thousand (previous year: €13,530 thousand), comprising provisions of €3,680 thousand (previous year: €6,447 thousand) for the APP, €3,214 thousand (previous year: €3,679 thousand) for the LTPB, €1,099 thousand (previous year: €394 thousand) for the SPP and €2,579 thousand (previous year: €3,010 thousand) for the LTSP.

Payments totaling €1,505 thousand (previous year: €1,427 thousand) and relating to pension benefits were made to former members of the Board of Management in fiscal year 2022, €318 thousand (previous year: €318 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, 2022, was €28,466 thousand (previous year: €36,622 thousand).

The total compensation of the Supervisory Board members in fiscal year 2022 included fixed annual compensation and compensation for work on committees and totaled €1,903 thousand (previous year: €1,908 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 2022 or the previous year.

37 | 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 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	(2)	0	(1)	(3)
Depreciation in 2021	(25)	(14)	(12)	(51)
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**

Prior-year figures restated.

Change in Right-of-Use Assets from Leases 2022

€ million	Land and buildings	Technical equipment and machinery	Other fixtures, fittings and equipment	Total
Cost of acquisition or construction, Dec. 31, 2021	227	64	68	359
Adjustments according to IFRS 5	(23)	(1)	(6)	(30)
Acquisitions	43	–	3	46
Additions	4	19	14	37
Retirements	(2)	(6)	(6)	(14)
Exchange differences	0	0	2	2
Cost of acquisition or construction, Dec. 31, 2022	**249**	**76**	**75**	**400**
Accumulated depreciation and write-downs, Dec. 31, 2021	(72)	(38)	(39)	(149)
Adjustments according to IFRS 5	4	1	3	8
Depreciation in 2022	(28)	(17)	(13)	(58)
Retirements	2	6	5	13
Exchange differences	0	0	(1)	(1)
Accumulated depreciation and write-downs, Dec. 31, 2022	**(94)**	**(48)**	**(45)**	**(187)**
Carrying amounts, Dec. 31, 2022	**155**	**28**	**30**	**213**

The adjustments in accordance with IFRS 5 in fiscal year 2022 relate to the presentation of the High Performance Materials business unit as a discontinued operation. The depreciation and amortization allocable to the High Performance Materials business unit are recognized in the previous year.

The changes from acquisitions in fiscal year 2022 relate to the acquisition of the Microbial Control business from U.S. corporation International Flavors & Fragrances Inc.

In fiscal year 2022, interest expenses for lease liabilities of €3 million (previous year: €3 million) were recognized in the income statement. The expected future payments for lease liabilities amount to €213 million (previous year: €236 million). Information on agreed undiscounted cash flows and the division of these cash flows into payments of principal and interest is given in Note [38]. Disclosures regarding the remaining terms and maturities of the lease liabilities can be found in Note [17].

In fiscal year 2022, expenses for short-term leases amounted to €6 million (previous year: €6 million) and expenses for leases for low-value assets amounted to €4 million (previous year: €3 million). This essentially equals the payments made for these leases. Disbursements made under leases totaled €69 million in the reporting year (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 €209 million (previous year: €199 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 2022. 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: €6 million). Lease payments of €6 million are expected in the following year (previous year: €6 million), of €5 million from 2024 to 2027 (previous year: €6 million from 2023 to 2026) and €5 million after 2027 (previous year: €0 million after 2026).

38 | Financial Instruments

The "Report on Future Perspectives, Risks and Opportunities" 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 €23 million (previous year: €2 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. Because of the risk strategy, there were also no or only immaterial risks for the income statement. Details can be found under "Report on Future Perspectives, Risks and Opportunities" in the combined management report for fiscal year 2022.

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, 2022, would have altered the financial result by €3 million (previous year: €11 million).

Raw material price risks

A hypothetical increase or reduction in the hedged commodity prices of 10% as of the reporting date would have increased or decreased other operating income by €0 million (previous year: €0 million) as a result of changes in the fair value of hedging instruments.

The following tables show the contractually agreed (undiscounted) cash flows for primary financial liabilities, the interest components thereof and derivative financial instruments:

As of December 31, 2021

€ million	2022	2023	2024	2025	2026	> 2026
Bonds[1]	**(682)**	**(41)**	**(41)**	**(541)**	**(535)**	**(2,840)**
of which interest[1]	(82)	(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[1]	**(1)**	**(1)**	**–**	**(2)**	**–**	**0**
of which interest[1]	0	–	–	–	–	–
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	–	–	–	–	–

1) Prior-year figures restated.

As of December 31, 2022

€ million	2023	2024	2025	2026	2027	> 2027
Bonds	**(80)**	**(51)**	**(551)**	**(546)**	**(641)**	**(2,821)**
of which interest	(80)	(51)	(51)	(46)	(41)	(1,121)
Liabilities to banks	**(743)**	**–**	**–**	**–**	**–**	**–**
of which interest	(2)	–	–	–	–	–
Trade payables	**(709)**	**–**	**–**	**–**	**–**	**–**
of which interest	–	–	–	–	–	–
Lease liabilities	**(48)**	**(38)**	**(30)**	**(25)**	**(19)**	**(53)**
of which interest	(3)	(3)	(2)	(2)	(1)	(10)
Other primary financial liabilities	**(15)**	**0**	**(1)**	**–**	**–**	**(1)**
of which interest	(1)	–	–	–	–	–
Derivative liabilities						
Hedging instruments that qualify for hedge accounting						
Disbursements	(174)	(50)	–	–	–	–
Receipts	163	48	–	–	–	–
Other hedging instruments						
Disbursements	(889)	–	–	–	–	–
Receipts	879	–	–	–	–	–
Derivative assets						
Hedging instruments that qualify for hedge accounting						
Disbursements	(127)	(90)	(52)	–	–	–
Receipts	130	93	53	–	–	–
Other hedging instruments						
Disbursements	(886)	–	–	–	–	–
Receipts	908	–	–	–	–	–

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, 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	AC	100	100	–	–	–	100
Other financial receivables	AC	42	42	–	–	–	42
Other financial receivables	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[1]	AC	(3,292)	(3,292)	–	–	–	(3,408)
Liabilities to banks	AC	(3)	(3)	–	–	–	(3)
Trade payables	AC	(1,008)	(1,008)	–	–	–	(1,008)
Lease liabilities	–	(205)	–	–	–	(205)	–
Other primary financial liabilities[1]	AC	(4)	(4)	–	–	–	(4)
Derivative liabilities							
Hedging instruments that qualify for hedge accounting	–	(15)	–	(15)	–	–	(15)
Other hedging instruments	FV P&L	(7)	–	–	(7)	–	(7)

1) Prior-year figures restated.

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, 2022

€ million	IFRS 9 measurement category	Carrying amount Dec. 31, 2022	Measurement according to IFRS 9			Measurement according to IFRS 16	Fair value Dec. 31, 2022
			Amortized cost	Fair value (other comprehensive income)	Fair value (profit or loss)		
Financial assets							
Trade receivables	AC	828	828	–	–	–	828
Trade receivables	FV OCI	29		29		–	29
Other financial receivables							
Other financial receivables	AC	9	9	–	–	–	9
Other financial receivables	FV P&L	17	–	–	17	–	17
Contract assets	AC	223	223	–	–	–	223
Near-cash assets	FV P&L	79	–	–	79	–	79
Cash and cash equivalents	AC	324	324	–	–	–	324
Equity instruments measured at fair value through other comprehensive income	FV OCI	17	–	17	–	–	17
Derivative assets							
Hedging instruments that qualify for hedge accounting	–	13	–	13	–	–	13
Other hedging instruments	FV P&L	13	–	–	13	–	13
Derivatives not designated as hedging instruments	FV P&L	6	–	–	6	–	6
Financial liabilities							
Bonds	AC	(3,297)	(3,297)	–	–	–	(2,975)
Liabilities to banks	AC	(741)	(741)	–	–	–	(741)
Trade payables	AC	(709)	(709)	–	–	–	(709)
Lease liabilities	–	(192)	–	–	–	(192)	–
Other primary financial liabilities	AC	(17)	(17)	–	–	–	(17)
Derivative liabilities							
Hedging instruments that qualify for hedge accounting	–	(9)	–	(9)	–	–	(9)
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

Fair value measurement of the bonds is allocated to Level 1 of the hierarchy outlined under "Fair value measurement." However, one bond (previous year: two bonds) with a fair value of €102 million (previous year: €225 million) is allocated to Level 2 of the hierarchy as there is no liquid market for it. 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, 2021	Dec. 31, 2022
Financial assets measured at amortized cost	1,978	1,384
Financial assets measured at fair value through other comprehensive income (debt instruments)	0	29
Equity instruments measured at fair value through other comprehensive income	54	17
Financial assets required to be measured at fair value through profit or loss	566	115
Financial assets	**2,598**	**1,545**
Financial liabilities measured at amortized cost	(4,307)	(4,764)
Financial liabilities required to be measured at fair value through profit or loss	(7)	(10)
Financial liabilities	**(4,314)**	**(4,774)**

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 years 2021 or 2022.

Assets and Liabilities Measured at Fair Value

	Dec. 31, 2021		
€ million	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	–

Assets and Liabilities Measured at Fair Value

€ million	Dec. 31, 2022		
	Level 1	Level 2	Level 3
Non-current assets			
Investments in other affiliated companies	17	–	–
Non-current derivative assets	–	14	–
Other non-current financial assets	–	1	4
Current assets			
Current derivative assets	–	18	–
Other current financial assets	–	–	12
Trade receivables	–	–	29
Near-cash assets	79	–	–
Non-current liabilities			
Non-current derivative liabilities	–	1	–
Current liabilities			
Current derivative liabilities	–	18	–

Investments in other affiliated companies of €17 million (previous year: €54 million), which are assigned to Level 1 of the measurement hierarchy, relate to shares in the listed company Standard Lithium Ltd., Vancouver, Canada. In accordance with the exercise of the option, the shares are recognized at fair value through other comprehensive income. The corresponding measurements reduced other comprehensive income in the past fiscal year by €38 million (previous year: increased by €37 million).

Warrants for shares in Standard Lithium Ltd., Vancouver, Canada, were recognized in addition to the shares mentioned. In the amount of €6 million (previous year: €25 million), these form part of the non-current derivative assets at Level 2 of the measurement hierarchy. The fair value of the warrants was calculated on the basis of a warrant pricing model.

Level 1 of the fair value hierarchy includes near-cash assets of €79 million (previous year: €491 million). These relate to shares of money market funds that can be sold at any time.

Other financial assets assigned to Level 3 include outstanding conditional purchase price payments in connection with the sale of the organic leather chemicals business of €12 million (previous year: €20 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 €8 million; 10% lower performance indicators would result in a decrease in fair value of around €12 million. These changes would be recognized in income from discontinued operations.

The trade receivables of €29 million (previous year: €0 million) at Level 3 of the measurement hierarchy are receivables intended for sale on the basis of a factoring agreement.

Likewise 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 €4 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 from fiscal year 2021, no increased risk of default was ascertained 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 in the previous year.

Carrying Amounts and Loss Allowances

	Dec. 31, 2021			Dec. 31, 2022		
€ million	Gross carrying amount	Loss allowances	Net carrying amount	Gross carrying amount	Loss allowances	Net carrying amount
Cash and cash equivalents	643	0	643	324	0	324
Other financial assets	147	(5)	142	14	(5)	9

As in the previous year, neither cash and cash equivalents nor other financial receivables were written down due to actual defaults in fiscal year 2022.

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, 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%**	

Aging Structure and Loss Allowances (Simplified Model) Dec. 31, 2022

€ 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	699	113	22	11	12	**857**
Default rates calculated	**0.0%**	**0.3%**	**1.5%**	**5.2%**	**10.5%**	

The total carrying amounts and loss allowances for trade receivables and contract assets are as follows:

Carrying Amounts and Loss Allowances

	Dec. 31, 2021			Dec. 31, 2022		
€ million	Gross carrying amount	Loss allowances	Net carrying amount	Gross carrying amount	Loss allowances	Net carrying amount
Trade receivables	1,060	(10)	1,050	871	(14)	857
Contract assets	144	(1)	143	224	(1)	223

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 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 2021 and 2022:

Reconciliation Loss Allowance 2021

€ million	Expected loss allowance for cash and cash equivalents and other financial receivables[1)] 12 months	Expected loss allowance for trade receivables and contract assets Lifetime – simplified model	Expected loss allowance for credit-impaired assets at acquisition	Total
January 1	0	10	0	**10**
Adjustments according to IFRS 5	–	0	–	**0**
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**

Prior-year figures restated.
1) Cash and cash equivalents and other financial receivables are not presented separately for reasons of materiality.

Reconciliation Loss Allowance 2022

€ million	Expected loss allowance for cash and cash equivalents and other financial receivables[1] 12 months	Expected loss allowance for trade receivables and contract assets Lifetime – simplified model	Expected loss allowance for credit-impaired assets at acquisition	Total
January 1	5	10	1	**16**
Adjustments according to IFRS 5	–	(2)	–	**(2)**
Newly acquired financial assets	0	6	4	**10**
Release	0	(2)	0	**(2)**
Financial assets derecognized in the period – sale, repayment, modification	0	(1)	(1)	**(2)**
Change of model or risk parameters	–	–	–	**–**
Currency or other differences	0	0	0	**0**
December 31	**5**	**11**	**4**	**20**

1) Cash and cash equivalents and other financial receivables are not presented separately for reasons of materiality.

The adjustments in accordance with IFRS 5 result from the presentation of the High Performance Materials business unit as a discontinued operation. The acquired, impaired financial assets in fiscal year 2021 included trade receivables from the acquisition of Emerald Kalama Chemical. In fiscal year 2022, the addition to impaired financial assets relates to the acquisition of the Microbial Control business from U.S. corporation International Flavors & Fragrances Inc. 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, 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)

Offsetting of Financial Assets and Financial Liabilities as of December 31, 2022

€ 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	857	–	–	857
Derivative assets	32	(7)	–	25
Financial liabilities				
Trade payables	(709)	–	–	(709)
Derivative liabilities	(19)	7	–	(12)

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	2021	2022
Financial assets measured at amortized cost	(25)	(3)
Financial assets and liabilities required to be measured at fair value through profit or loss	68	(10)
Equity instruments measured at fair value through other comprehensive income	0	0
Financial liabilities measured at amortized cost	(76)	(73)
	(33)	**(86)**

Prior-year figures restated.

Net gains and losses essentially comprise interest income and expense and realized and unrealized exchange gains and losses. Total interest revenue for financial assets that are measured at amortized cost amounts to €4 million (previous year: €2 million); the total interest expense for financial liabilities that are not measured at fair value through profit or loss is €71 million (previous year: €64 million).

In addition to the net results shown, there was income from the settlement of interest rate hedges of €83 million in fiscal year 2022. This is recognized in the "other financial result" and not assigned to a measurement category.

Fees of €9 million (previous year: €6 million) were incurred in connection with financial instruments. These are likewise not included in the amounts presented by measurement category.

Collateralization of financial liabilities

There were no financial liabilities collateralized by mortgages or by other property claims in fiscal year 2022 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 [14].

39 | 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 €257 million (previous year: €163 million). Income before income taxes includes depreciation, amortization and write-downs of €546 million (previous year: €457 million). Income taxes of €4 million (previous year: €5 million) were reimbursed in fiscal year 2022. The change in net working capital resulted in cash outflows of €471 million (previous year: €292 million). The sale of trade receivables of €130 million under a factoring agreement concluded in June 2022 had the opposite effect. Taking into account the change in other assets and liabilities of minus €160 million (previous year: €5 million), cash inflows provided by operating activities from continuing operations amounted to €187 million in the reporting year (previous year: €368 million). Cash used in the operating activities of discontinued operations amounted to €28 million (previous year: cash provided of €39 million).

Net cash used in investing activities

Purchases of property, plant and equipment and intangible assets led to cash outflows of €407 million in fiscal year 2022 (previous year: €424 million). In connection with the acquisition/sale of subsidiaries and other businesses, there were payments of €1,124 million, which essentially related to the acquisition of the Microbial Control business from U.S. corporation International Flavors & Fragrances Inc. In the fiscal year, cash outflows for and cash inflows from financial and other assets held for investment purposes particularly related to the financing of the acquisitions made. The net cash outflow for the investing activities of continuing operations amounted to €996 million (previous year: €376 million). Discontinued operations resulted in cash outflows from investing activities of €55 million (previous year: €56 million).

Net cash provided by financing activities

Net borrowing of €690 million (previous year: €542 million) was attributable to financial liabilities as follows:

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[1]	2,702	586	–	–	–	4	3,292
Liabilities to banks	0	2	1	–	0	0	3
Lease liabilities	126	(50)	22	105	3	(1)	205
Other primary financial liabilities[1]	3	–	–	–	0	1	4
	2,831	**538**	**23**	**105**	**3**	**4**	**3,504**

1) Prior-year figures restated.

Reconciliation of Borrowings 2022

€ million	Dec. 31, 2021	Adjustments according to IFRS 5	Cash changes	Non-cash changes				Dec. 31, 2022
				Acquisitions	Lease liabilities new additions	Exchange differences	Interest effect from compounding, accrued interest and other changes	
Bonds[1]	3,292	–	(5)	–	–	–	10	3,297
Liabilities to banks	3	–	738	–	–	0	0	741
Lease liabilities	205	(22)	(56)	30	36	0	(1)	192
Other primary financial liabilities[1]	4	–	13	–	–	0	0	17
	3,504	**(22)**	**690**	**30**	**36**	**–**	**9**	**4,247**

1) Prior-year figures restated.

The adjustments in accordance with IFRS 5 result from the presentation of the High Performance Materials business unit as a discontinued operation.

Borrowings mainly related to the issue of a bond of €600 million maturing in 2028 and the borrowing of various short-term money market loans totaling €700 million. Repayments of borrowings particularly included the repayment of a bond of €500 million and a private placement of €100 million.

Interest payments and other financial disbursements led to cash outflows of €65 million (previous year: €63 million). Dividend payments in fiscal year 2022 totaled €91 million (previous year: €86 million). In contrast, the settlement of interest rate hedges resulted in cash inflows of €83 million. There was therefore a total cash inflow of €617 million (previous year: €393 million) from financing activities in continuing operations. Discontinued operations resulted in a net cash outflow of €4 million (previous year: €4 million).

Cash and cash equivalents

Cash and cash equivalents, which comprise cash, checks and bank balances, amounted to €360 million (previous year: €643 million), of which €324 million are allocated to continuing operations. In accordance with IAS 7, this item also includes securities with maturities of up to three months from the date of acquisition.

Approximately 42% of our cash and cash equivalents in continuing operations are held in Group companies in countries with no restrictions on foreign exchange and capital transfers. The remaining around 58% are held in companies in capital markets where cash transfers are regulated. In addition to cash and cash equivalents, LANXESS holds near-cash assets of €79 million in companies with no restrictions on foreign exchange and capital transfers, which comprise shares of money market funds that can be sold at any time. As of December 31, 2022, there were also other liquidity reserves in the form of undrawn credit lines without financial covenants of €1.35 billion.

40 | Segment Reporting

Key Data by Segment

€ million	Consumer Protection 2021	Consumer Protection 2022	Specialty Additives 2021	Specialty Additives 2022	Advanced Intermediates 2021	Advanced Intermediates 2022	All other segments 2021	All other segments 2022	LANXESS 2021	LANXESS 2022
External sales	1,579	2,366	2,295	2,970	1,949	2,413	278	339	6,101	8,088
Inter-segment sales	51	69	8	18	35	30	(94)	(117)	0	0
Segment/Group sales	1,630	2,435	2,303	2,988	1,984	2,443	184	222	6,101	8,088
Segment result/EBITDA pre exceptionals	279	363	323	479	333	291	(120)	(203)	815	930
Exceptional items affecting EBITDA	(13)	(25)	(17)	(5)	(6)	–	(111)	(74)	(147)	(104)
Segment assets	2,438	3,776	3,032	3,177	1,408	1,471	738	752	7,616	9,176
Segment acquisitions	949	1,171	67	–	–	–	–	–	1,016	1,171
Segment capital expenditures	107	141	164	137	135	106	135	63	541	447
Depreciation and amortization	106	168	166	182	112	117	62	69	446	536
Write-downs	1	0	6	8	3	2	1	0	11	10
Segment liabilities	509	445	702	453	760	474	617	548	2,588	1,920
Employees – as of Dec. 31	3,266	3,566	3,030	2,985	3,021	3,010	3,634	3,565	12,951	13,126
Employees – average for the year	2,769	3,437	3,045	3,023	3,267	3,007	3,580	3,556	12,661	13,023

Prior-year figures restated.

Key Data by Region

€ million	EMEA (excluding Germany) 2021	EMEA (excluding Germany) 2022	Germany 2021	Germany 2022	North America 2021	North America 2022	Latin America 2021	Latin America 2022	Asia-Pacific 2021	Asia-Pacific 2022	LANXESS 2021	LANXESS 2022
External sales by market	1,846	2,364	1,043	1,366	1,546	2,254	285	440	1,381	1,664	6,101	8,088
Non-current segment assets	805	941	1,496	1,445	2,563	3,354	82	93	266	281	5,212	6,114
Segment acquisitions	390	267	39	3	578	783	8	12	1	106	1,016	1,171
Segment capital expenditures	51	74	341	220	110	122	10	9	29	22	541	447
Employees – as of Dec. 31	1,353	1,306	7,013	7,099	2,123	2,224	749	751	1,713	1,746	12,951	13,126

Prior-year figures restated.

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 three reporting segments composed of nine operating units and "All other segments." 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.

Due to the agreement of a strategic alliance between LANXESS and Advent International to acquire the engineering materials business of the Dutch group Royal DSM and the subsequent contribution of the High Performance Materials business unit, the business activities of the High Performance Materials business unit have been reported as discontinued operations since June 1, 2022 (see "Discontinued Operations"). Since this date, internal financial reporting has not included the earnings and key data of the High Performance Materials business unit. Due to the resulting change in the management approach underlying the segment reporting, the reporting below relates exclusively to continuing operations. As the High Performance Materials business unit was the main component of the Engineering Materials segment, the segment no longer meets the requirements of a reportable segment and has been dissolved. The Urethane Systems business unit, which was also included in this segment, is reported as an other segment. The "All other segments" category primarily comprises the Urethane business unit, the business activities of the corporate functions and the effects of consolidation.

LANXESS Distribution GmbH, Leverkusen, Germany, was merged into LANXESS Deutschland GmbH, Cologne, Germany, with effect as of January 1, 2022. The business has since been managed mainly by the Flavors & Fragrances business unit and thus reported in the Consumer Protection segment. The previous year's figures have been restated accordingly.

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. 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 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, 2022, the LANXESS Group comprised the following reporting segments:

Segments	Activities
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.
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.
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.

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.

The “All other segments” category 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 and the Urethane Systems business unit. 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 and reported as an other segment.

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 in the “All other segments” category 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 2022, no individual customer of the LANXESS Group accounted for 5% 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 2022). 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 €658 million (previous year: €519 million), €500 million (previous year: €425 million) of which relate to the Consumer Protection segment, €9 million (previous year: €4 million) to the Specialty Additives segment, €122 million (previous year: €64 million) to the Advanced Intermediates segment, and €27 million (previous year: €26 million) to “All other segments.” All other sales are recognized at a point in time. Please see Note [22] 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 €104 million (previous year: €148 million) in fiscal year 2022 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 €0 million (previous year: €1 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	2021	2022
Total segment sales	**5,917**	**7,866**
Other	278	339
Consolidation	(94)	(117)
Group sales	**6,101**	**8,088**

Prior-year figures restated.

Reconciliation of Segment Results

€ million	2021	2022
Total segment results	**935**	**1,133**
Depreciation and amortization	(457)	(546)
Exceptional items affecting EBITDA	(147)	(104)
Other financial income and expense	5	42
Net interest expense	(53)	(68)
Income from investments accounted for using the equity method	–	3
Other	(120)	(203)
Income before income taxes	**163**	**257**

Prior-year figures restated.

The reconciliation of segment results to income before income taxes contains total exceptional items comprising net charges of €109 million (previous year: charges of €150 million) (see Notes [27] and [28]). These include exceptional items within EBITDA of minus €104 million (previous year: minus €147 million) and write-downs of minus €5 million (previous year: minus €3 million).

Reconciliation of Segment Assets

€ million	Dec. 31, 2021	Dec. 31, 2022
Total segment assets	**6,878**	**8,424**
Adjustments to discontinued operations	1,061	1,275
Cash and cash equivalents	643	324
Deferred taxes	192	54
Near-cash assets	491	79
Income tax receivables	152	92
Derivative assets	62	32
Other financial assets	311	249
Other	738	752
Group assets	**10,528**	**11,281**

Prior-year figures restated.

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, 2021	Dec. 31, 2022
Total segment liabilities	**1,971**	**1,372**
Adjustments to discontinued operations	367	318
Other financial liabilities	3,504	4,247
Derivative liabilities	22	19
Income tax liabilities	62	66
Deferred taxes	223	284
Other	617	548
Group liabilities	**6,766**	**6,854**

Prior-year figures restated.

Segment liabilities essentially comprise provisions, trade payables and other liabilities. The “Other” line 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.

41 | Audit Fees

In fiscal year 2022, total audit fees of €2,853 thousand (previous year: €2,582 thousand) for the auditor of the consolidated financial statements of the LANXESS Group were recognized as expenses. The total amount includes €2,544 thousand (previous year: €2,282 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. €309 thousand (previous year: €248 thousand) relates to other assurance services. These essentially include services in connection with sustainability reporting and audit certification services. No fees were paid for other services in the reporting year, after €52 thousand in the previous year, mainly for 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.

42 | 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.

43 | Utilization of Disclosure Exemptions

In fiscal year 2022, the following German subsidiaries made use of disclosure exemptions pursuant to Section 264, Paragraph 3 of the German Commercial Code (HGB):

- CheMondis GmbH, Cologne
- IAB Ionenaustauscher GmbH Bitterfeld, Greppin
- IMD Natural Solutions GmbH, Dortmund
- LANXESS Deutschland GmbH, Cologne
- LANXESS Global Business Services GmbH, Cologne
- LANXESS Organometallics GmbH, Bergkamen
- Neunte LXS 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 2022:

- LANXESS Trademark GmbH & Co. KG, Leverkusen

44 | Events after the Reporting Period

No events of particular significance took place after December 31, 2022, that could be expected to have a material effect on the earnings, asset and financial position of the LANXESS Group or LANXESS AG.

Cologne, March 1, 2023
LANXESS Aktiengesellschaft

The Board of Management

Matthias Zachert	Dr. Anno Borkowsky
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, 2023
LANXESS Aktiengesellschaft

The Board of Management

Matthias Zachert　　Dr. Anno Borkowsky

Dr. Hubert Fink　　Michael Pontzen

Independent Auditor’s Report

“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 31 December 2022, and the consolidated statement of comprehensive income, consolidated statement of profit or loss, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from 1 January to 31 December 2022, 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 1 January to 31 December 2022. In accordance with the German legal requirements, we have not audited the content of the disclosure marked as unaudited in section “Monitoring the opportunity and risk management system” of the management report.

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 31 December 2022, and of its financial performance for the financial year from 1 January to 31 December 2022, and
- the accompanying group management report as a whole provides an appropriate view of the Group’s position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the management report does not cover the content of the disclosure in section “Monitoring the opportunity and risk management system” of the management report referred to above.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as “EU Audit Regulation”) in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the “Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report“ section of our auditor’s report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2022. 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 €1,844 million (16 % of consolidated total assets or 42 % 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 multi-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 mulit-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 as-sets," "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 € 367 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 disclosure marked as unaudited in section “Monitoring the opportunity and risk management system” of the management report as an unaudited part of the management report.

The other information comprises

- the statement on corporate governance pursuant to § 289f HGB and § 315d HGB
- the separate non-financial report to comply with §§ 289b to 289e HGB and with §§ 315b to 315c HGB
- all remaining parts of the annual report – excluding cross-references to external information – with the exception of the audited consolidated financial statements, the audited group management report and our auditor’s report

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 (i.e., fraudulent financial reporting and misappropriation of assets) 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, actions taken to eliminate threats or safeguards applied.

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 assurance work in accordance with § 317 Abs. 3a HGB to obtain reasonable assurance as to whether the rendering of the consolidated financial statements and the group management report (hereinafter the "ESEF documents") contained in the electronic file LXS_AG_KA_LB_ESEF-2022-12-31.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 only 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 1 January to 31 December 2022 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 (06.2022)) 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 25 May 2022. We were engaged by the supervisory board on 16 November 2022. 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 filed in the company register – 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 Folker Trepte.

Cologne, March 2, 2023

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Folker Trepte	ppa. Martin Krug
Wirtschaftsprüfer	Wirtschaftsprüfer"

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.

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 268, 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 2021 was published in March 2022.

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 2023.

NON-FINANCIAL REPORTING

In the Sustainability section of this Annual Report, we fulfill our obligation to issue a non-financial Group report. We report in accordance with Sections 315b and 315c in conjunction with Sections 289c to 289e HGB, with 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, with the Climate Delegated Act (2021/2139), and with the Article 8 Delegated Act (2021/2178). The required non-financial disclosures 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 256. The reporting year is 2022. 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 97 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) 2021 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 €174 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 pages 20–22
	Safe and Sustainable Sites	Identified content on pages 23–31
	Climate Action and Energy Efficiency	Identified content on pages 32–37
Employee issues	Good Governance and Energized Employees	Identified content on pages 41–56
Social issues	Safe and Sustainable Sites	Identified content on pages 30–31
Respect for human rights	Good Governance and Energized Employees	Identified content on pages 37–39
	Circular and Sustainable Sourcing	Identified content on pages 20–22
Combating corruption and bribery	Good Governance and Energized Employees	Identified content on pages 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 ourselves of 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, 2021, 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, 2022. The sale of the chrome ore mine was completed on September 15, 2022. 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 2022.

KEY REPORT CONTENT

The content of the report is based on a materiality analysis performed in fiscal year 2022. The material topics that are described in detail in this report are as follows:

- Circular and Sustainable Sourcing
- Safe and Sustainable Sites
- Climate Action and Energy Efficiency
- Good Governance and Energized Employees
- Sustainable Products

Independent Practitioner's Report on Non-financial Reporting

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 2022 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.

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,

[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.

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
› Inspection of the processes for the collection, controls, analysis and aggregation of selected data at specific sites of the company
› 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 and taxonomy-aligned 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 2022 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 2023

PricewaterhouseCoopers GmbH

Wirtschaftsprüfungsgesellschaft

Folker Trepte	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 2022 of LANXESS AG, Cologne (hereinafter: "the Company"), for the period from 1 January to 31 December 2022 (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").

[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 2022 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.

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 2022 have not been prepared, in all material aspects, in accordance with the relevant GRI-Criteria.

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
- Inspection of the processes for the collection, controls, analysis and aggregation of selected data at specific sites of the company
- 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 2022 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 2023
PricewaterhouseCoopers GmbH

Wirtschaftsprüfungsgesellschaft

Folker Trepte	Theres Schäfer
Wirtschaftsprüfer	Wirtschaftsprüferin
[German public auditor]	[German public auditor]”

GRI Content Index

Statement of use	LANXESS AG has reported in compliance with the GRI standards for the period from January 1, 2022, to December 31, 2022.	Location	Comments and online annexes	UNGC
GRI 1: Foundation 2021				
Applicable GRI industry standards	No GRI industry standard available.			
GRI 2: General Disclosures 2021				
THE ORGANIZATION AND ITS REPORTING PRACTICES				
2-1	Organizational details	pp. 1–2, 73–75	Legal name of the organization: LANXESS AG	
2-2	Entities included in the organization's sustainability reporting	pp. 178–180, 185–187		
2-3	Reporting period, frequency and contact point	pp. 254, 272		
2-4	Restatements of information	pp. 27, 28, 34–36	Specific CO_2e emissions in Scope 1 and Scope 2 in relation to volume sold are no longer reported.	
2-5	External assurance	pp. 256–259		
ACTIVITIES AND WORKERS				
2-6	Activities, value chain and other business relationships	pp. 6–8, 20–22, 97–99, 105–108, 116–119, 147–148, 222	Products and Solutions	
2-7	Employees	pp. 41–51, 106–107, 183, 185, 221		6
2-8	Workers who are not employees	p. 48		

Statement of use	LANXESS AG has reported in compliance with the GRI standards for the period from January 1, 2022, to December 31, 2022.	Location	Comments and online annexes	UNGC
GOVERNANCE				
2-9	Governance structure and composition	pp. 89–90		10
2-10	Nomination and selection of the highest governance body	pp. 80–86		
2-11	Chair of the highest governance body	pp. 79–80		
2-12	Role of the highest governance body in overseeing the management of impacts	p. 13	Stakeholder dialog	
2-13	Delegation of responsibility for managing impacts	p. 13		
2-14	Role of the highest governance body in sustainability reporting	p. 254		
2-15	Conflicts of interest	pp. 84–85, 94		
2-16	Communication of critical concerns	pp. 79–80		
2-17	Collective knowledge of highest governance body	pp. 80–86		
2-18	Evaluation of the performance of the highest governance body	p. 80	Voting results	
2-19	Remuneration policies	pp. 87, 101	Compensation Report	
2-20	Process to determine remuneration	p. 87	Compensation Report	
2-21	Annual total compensation ratio		Compensation Report	
STRATEGY, POLICIES AND PRACTICES				
2-22	Statement on sustainable development strategy	p. 4		
2-23	Policy commitments	pp. 77–86		
2-24	Embedding policy commitments	p. 37–40		

Statement of use	LANXESS AG has reported in compliance with the GRI standards for the period from January 1, 2022, to December 31, 2022.	Location	Comments and online annexes	UNGC
2-25	Processes to remediate negative impacts	pp. 37–40		
2-26	Mechanisms for seeking advice and raising concerns	pp. 23, 39–40		
2-27	Compliance with laws and regulations	pp. 37–40, 78–80, 138–139, 150–151		
2-28	Membership associations	pp. 11, 14, 21, 270		
STAKEHOLDER ENGAGEMENT				
2-29	Approach to stakeholder engagement	pp. 13–15, 52–56, 80	Stakeholder dialog	
2-30	Collective bargaining agreements	pp. 46, 56		3
MATERIAL TOPICS				
3-1	Process to determine material topics	pp. 13–15	Material Topics	
3-2	List of material topics	pp. 15, 255		
CIRCULAR AND SUSTAINABLE SOURCING				
GRI 3: Material Topics 2021				
GRI 3-3	Management of material topics	pp. 13–15, 20–22		
GRI 2: General Disclosures 2021				
2-6	Activities, value chain and other business relationships	pp. 6–8, 20–22, 97–99, 105–108, 116–119, 147–148, 222	Products and Solutions	

Statement of use	LANXESS AG has reported in compliance with the GRI standards for the period from January 1, 2022, to December 31, 2022.	Location	Comments and online annexes	UNGC
GRI 204: Procurement Practices 2016				
204-1	Proportion of spending on local suppliers	p. 104		
GRI 308: Supplier Environmental Assessment 2016				
308-1	New suppliers that were screened using environmental criteria	pp. 20–22		
308-2	Negative environmental impacts in the supply chain and actions taken	pp. 20–22		
GRI 414: Supplier Social Assessment 2016				
414-1	New suppliers that were screened using social criteria	pp. 20–22, 38–39		
414-2	Negative social impacts in the supply chain and actions taken	pp. 20–22, 38–39		
SAFE AND SUSTAINABLE SITES				
GRI 3: Material Topics 2021				
GRI 3-3	Management of material topics	pp. 13–15, 23–28		
GRI 203: Indirect Economic Impacts 2016				
203-1	Infrastructure investments and services supported	pp. 30–31	Societal Added Value	
GRI 303: Water and Effluents 2018				
303-1	Interactions with water as a shared resource	pp. 26–27	Safe and Sustainable Sites Business-Driven Innovation	7, 8
303-2	Management of water discharge-related impacts	pp. 26–27		7, 8
303-3	Water withdrawal	pp. 26–27, 29		7, 8
303-4	Water discharge	pp. 26–27, 29		7, 8
303-5	Water consumption	pp. 26–27, 29		7, 8

Statement of use	LANXESS AG has reported in compliance with the GRI standards for the period from January 1, 2022, to December 31, 2022.	Location	Comments and online annexes	UNGC
GRI 306: Waste 2020				
306-1	Waste generation and significant waste-related impacts	pp. 24, 27–29		7, 8
306-2	Management of significant waste-related impacts	pp. 24		7, 8
306-3	Waste generated	pp. 24, 27–29		7, 8
GRI 413: Local Communities 2016				
413-1	Operations with local community engagement, impact assessments, and development programs	pp. 23, 25–28, 30–31, 40, 50	Societal Added Value	
413-2	Operations with significant actual and potential negative impacts on local communities	pp. 23, 25–28	Impact Assessment	
CLIMATE ACTION AND ENERGY EFFICIENCY				
GRI 3: Material Topics 2021				
GRI 3-3	Management of material topics	pp. 13–15, 32–37		
GRI 302: Energy 2016				
302-1	Energy consumption within the organization	p. 29		7, 8
302-2	Energy consumption outside the organization	p. 29		7, 8
302-3	Energy intensity	pp. 35–37		8
302-4	Reduction of energy consumption	pp. 35–37		7, 8, 9
302-5	Reductions in energy requirements of products and services	pp. 35–37, 57–62	New mobility solutions	

Statement of use	LANXESS AG has reported in compliance with the GRI standards for the period from January 1, 2022, to December 31, 2022.	Location	Comments and online annexes	UNGC
GRI 305: Emissions 2016				
305-1	Direct (Scope 1) GHG emissions	pp. 29, 34–35		7, 8
305-2	Energy indirect (Scope 2) GHG emissions	pp. 29, 34–35		7, 8
305-3	Other indirect (Scope 3) GHG emissions	pp. 29, 34–35		7, 8
305-4	GHG emissions intensity	pp. 29, 34–35		8
305-5	Reduction of GHG emissions	pp. 32–35		8, 9
305-6	Emissions of ozone-depleting substances (ODS)	p. 29		7
305-7	Nitrogen oxides (NOx), sulfur oxides (SOx), and other significant air emissions	p. 29		7, 8
GOOD GOVERNANCE AND ENERGIZED EMPLOYEES				
GRI 3: Material Topics 2021				
GRI 3-3	Management of material topics	pp. 13–15, 37–56		
GRI 2: General Disclosures 2021				
2-7	Employees	pp. 41–51, 106–107, 183, 185, 221		6
2-8	Workers who are not employees	p. 48		
2-27	Compliance with laws and regulations	pp. 37–40, 78–80, 138–139, 150–151		
GRI 201: Economic Performance 2016				
201-3	Defined benefit plan obligations and other retirement plans	pp. 201–209		

Statement of use	LANXESS AG has reported in compliance with the GRI standards for the period from January 1, 2022, to December 31, 2022.	Location	Comments and online annexes	UNGC
GRI 202: Market Presence 2016				
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	pp. 51–52		
GRI 205: Anti-corruption 2016				
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				
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 2022.	

Statement of use	LANXESS AG has reported in compliance with the GRI standards for the period from January 1, 2022, to December 31, 2022.	Location	Comments and online annexes	UNGC
GRI 207: Tax 2019				
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 401: Employment 2016				
401-1	New employee hires and employee turnover	pp. 44, 50		6
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	pp. 46–49		6
401-3	Parental leave	p. 49		
GRI 402: Labor/Management Relations 2016				
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

Statement of use	LANXESS AG has reported in compliance with the GRI standards for the period from January 1, 2022, to December 31, 2022.	Location	Comments and online annexes	UNGC
GRI 403: Occupational Health and Safety 2018				
403-1	Occupational health and safety management system	pp. 52–55		
403-2	Hazard identification, risk assessment, and incident investigation	pp. 52–55		
403-3	Occupational health services	pp. 52–55		
403-4	Worker participation, consultation, and communication on occupational health and safety	pp. 52–55	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.	
403-5	Worker training on occupational health and safety	pp. 52–55		
403-6	Promotion of worker health	p. 52		
403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	pp. 52–55		
403-8	Workers covered by an occupational health and safety management system	pp. 52–55	Most of the company's offerings to promote health and well-being 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. 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				
404-1	Average hours of training per year per employee	pp. 51–52		6
404-2	Programs for upgrading employee skills and transition assistance programs	pp. 51–52		
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 upon with a majority of employees.	6

Statement of use	LANXESS AG has reported in compliance with the GRI standards for the period from January 1, 2022, to December 31, 2022.	Location	Comments and online annexes	UNGC
GRI 405: Diversity and Equal Opportunity 2016				
405-1	Diversity of governance bodies and employees	pp. 18, 42–43, 46, 82–86		6
405-2	Ratio of basic salary and remuneration of women to men	p. 47		6
GRI 406: Non-discrimination 2016				
406-1	Incidents of discrimination and corrective actions taken	p. 39		6
GRI 407: Freedom of Association and Collective Bargaining 2016				
407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	p. 56		3
GRI 408: Child Labor 2016				
408-1	Operations and suppliers at significant risk for incidents of child labor	pp. 20–22, 38–39		1, 2, 5
GRI 409: Forced or Compulsory Labor 2016				
409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labor	pp. 20–22, 38–39		1, 2, 4
GRI 410: Security Practices 2016				
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				
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 2022, we received no reports or other indications of cases involving the violation of indigenous rights.	1, 2
415-1	Political contributions		Stakeholder Dialog No political donations were made in the reporting year.	10
GRI 416: Customer Health and Safety 2016				
416-1	Assessment of the health and safety impacts of product and service categories	pp. 19, 59	Product Portfolio Evaluation	
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services		Our employees and external third parties can use the SpeakUp system to report grievances concerning non-compliance with regulations concerning health and safety. We received no indications of corresponding non-compliance for fiscal year 2021.	
GRI 417: Marketing and Labeling 2016				
417-1	Requirements for product and service information and labeling	pp. 57–59		

Statement of use	LANXESS AG has reported in compliance with the GRI standards for the period from January 1, 2022, to December 31, 2022.	Location	Comments and online annexes	UNGC
417-2	Incidents of non-compliance concerning product and service information and labeling		Our employees and external third parties can use the SpeakUp system to report grievances concerning non-compliance with regulations and voluntary codes concerning product and service information. We received no indications of corresponding non-compliance for fiscal year 2022.	
GRI 418: Customer Privacy 2016				
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 2022, we received no reports or other indications of complaints regarding breaches of customer privacy and losses of customer data.	
SUSTAINABLE PRODUCTS				
GRI 3: Material Topics 2021				
GRI 3-3	Management of material topics	pp. 13–15, 19, 57–68		
GRI 2: General Disclosures 2021				
2-6	Activities, value chain and other business relationships	pp. 6–8, 20–22, 97–99, 105–108, 116–119, 148–150, 222–224	Products and Solutions	

Statement of use	LANXESS AG has reported in compliance with the GRI standards for the period from January 1, 2022, to December 31, 2022.	Location	Comments and online annexes	UNGC
GRI 201: Economic Performance 2016				
201-2	Financial implications and other risks and opportunities due to climate change	pp. 34, 61, 64–71, 145–146, 174		
GRI 301: Materials 2016				
301-1	Materials used by weight or volume	pp. 24–26		7, 8
GRI 416: Customer Health and Safety 2016				
416-1	Assessment of the health and safety impacts of product and service categories	pp. 19, 59	Product Portfolio Evaluation	
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services		Our employees and external third parties can use the SpeakUp system to report grievances concerning non-compliance with regulations concerning health and safety. We received no indications of corresponding non-compliance for fiscal year 2021.	
GRI 417: Marketing and Labeling 2016				
417-1	Requirements for product and service information and labeling	pp. 57–59		
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 2022.	

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 2022, 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 17 › Climate action and energy efficiency, see page 33 onwards	› CDP questionnaire – Climate Change 2022, 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 29 › Climate action and energy efficiency, see page 32	› CDP questionnaire – Climate Change 2022, 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 29, 36	› CDP questionnaire – Climate Change 2022, 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 29	› CDP questionnaire – Water Security 2022, 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 261 (GRI 2-27)	
	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 26 onwards	› Investors – ESG – Water Background Paper › CDP questionnaire – Water Security 2022, see sections W3.3, W4
Hazardous waste management	Amount of hazardous waste generated, percentage recycled	RT-CH-150a.1	› Safe and sustainable sites, see page 27 onwards › Environmental and safety performance data, see page 29	

	Topic, accounting metric and unit of measure	Code	Chapter/section	Further publicly available information
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 11 onwards › Corporate citizenship, see page 30 onwards › Sustainable products, see page 57 onwards	› Responsibility – Societal Added Value › Investors – ESG – Water Background Paper › CDP questionnaire – Water Security 2022, 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 264 (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 52 onwards	
Product design for use-phase efficiency	Revenue from products designed for use-phase resource efficiency	RT-CH-410a.1	› Sustainable products, see page 57 onwards › Reporting on the EU taxonomy, see page 64 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 57 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 57 onwards	
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	

	Topic, accounting metric and unit of measure	Code	Chapter/section	Further publicly available information
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 11 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 16	
	Number of transport incidents	RT-CH-540a.2	› Corporate responsibility goals, see page 16 › Safe and sustainable sites, see page 23 onwards	
Activity metric	Production by reportable segment	RT-CH-000.A	› Total volume sold in thousand metric tons, see page 29	

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LANXESS stock in sustainability indices

sustainability-indices.com

ftse.com/products/indices/FTSE4Good

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JAN. FEB. MARCH APRIL JUNE JULY SEP. OCT. DEC.

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