2023

Annual Report

LANXESS
Energizing Chemistry

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NFR Audited disclosures of the LANXESS Group that are included in the 2023 non-financial Group report

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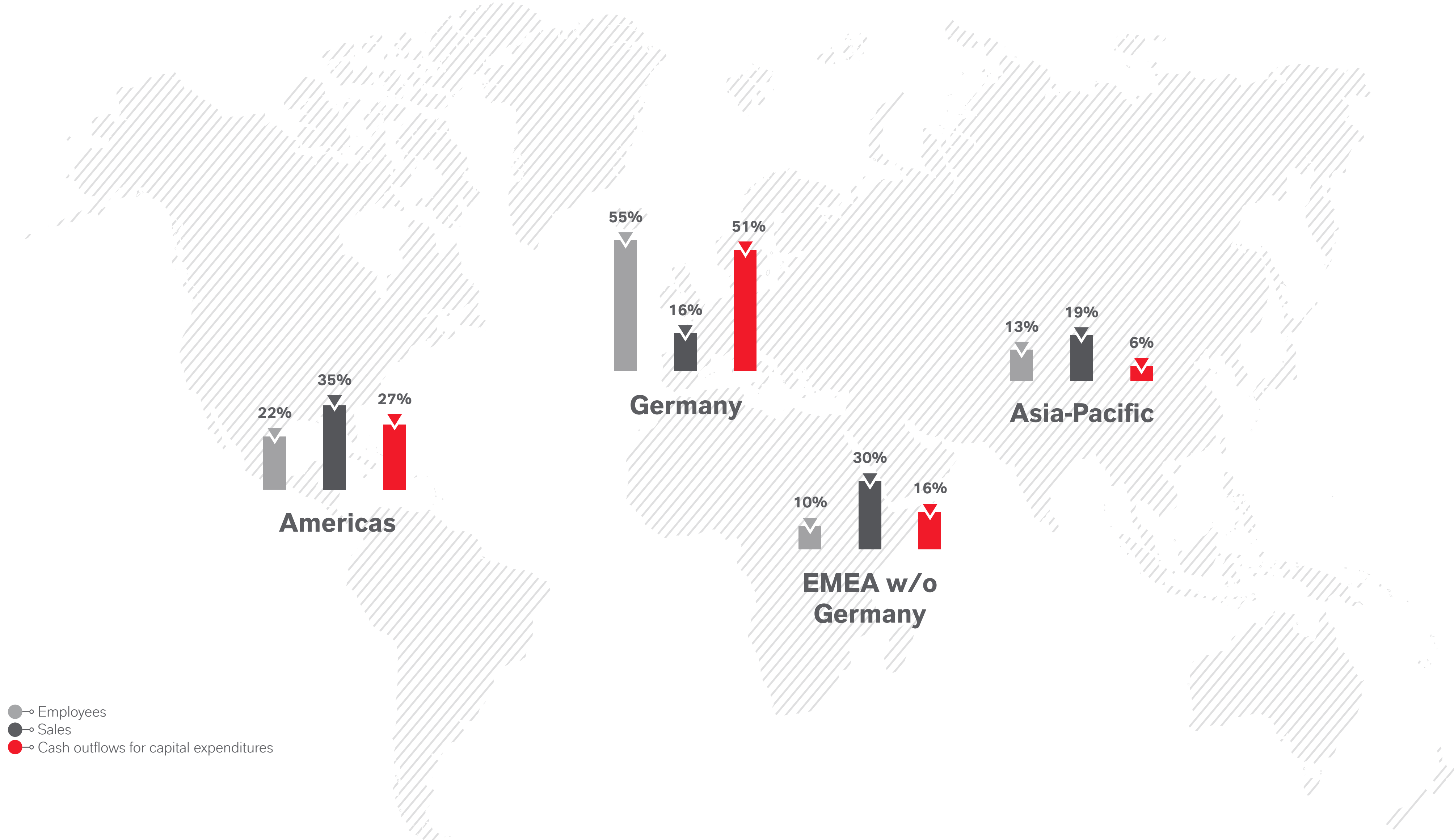
References to websites

LANXESS AT A GLANCE

Group Structure

	Consumer Protection	Specialty Additives	Advanced Intermediates
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 2023

LANXESS Group

€ million	Q4 2022	Q4 2023	Change %	2022	2023	Change %
Sales	1,973	1,436	(27.2)	8,088	6,714	(17.0)
Gross profit	454	232	(48.9)	1,937	1,268	(34.5)
Gross profit margin	23.0%	16.2%		23.9%	18.9%	
EBITDA pre exceptionals[1]	175	97	(44.6)	930	512	(44.9)
EBITDA margin pre exceptionals[1]	8.9%	6.8%		11.5%	7.6%	
EBITDA[1]	153	(7)	< (100)	826	328	(60.3)
EBIT pre exceptionals[1]	28	(55)	< (100)	389	(53)	< (100)
EBIT[1]	4	(581)	< (100)	280	(668)	< (100)
EBIT margin[1]	0.2%	(40.5)%		3.5%	(9.9)%	
Net income (loss)	(21)	(753)	< (100)	250	443	77.2
from continuing operations	(14)	(577)	< (100)	184	(843)	< (100)
from discontinued operations	(7)	(176)	< (100)	66	1,286	> 100
Weighted average number of shares outstanding	86,346,303	86,346,303	–	86,346,303	86,346,303	–
Earnings per share (€)	(0.24)	(8.72)	< (100)	2.90	5.13	76.9
from continuing operations	(0.16)	(6.68)	< (100)	2.13	(9.76)	< (100)
from discontinued operations	(0.08)	(2.04)	< (100)	0.77	14.89	> 100
Adjusted earnings per share from continuing operations (€)[2]	0.44	(0.30)	< (100)	3.72	0.13	(96.5)
Dividend per share (€)				1.05	0.10[6]	(90.5)
ROCE[3]				4.8%[7]	(0.8)%	
Cash flow from operating activities – continuing operations	92	224	> 100	187	852	> 100
Depreciation and amortization	149	574	> 100	546	996	82.4
Cash outflows for capital expenditures	158	132	(16.5)	407	326	(19.9)
Total assets				11,287[7]	9,665	(14.4)
Equity (including non-controlling interests)				4,427	4,507	1.8
Equity ratio[4]				39.2%	46.6%	
Provisions for pensions and other post-employment benefits				367	498	35.7
Net financial liabilities[5]				3,814	2,498	(34.5)

	Q4 2022	Q4 2023	Change %	2022	2023	Change %
Employees (as of Dec. 31)				13,126	12,849	(2.1)
Work-related injuries resulting in at least 1 day's absence (per million hours worked)				0.6	0.6	0
Proportion of apprentices hired in Germany				85.0	79.5	
Turnover resulting from voluntary resignations				4.5	3.9	
Specific energy consumption (in gigajoules per metric ton of product)				3.14	3.41	8.6
CO_2e emissions (Scope 1 and 2) (in CO_2 equivalents, metric tons per metric ton of product)				1,994	1,722	(13.6)
Specific water consumption (in cubic meters/k€))				1.36	1.33	(2.2)

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.
Further details can be found under "Value Management and Control System" in the combined management report.
2) Adjusted earnings per share from continuing operations: earnings per share from continuing operations disregarding exceptional charges and income, amortization of intangible assets, attributable tax effects, income from investments accounted for using the equity method, and the non-recurring earnings effects from the settlement of interest rate hedges in the third quarter of 2022. Details can be found under "Business Performance of the LANXESS Group" in the combined management report.
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, 2022 and 2023, adjusted. Details of capital employed can be found under "Value Management and Control System" in the combined management report.
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. Further details can be found under "Value Management and Control System" in the combined management report.
6) Dividend proposal to the Annual Stockholders' Meeting on May 24, 2024.
7) Prior-year figure restated.

Letter from the CEO

Ladies and Gentlemen,

2023 was an extremely challenging year for the entire chemical industry and also for our company. The year was characterized by persistently weak demand in numerous customer industries and market regions, high energy costs in Germany and Europe, political uncertainties, and the impact of the war in Ukraine. As a result, our industry is in a crisis situation more dramatic than any I have seen in the many years of my professional career.

We at LANXESS took quick and decisive counteraction with our comprehensive FORWARD! action plan back in the early summer. Our package of measures comprises significant cost savings, the streamlining of our administrative structures, and the simplification of our processes. Another central element is the further refinement of our business model in order to remain successful on the market into the future. In short, we are doing all we can to bring LANXESS safely through this steep downturn for the chemical industry and to be in the best possible position when the economy picks up again.

We have laid the foundation for this in recent years by restructuring the Group into a pure specialty chemicals company with an end consumer-focused and increasingly sustainable product portfolio. In 2023, we moved further along in this transformation process. A particular milestone was the formation of Envalior, our joint company with the private equity investor Advent International, to which we contributed our High Performance Materials business unit.

Strengthening our sustainability is an integral part of our corporate strategy. And we are proud that we have made further progress in the past fiscal year and that our engagement in this field is garnering international recognition: We have again achieved leading positions in several sustainability indices and ratings, such as the Dow Jones Sustainability Europe and World Indices and the MSCI ESG and EcoVadis ratings. These positive assessments prove that we act responsibly in the interests of people and the environment. We also demonstrated this again in fiscal year 2023 with our commitment to the UN Global Compact and its principles regarding human rights, labor standards, environmental protection and combating corruption. We firmly believe that these values are the key to long-term success.

The entire Board of Management would particularly like to thank our employees. Their high flexibility and dedication have been a decisive factor in our overcoming the massive challenges of recent months.

I thank all of our shareholders for their confidence and support in these difficult times. LANXESS is in a good position for the future and I invite you to continue accompanying us on our journey. I am optimistic that LANXESS will fully utilize the potential of its reorganized portfolio in the years to come and look forward to the exciting opportunities ahead.

Best regards,

Matthias Zachert
Chairman of the Board of Management

STRATEGY

Overcoming Crises – Driving Innovation

2023 was a year of multiple crises. For LANXESS, it was a year of operating crisis management. We focused on generating liquidity from net working capital and reducing debt. However, strategic restructuring was also central in 2023. By contributing the polymer business to a company newly formed with Advent, we have taken another step toward becoming a pure specialty chemicals company.

CHEMICAL INDUSTRY IN CRISIS MODE

Since the COVID pandemic began four years ago, the overall economy – and the chemical industry with it – has been in crisis mode. A growing number of geopolitical conflicts such as the Ukraine war, supply chain disruption, increased costs for raw materials and logistics, and high energy prices and interest rates are continuously posing new challenges for companies in various sectors.

In addition to the generally weak economy, the German chemical industry was also hampered by structural deficiencies in fiscal year 2023, such as the persistently high electricity and raw material costs compared with other countries. At the same time, selling prices and the demand for chemicals in many customer industries declined worldwide, especially in the construction and electrical/electronics industries. The reduction of high inventories from the previous year also considerably weakened demand in otherwise more stable, end consumer-focused industries such as food, beverages and cosmetics.

At the start of the year, forecasts suggested that the industry would recover in the second half, but this failed to materialize. Key markets, including China, the world's largest chemical market, but also North America and Europe, fell well short of expectations.

DECISIVE ACTION – GOING "FORWARD!"

LANXESS reacted quickly to the weak business performance and initiated the "FORWARD!" action plan in the early summer. The first two phases of "FORWARD!" focus on cost savings and efficiency gains. In fiscal year 2023, a package of immediate measures provided one-time savings of €100 million thanks to hiring freezes, salary waivers, a general raising of cost awareness, and lower capital expenditures.

The second phase of "FORWARD!" is about creating an improved, permanently lower cost base and sustainably cutting annual costs by around €150 million. The measures aim to adjust the plant structure and operating organization and to make administration more efficient and streamlined.

The affected plants are at the site in Krefeld-Uerdingen, Germany, where the energy-intensive hexane oxidation is to be shut down by 2026. The facility for chromium oxide production is to be sold. If a sale cannot be realized, we will also consider shutting down this facility.

From 2024, the third "FORWARD!" phase is characterized by transformation and will further refine the business model as a pure specialty chemicals company.

Immediate “FORWARD!” Measures Complete – Structural Measures Underway

1 **Ad hoc**	› Prompt stabilization of business results for 2023	✓
2 **Structural measures**	› Optimization of structures and processes › Sustainable cost reduction	Implementation started
3 **Business excellence**	› Refining the specialty chemicals business model › Preparing for economic recovery	Starting in 2024, concepts in development

Sustainably improving profitability, cash flow and margins

Portfolio transformation complete

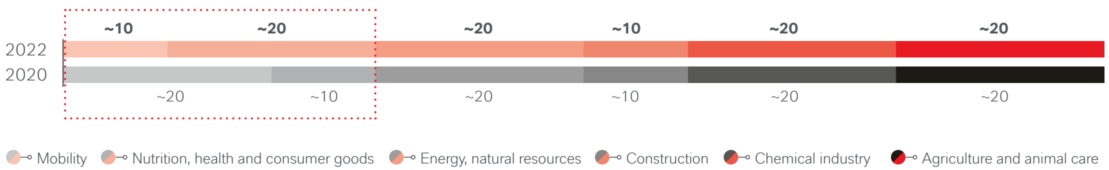
We began systematically restructuring our portfolio toward specialty chemicals with the spin-off of ARLANXEO in 2016. Through targeted acquisitions, we obtained leading market positions in multiple areas. For example, our acquisition of Chemtura made us a leader in flame-retardant additives. The acquisitions of Emerald Kalama Chemical and the Microbial Control business from the U.S. corporation IFF strengthened the Consumer Protection segment. Through these transactions, we not only expanded our portfolio in the field of protection products for end consumer-focused markets such as cosmetics, food, and beverages, but also augmented our existing flavorings portfolio. Overall, LANXESS is now one of the world’s largest providers of antimicrobial protection products.

In April 2023, we joined up with Advent to form Envalior, to which we contributed our High Performance Materials business unit. LANXESS thus took another big strategic step. With the sales process for the final remaining polymer business, Urethane Systems, initiated in the fourth quarter of 2023, we will conclude the transformation of the portfolio for the time being.

Balance of end markets

Since the beginning of the transformation in 2016, we have consistently worked to significantly reduce dependence on the automotive market. We want to achieve a more balanced portfolio of end markets and increase the share of end consumer-focused, less cyclical markets that offer high profitability potential. At the same time, the portfolio changes also expanded our presence in the important U.S. market.

Balanced Proportion of End Consumer Markets in %



Reduced exposure in automotive sector

Higher market share in the nutrition, health and consumer goods sectors

Reference: Mobility 2022 includes sales in the automotive, aviation and shipping industries including relevant electronic components.
Reference: Consumer goods 2022 – IFF MC contributed for half a year in 2022.

Strategic direction refined

Now that the transactions are completed, all LANXESS segments have a clear direction: LANXESS is to become a profitable specialty chemicals company with stable growth. Sustainability is anchored at the core of our strategy.

The strategy begins with the determination of our products' carbon footprints and the aim to continuously reduce them. The **"Advanced Intermediates"** segment in particular plays a leading role here. In 2023, for example, we developed the first carbon-reduced intermediates for numerous customer industries and launched them on the market.

Besides their own carbon footprint, products of the **"Specialty Additives"** segment focus on sustainable use by our customers. Our additives allow materials to be used for longer, which reduces the carbon footprint of these products. Especially in a circular economy, additives help to ensure that the materials can be used safely in a second lifecycle.

The **"Consumer Protection"** segment's products help people live in a changing world – whether with highly effective disinfectants that safeguard against the growing risk of bacteria and other germs or through our contribution to the development of better-adapted pesticides to protect the food chain.

As well as the use of our products, we also keep an eye on our own activities and follow our strategic guidelines.

Refining the business model and driving digitalization

As part of our FORWARD! action plan, we will continue to transform our business models. In the future, we will also particularly focus on reaping the fruits of the digitalization of recent years. Pilot programs that have already been developed and successfully tested will be scaled up and deployed across the board in the individual businesses in order to promote customer benefit and leverage efficiency potential. The overarching goal of the digital transformation is to generate added value for

Our Strategic Guidelines

Raw materials	Sites	Costs	Value chains & products	Sales markets	Growth & balance
We strategically manage our raw material portfolio to keep our value chains competitive and sustainable.	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 mid-sized, specialty chemicals markets with higher profitability and innovation opportunities.	We leverage long-term growth potential in Asia and the U.S. and balance our regional sales.

customers, suppliers, and employees. For example, we use new digital solutions on the basis of data analysis or artificial intelligence to optimize the capacity utilization of our plants, accelerate our product development, and improve occupational safety.

Financial discipline is the priority

In 2024, we continue to focus on generating attractive cash flow and reducing net debt. LANXESS significantly reduced its debt by 35% in fiscal year 2023. The decrease resulted primarily from the cash inflow in connection with the formation of Envalior and a consistent reduction in net working capital.

The proceeds from the process to sell the Urethane Systems business unit, which has begun, are expected to contribute further to the reduction of net debt. In line with its conservative financial policy, LANXESS also continues to strive for a sound investment grade rating.

Sustainability targets achieved, new milestones set

Even in the currently uncertain situation as regards both the economy and geopolitics, we are consistently pursuing the long-term transformation into a climate-neutral and circular economy with fair conditions for people and nature. As a chemicals company, we rely on a wide range of vital ecosystem resources and services, such as air, water, and energy. We are aware that our business activity creates both opportunities and potential risks for biodiversity.

We therefore ensure that our sustainability strategy is holistic and contributes to the protection of biodiversity on the one hand, and that the individual measures and targets are geared toward specific action areas such as climate change mitigation and water and have a medium-term impact on the other.

Following the disposal of the high-performance plastics business, we adjusted our climate pathway in the reporting year to comply with the 1.5 degree target. 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. The updated climate pathway has been verified by the SBTi (Science Based Targets initiative).

Further information on our global climate strategy

We also achieved our targets relating to product responsibility (see “Sustainable Products”) and water (see “LANXESS Water Program,” page 25) in the reporting year. For both action areas, we have set the next milestones on the way to sustainable sites and products and for our responsibility throughout the value chain.

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, among chemical companies, was ranked first in Europe and third in the world.

The non-profit organization Carbon Disclosure Project 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.

In a good position for the future

LANXESS is in a good position. The task now, although the economic situation remains difficult, is to continue developing the individual business models, leverage synergies and efficiency, and fully exploit the potential.

SUSTAINABILITY

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 and a tough economic environment. 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. We recognize the fundamental importance of biodiversity for the wellbeing of humankind and the plant and animal kingdom, as well as for economic sustainability. As a specialty chemicals company, we rely on a wide range of vital ecosystem resources and services. At the same time, we are aware that our business activities create opportunities and potential risks for biodiversity.

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 (SDG) 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

The "Global Transition Award" awarded to us by "Handelsblatt" and our nomination for the German Sustainability Award in the reporting year are proof that our transformation is making good progress.

NFR Audited disclosures of the LANXESS Group that are included in the 2023 non-financial Group report

SUSTAINABILITY MANAGEMENT

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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	Social & Governance	Stakeholder Expectations and Reporting Standards
Dr. Hubert Fink	Dr. Hubert Fink	Frederique van Baarle[1]	Dr. Anno Borkowsky	Oliver Stratmann[2]

1) Dr. Anno Borkowsky until March 31, 2023
2) Michael Pontzen January 1, until August 31, 2023

In order to consistently pursue our sustainability targets, we established a new committee structure back in 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

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› "Value Chain Circularity & Product Stewardship" sub-committee – promotion of sustainable products and value chains
› "Social & Governance" sub-committee (previously "People & Governance") – 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 "Sustainability Committee" adopted several new sustainability topics in the reporting year:

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1. We reduced our Scope 3 interim goal for 2030 from 16.5 million metric tons to 11 million metric tons and received updated verification of our climate goals from the Science Based Targets initiative (SBTi) in January 2024.

2. Numerous new products, for example from the Lewatit® range, were awarded the Scopeblue® label.

3. A new 2024/26 product roadmap was approved after achieving the target of establishing action plans for all roadmap products up to and including 2023.

4. We launched a cross-functional CSRD project to meet the broader reporting obligations of the EU's Corporate Sustainability Reporting Directive (CSRD).

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-governmental 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. 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.

Globally, we are 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.

Based on a comprehensive materiality analysis, we condensed the number of our sustainability topics from seven to five in 2021, sharpening the focus on important new topics such as the circular economy. The five main topics were confirmed by the Sustainability Committee

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following a review in the reporting year and, after close examination, provided our relevant management framework again in 2023. 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”).

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 250.

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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 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 lives. 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-oriented 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.

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

Further information on the opportunity and risk management system

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We have formulated specific goals for all key topics. Some of the variable compensation of the first and second management level below the Board of Management 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 current goals and indicators for all key topics ensure that our sustainability profile is systematically developed and refined. New or adjusted goals are assessed and confirmed by the relevant committees (sub-committees and/or the Sustainability Committee), for example in connection with the adjusted Scope 3 target.

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LANXESS Sustainability Goals

Topic	Goal	Indicator	Deadline	Status quo 2023	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	Risk tool reflects all trading partners globally for all countries and categories. Risk assessment has been conducted and 15 High Risk suppliers have been audited in 2023, based on the evaluation.		19–21
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	Risk tool reflects all trading partners globally for all countries and categories. Risk assessment has been conducted and 15 High Risk suppliers have been audited in 2023, based on the evaluation.		19–21
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, 2023, our matrix certificate covered 36 certifiable companies with 74 sites in 21 countries. In relation to the number of employees, this equates to 90% coverage of our matrix certificate. Due to the changes in our site portfolio in recent years, we still have some site certificates and a region certificate, which will also be transferred to our matrix certificate.		22–24
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 were no major process safety incidents in fiscal year 2023.		22
	Continuous reduction in environmental incidents	Number of reportable environmental incidents	Ongoing	There were no relevant environmental incidents.		22
	Continuous reduction in transportation incidents	Number of reportable transportation	Ongoing	There were no relevant transportation incidents.		24–25
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 1.33 cubic meters/thousand euros (–2.2% year-on-year). Including the HPM business unit, the specific water consumption amounted to 1.29 cubic meters/thousand euros (+4.2% year-on-year).		25–26
Wastewater	Reduction of specific Total Organic Carbon (TOC) by 2% per year	Kilograms per thousand euros of sales	Ongoing	For continuing operations, the specific TOC amounted to 0.13 kilograms/thousand euros (+6% year-on-year). Including the HPM business unit, the specific TOC amounted to 0.12 kilograms/thousand euros (+20% year-on-year).		26–27
Water risk sites	Introduction of a water stewardship program	Percentage of sites that have introduced a water stewardship program	2023	All four water risk sites (100% of the sites) met the defined criteria. They are therefore deemed water stewardship sites in accordance with the "LXS Water Stewardship Framework."		25–26
	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 been reduced by 31% compared with the base year 2019. Including the HPM business unit, the reduction was likewise 31%.		25–26

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LANXESS Sustainability Goals

Topic	Goal	Indicator	Deadline	Status quo 2023	SDG	Page
		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)	End of 2025	In continuing operations, absolute CO_2e emissions amounted to 1,722 thousand metric tons. Including the HPM business unit, the figure was 1,817 thousand metric tons of CO_2e. This constitutes a reduction of 73.5% for continuing operations and 72% 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 91% compared with the base year. Including the HPM business unit, the reduction compared with the base year is 90%.		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)	End of 2030	–		32–35
	Climate neutrality for the entire Group	Absolute CO_2e emissions (Scope 1 and 2)	End of 2040	–		32–35
	Reduction of CO_2e emissions by 60% versus 2015	Absolute CO_2e emissions (Scope 3)	End of 2030	For continuing operations, this constitutes a reduction of 64.7% compared with the base year 2015.		32–35
	Climate neutrality for the upstream and downstream supply chain	Absolute CO_2e emissions (Scope 3)	End of 2050	–		32–33
		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 3.9% in continuing operations. Including the HPM business unit, it was 3.9%.		50–51
HR development	At least 80% of apprentices hired after completing their training	Proportion of apprentices hired in Germany	Ongoing until the end of 2023	79.5% of apprentices were hired.		45
Diversity and inclusion	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	The proportion of women on December 31, 2023, was 23.1%.		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	The proportion of women on December 31, 2023, was 28.4%.		42–43
	Increase proportion of women in management to 30%	Proportion of women in management	End of 2030	The proportion of women on December 31, 2023, was 26.1%.		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 0.6 in continuing operations. Including the HPM business unit, it was 0.6.		55

LANXESS Sustainability Goals

Topic	Goal	Indicator	Deadline	Status quo 2023	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 100% of the relevant products.		58–60
	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 47.7%.		57
Long-term, continuous development of products, applications, and processes	Developing innovative products based on the needs and expectations of our customers	Number of product-related projects	Ongoing until 2025	140 projects in the reporting year were aimed at developing new/improving existing products and applications.		58–61
	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 retention: customer retention index > 75	Customer retention index score	2024	In the survey at the start of 2024, the customer retention index score was 74. The survey is carried out every two years.		64

15 thousand

suppliers Group-wide

NFR

CIRCULAR AND SUSTAINABLE SOURCING

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

Pressure on supply chains eased in 2023 thanks to far lower demand. Cost pressures stabilized and declined for raw materials, energy and logistics supply.

Logistics

LANXESS ships more than 300,000 metric tons of products every month through various modes of transport. This makes the company reliant on favorable freight and transport cost trends. Over the course of 2023, logistics costs in all areas returned to normal. There is still a shortage of truck drivers, especially in Europe, Great Britain, Canada and the U.S. CO_2 emission classes were introduced as a new truck toll feature in Germany on December 1, 2023.

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Energy

In Europe, gas prices have fallen by around a third and are therefore significantly lower than the average price in 2022. The dramatic shift in gas market supply and pricing from long-term contracts (primarily with Russia) to spot market-based LNG contracts with the U.S. as the most important swing supplier had a major impact.

The fall in gas prices also caused a drop in electricity prices, which more than halved compared to 2022 levels. Increasing demand for renewable energy combined with highly volatile gas prices resulted in significant fluctuations in daily electricity prices in Germany.

Spot market prices and fixed price components ensure that our portfolio is balanced, mitigating the volatility and related price risk. LANXESS has set itself an ambitious CO_2 reduction target in order to reduce its own carbon footprint. We are therefore always aiming to expand our portfolio of renewable energy. We constantly strive to increase the share of renewable power in our portfolio, and 5.3% of the electricity we use worldwide is currently obtained from proven renewable sources. In 2023, the focus was on new contracts for Germany and Belgium.

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In the future, it is likely to prove increasingly difficult to significantly expand this share at competitive prices, as demand is rising rapidly while European markets are increasing renewable energy capacities only slowly.

Guiding principles for procurement

In 2023, procurement transactions with over 14,758 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. 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.

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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, which we use in our production processes, are currently still based primarily on fossil sources, e.g. Benzene, Toluene, and Cyclohexane. 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 (e.g. chlorine, caustic soda and sulfur). 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 energy 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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Since 2022, we have used a process and a calculation tool to track, monitor and continuously improve the proportion of bio-based, circular, renewable and recycled raw materials.

Supplier assessment

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.

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Because the assessment results and audit reports are shared within the initiative, we had more than 16,900 sustainability assessments and 999 audit reports available to us as of the end of 2023. Suppliers whose sustainability-related activities have been assessed in TfS audits or assessments represent 71% 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. This is known as XCORE. As well as the XCORE strategy process, we use the SCORE process, which is similar to the XCORE process but geared toward purchasing volumes between €1 million and €5 million or over €250,000 in regions outside Europe.

It is also encouraging to see that our suppliers' average EcoVadis sustainability assessment of 54.4 points is above the EcoVadis benchmark of 45.7 points. With our tool for analyzing supplier risk, with which we ensure compliance with the German Act on Corporate Due Diligence in Supply Chains (LkSG) in the supply chain, we did not identify any trends regarding deficiencies among our suppliers in 2023. We had no reason in the year under review to end our collaboration with suppliers due to sustainability aspects.

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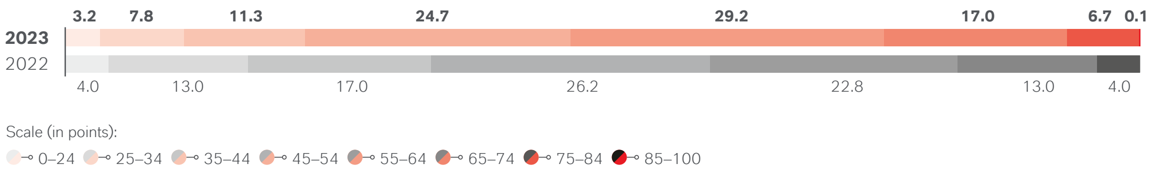
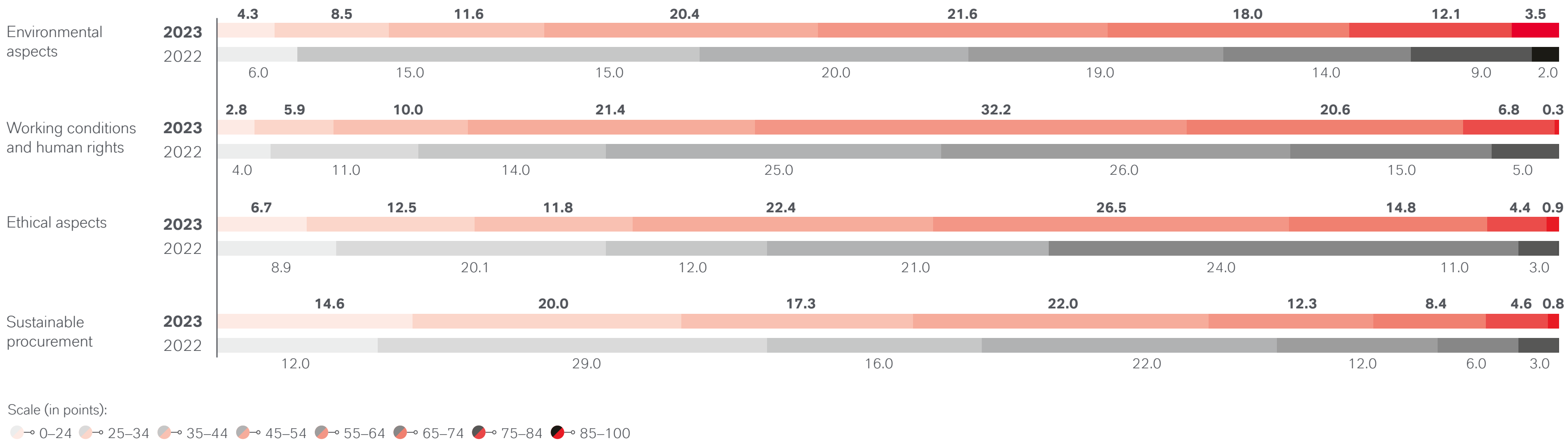
Overall Scores of Our Suppliers at EcoVadis
%



Detailed Scores of Our Suppliers at EcoVadis
%



With regard to the migration of a database-supported risk analysis system into our SAP system, we successfully completed the global launch as well as a general SAP system update in some regions. We have real-time access NFR to supplier-related data from around 600,000 sources and in various qualitative dimensions. This includes regulatory, ecological, social, and financial data that we can use for our risk analysis.

28
HSE (Health, Safety, Environment) checks at production facilities

55
production sites in 17 countries

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SAFE AND SUSTAINABLE SITES

Our commitment is to make our production safe and sustainable in every respect, thus ensuring our long-term competitiveness. The Production, Technology, Safety & Environment (PTSE) Group function, the head of which reports directly to Board of Management member responsible for production and technology, makes a substantial contribution to 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, biodiversity, handling of chemicals, plant safety and safety precautions in the workplace. Continuous training of our employees and regular audit-based reviews of our health, safety and environmental management systems are aimed to ensure that the requirements are incorporated into our processes systematically and sustainably.

Uniform standards in production

LANXESS operates a total of 55 production sites and has a presence in 17 countries (investments ≥ 50%, as of December 31, 2023). 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.

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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 these risks by implementing defined preventive and protective measures. Experts examine the implementation of LANXESS guidelines and local regulations for the safe operation of our plants. The frequency of audits including on-site targeted spot checks is geared toward the respective risk profile. Compliance with safety standards must be regularly verified worldwide for every plant via audit opinions. In 2023, a total of 28 production facilities (previous year: 35) were examined in the context of HSE (health, safety and environment) compliance checks, including twelve (previous year: 15) in Germany. We use an electronic reporting system to record accidents and events worldwide in line with uniform regulations. The Intelex Incident Management System replaced its predecessor Incident Reporting System in 2022. 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 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 help us to continuously reduce the number of events. There were no major process safety

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incidents in fiscal year 2023. In the summer of 2023, however, a leak in an aluminum trichloride barrel caused smoke to be emitted at the Bergkamen site. A NINA alert was triggered as a precautionary measure. There was no risk to employees or local residents.

We are continuing the systematic digitalization of production, including by digitizing our paper-based operational management and maintenance checklists. We use tablets 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 consistently. Thanks to the clear data, we can identify necessary measures and implement them in time, increasing work efficiency in production and maintenance.

Integrated management system

A centrally organized management system at LANXESS provides for the necessary global management structures in all relevant 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]

Indirect greenhouse gas emissions (Scope 2)
997[2] kt

Direct greenhouse gas emissions (Scope 1)
725 kt

VOC emissions
0.5 kt

Greenhouse gas emissions from biomass (climate neutral)
265 kt

Upstream supply chain
(Scope 3 4,995 kt, indirect greenhouse gas emissions)

Coal, gas, oil
9.7 PJ

Biomass
3.0 PJ

Strategic raw materials
2,911 kt

Electricity, steam, cooling
10.2 PJ

Total water withdrawal
159.4 million m^3

LANXESS plant

Employees
12,787[3]

Safety
MAQ[4] 0.6
RIR[5] 0.6
28 HSE compliance checks

Infrastructure
55 production sites in 17 countries

Downstream supply chain
(Scope 3 4,536 kt, indirect greenhouse gas emissions)

Waste
650.0 kt

Steam
4.6 PJ

Production wastewater
12.7 million m^3

Cooling water
128.1 million m^3

1) Continuing operations.
2) Calculated according to the market-based method of the GHG Protocol.
3) Core workforce of the core companies as of December 31, 2023.
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.

90%
matrix certificate coverage

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Confirmation that our processes comply with the standards ISO 9001 and ISO 14001 is provided in global matrix certificates. This approach brings a range of benefits:

- 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 external, independent experts. In 2023, we successfully passed the surveillance audit in accordance with the standards ISO 9001:2015, 14001:2015 and ISO 50001:2018. The West Hill, Canada; East Hanover, El Dorado (three sub-sites), Fords, Perth Amboy, all U.S.; and Nantong, China, production sites were included in the matrix certificate in the reporting year. Most of the sites taken on with the acquisition of Chemtura were therefore integrated into the matrix certificates. Most of the other sites, as well as those taken over from Emerald Kalama Chemical, Theseo and International Flavors & Fragrances Inc. (IFF), 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 add these sites to our matrix certificate.

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As of December 31, 2023, our matrix certificate pursuant to the ISO 9001:2015 and 14001:2015 standards covered 36 certifiable companies (companies with staff and in which LANXESS has a stake of over 50%) with a total of 74 sites in 21 countries. In relation to the number of employees, this equates to 90% coverage.

In addition, we have had LANXESS AG and all major Group companies certified in accordance with ISO 50001 for energy management in Germany and Belgium. The only exceptions are IMD Natural Solutions GmbH and CheMondis GmbH, both of whose energy consumption is below the minimum threshold for the performance of mandatory energy audits in accordance with EDL-G (German Energy Services Act), as well as Theseo Germany GmbH in Wietmarschen. As of December 31, 2023, the energy management system had reached coverage of 99% in these two countries in relation to the number of employees. IAB Ionenaustauscher GmbH, Bitterfeld, 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®) and ISO 45001.

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Global hazardous-goods and transport-safety management system

A global hazardous-goods and transport-safety management system ensures that hazards are minimized or avoided entirely. 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. The acquisitions of Emerald Kalama Chemicals and of the Microbial Control business from IFF were successfully integrated in the central safety-data system in 2023. Overall, more than 1,300 products and raw materials were recorded.

To counter the deficiencies in load securing of general cargo, the PTSE (Production, Technology, Safety and Environment) and GPL (Global Procurement and Logistics) Group functions have worked closely together to develop a load-securing standard for LANXESS, which has proven successful in numerous field tests and in

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practice. It was implemented at the Chardon, El Dorado and Kalama (all U.S.) sites and at the service providers Broekman (NL) and Nolden (D) for the first time in 2023. The load-securing system was also introduced for our temperature-sensitive products to transport our Velcorin product in refrigerated containers.

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. This also includes our efforts to preserve biodiversity. We are focused on responsible use of water as a resource, which includes both water consumption and water quality. In addition, 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: Targets largely achieved

As a chemicals company, we rely on water for 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 mode of transportation, 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 to this. 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 – ten of our production sites are in water-stress areas. These sites accounted for around 2% of our total water withdrawal in 2023.

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 to make

NFR

improvements at the LANXESS water risk sites. The sites are assessed using a customized, extensive water risk analysis that focuses on the water stress situation at the site as well as other factors. For fiscal year 2023, 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.

In the reporting year, we conducted a final review of our target to reduce water withdrawal at water risk sites by 15% by the end of 2023 (base year: 2019). With a reduction of 31%, we exceeded our target, illustrating our commitment to sustainability. For example, water withdrawal has been reduced significantly 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 carried out analyses regarding the local water stewardship programs at all water risk sites in the reporting year. All gaps identified were closed in time and all four water risk sites met the extensive requirements of the LANXESS Water Stewardship Program.

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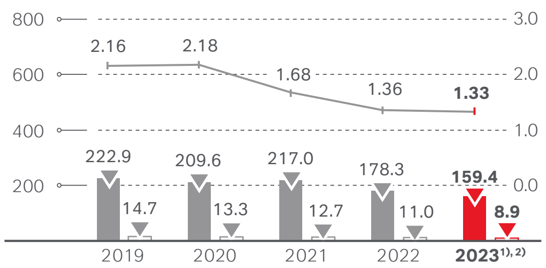
The expiry of the two water targets in fiscal year 2023 does not mean an end to our commitment to water as an important resource. To seamlessly continue our work, the Sustainability Committee resolved to continue and expand the previous targets from the fiscal year 2024 onward: Water stewardship and risk-based reduction will remain part of our LANXESS Water Program in the future.

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 targets at Group level that we will continue to monitor in the future. We are aiming for an annual reduction of both specific water consumption and specific total organic carbon (TOC) in wastewater flows by 2%.

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

Water withdrawal (absolute) · Water consumption (absolute) · In relation to sales (total water consumption)



1) Continuing operations
2) LANXESS total: Water withdrawal: 168.6, water consumption: 9.2, specific: 1.29

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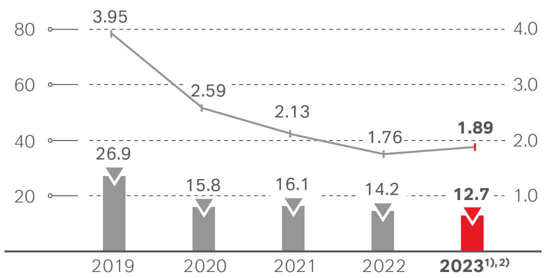
Wastewater Discharge (treated)
in million cubic meters — in cubic meters/thousand euros of sales

Absolute · In relation to sales



1) Continuing operations
2) LANXESS total: Wastewater discharge (treated): 13.1, specific: 1.84

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. LANXESS's water consumption is calculated by subtracting the volume of treated and untreated wastewater (including once-through cooling water) and water volumes (e.g. sold steam) sold to third parties from the water withdrawal (including purchased steam).

Our water withdrawal in continuing operations declined in 2023, which is attributable to changed production volumes. We achieved our target of reducing specific water consumption by at least 2% in the reporting year despite lower sales.

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The volume of treated wastewater declined again compared to the previous years. This is mainly due to the deconsolidation of the HPM business unit. We also analyze other water indicators in addition to volumes. One of the most important wastewater parameters is TOC (total organic carbon). In fiscal year 2023, the specific TOC after wastewater treatment increased slightly to 0.13 kilograms/thousand euros (previous year: 0.12 kilograms/thousand euros). In combination with the decline in sales, we missed the reduction target of 2%.

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

Our contribution to biodiversity

Biodiversity covers all life forms on our planet. As the UN agreement, the COP15 Global Biodiversity Framework, emphasizes, preserving ecosystems is vital to the wellbeing of people, plants and animals. This aligns with the Sustainable Development Goals (SDGs) to protect life below water (SDG 14) and on land (SDG 15). Given that about 50% of the global economy is also dependent on natural resources, good biodiversity is also indispensable to a sustainable and successful economy.

SDGs & LANXESS's contributions

As a company in the chemicals industry, we rely on a wide range of vital ecosystem resources and services, including clean water, energy, raw materials and flood protection. We are also aware that our business activities entail both opportunities and potential risks for biodiversity.

We evaluated the main impacts of the specialty chemicals industry using established scientific tools (ENCORE and WWF Biodiversity Risk Filter). Climate change and water protection (both water consumption and pollution) were identified as key factors in our potential environmental impact. We have already formulated obligations, strategies and specific goals for these two issues. We are committed to the responsible use of water and work with a water program that includes global efficiency targets for water consumption and pollution (TOC reduction in wastewater), and other water stewardship measures (see Water Strategy). Through our ambitious climate targets that we have set and implemented for the entire value chain, we have taken important steps in tackling climate change and, in turn, preserving species diversity (see Climate Strategy). We also aim to reduce our emissions and waste.

The sustainability performance of our product portfolio is another way we aim to positively impact biodiversity. To do so, we use our product sustainability monitor to identify products that are particularly sustainable or that have the potential for improvement (see Product Sustainability Monitor). We also strive for circular and sustainable sourcing and have undertaken to support the use of secondary (circular) or sustainable and renewable raw materials. It is important to us that we comply with recognized sustainability standards when using renewable raw materials.

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Sustainable waste management

We aim to avoid hazardous as well as non-hazardous waste 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 reuse many by-products as a raw material directly in neighboring plants – both our own as well as those of other chemicals companies – to create closed loops and thus avoid the generation of waste.

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The absolute amount of waste generated has decreased compared to the previous year. This is primarily attributable to a further reduction in aqueous waste streams at our site in El Dorado, U.S., and a significant reduction in waste sent to landfill at the site in Krefeld-Uerdingen, Germany. In relation to the decline in sales, however, the specific figure increased.

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

In fiscal year 2023, the shares of waste for disposal were nearly unchanged year-on-year.

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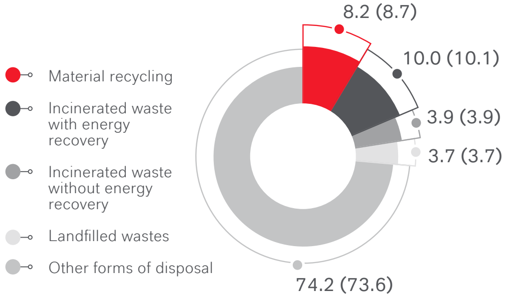
Waste for Disposal[1]

% (LANXESS total)

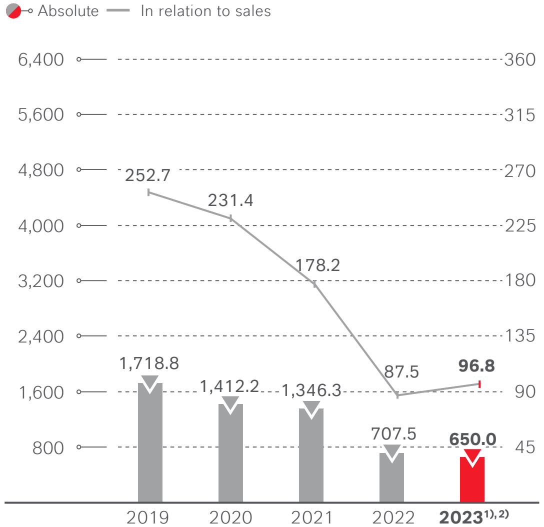


1) Continuing operations

Total Waste

in thousand metric tons

in kilograms of waste/ thousand euros of sales



1) Continuing operations
2) LANXESS total: Total waste: 656.7, specific: 92.4

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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, site and operation 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 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 2023.

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.

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Environmental and Safety Performance Data*

	2021	2022	2023 Continuing operations	2023 HPM business unit
Safety				
Occupational injuries to LANXESS employees resulting in at least one day's absence (LTIFR[1])	0.9	0.6	0.6	2.2
Energy consumption in petajoules (10^{15} joules)[2]	**28.6**	**25.4**	**22.9**	**0.9**
Direct energy sources (GRI 302–1)				
Non-renewable	11.2	10.4	9.7	0.4
Renewable (biomass)	3.3	3.3	3.0	0.0
Indirect energy sources (GRI 302–1)[3]				
Electricity consumption	6.3	4.7	4.4	0.4
Heat and steam consumption	7.05	6.3	5.2	0.1
Energy consumption for cooling	0.54	0.55	0.5	0.0
Other	0.11	0.11[a]	0.1	0.0
Water and wastewater in million cubic meters				
Total water withdrawal (GRI 303–3)	**217.0**	**178.2[a]**	**159.4**	**9.2**
Surface water	57.5	28.1	29.0	8.6
Groundwater	4.6	4.5	4.2	0
Third-party wastewater	1.1	1.1[a]	1.3	0
Third-party water	153.8	144.5	124.9	0.6
Total water withdrawal in water-stress areas, 3.3[12] (GRI 303–3)	**4.5**	**4.1**	**3.3**	**0.0**
Volume of once-through cooling water, 136.7[12] (GRI 303–4)	**176.4**	**142.7**	**128.1**	**8.6**
Total wastewater discharge (GRI 303–4)				
Wastewater discharge (treated)	16.1	14.2	12.7	0.4
Wastewater discharge (untreated)	187.4	152.2	137.5	8.6
Total wastewater discharge by destination (GRI 303–4)				
Surface water	191.5	155.5	140.8	8.9
Groundwater	0.0	0.7	0.6	0.0
Seawater	0.4	0.4	0.3	0.0
Third-party water	11.5	9.8	8.6	0.1
Wastewater emissions (after treatment) in thousand metric tons				
Total nitrogen	0.5	0.4	0.3	0.0
Total organic carbon (TOC)[4]	1.3	1.0	0.9	0.0
Heavy metals[5]	0.0023	0.0019	0.0015	0.0
Total water consumption in million cubic meters (GRI 303–5)[6]	**12.7**	**11.0**	**8.9**	**0.3**

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	2021	2022	2023 Continuing operations	2023 HPM business unit
Emissions to air in thousand metric tons				
Total greenhouse gas emissions CO_2e (GRI 305–1, GRI 305–2)	2,591	1,994	1,722	95
Direct (Scope 1)[7]	1,284	843	725	76[13]
Indirect (Scope 2, market-based)[8]	1,307	1,151	997	19
Ozone-depleting substances (GRI 305–6)	0.004	0.004	0.003	0.000
NO_x, SO_x and other emissions (GRI 305–7)				
NO_x[9]	1.4	0.9	0.8	0.1
SO_2[10]	0.9	0.4[a]	0.3	0.1
CO	3.2	2.6	2.5	0.0
NH_3	0.03	0.01	0.01	0.0
NMVOC[11]	0.8	0.7[a]	0.5	0.0
Waste in thousand metric tons				
Total weight of waste (GRI 306–3)	1,346.3	707.5	650.0	6.7
Incineration with energy recovery	70.7	68.3	64.8	1.6
Incineration without energy recovery	28.7	27.6	25.4	0.1
Landfilling	52.4	45.0	23.8	0.2
Material recovery	60.5	59.1	53.1	4.1
Other forms of disposal	1,134.0	507.5	482.9	0.7
Type of waste				
Hazardous	664.8	626.9	594.2	1.4
Non-hazardous	681.5	80.6	55.8	5.3

Explanations concerning our environmental and safety performance data

* The aggregate data refers to all LANXESS production sites in which the company holds equity interest of more than 50%.

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) The energy volumes given were calculated on the basis of typical substance values. They do not include energy contained in raw materials.
3) Presented as a balance sheet, whereby the volume of energy sold is subtracted from the volume of energy purchased.
4) Chemical oxygen demand (COD) is calculated as follows: [COD] = [TOC] x 3. COD 2023: 2.7 kt (not including HPM BU).
5) Heavy metals (arsenic, cadmium, chromium, copper, mercury, nickel, lead, tin, zinc).
6) According to GRI 303–5, total water consumption is calculated by subtracting the total water discharge from the total water withdrawal.
7) 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 12, 2023) 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: 2019: 184 kt CO_2, 2020: 268 kt CO_2, 2021: 294 kt CO_2, 2022: 298 kt CO_2, 2023: 265 kt CO_2 (not including HPM BU). The material composition of the biomass is partially based on assumptions/estimates.
8) All Scope 2 greenhouse gases are calculated as CO_2e. In 2023, the conversion factors used were provided by the energy producers. Where these were not available, factors from the IEA (International Energy Agency) from 2021 were used for fiscal year 2023, from 2020 for 2022 and from 2019 for 2021.
   CO_2 Scope 2 emissions for 2023 (location-based method): 1,134 kt (not including HPM BU).
9) Nitrogen oxide (NO_x) calculated as NO_2 (excluding N_2O; nitrous oxide).
10) Sulfur dioxide (SO_2) + SO_3 calculated as SO_2.
11) Total VOC (volatile organic compounds) excluding methane and acetone.
12) LANXESS total.
13) The emissions stated are based on forward projection from prior-year data and the planned reduction.
a) Values restated due to supplementary notifications or change in calculation method.

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, equal opportunities, and 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.

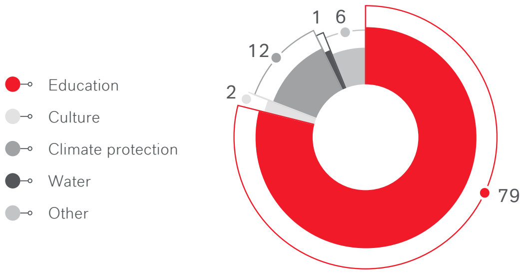
We provided around €1.1 million globally for our projects in 2023 (previous year: around €1.3 million). The regional focal points of our activities in the reporting year were the EMEA (particularly Germany) and Americas regions (94 projects).

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 0.3 million (previous year: roughly 1.5 million) people benefited from our projects in 2023. We use a system of performance indicators to measure the social impact of our activities above and beyond the number of people who benefit. We performed an impact assessment for all (100%) of our projects in 2023, taking into account positive effects in the area around the site and positive effects on the environment and our business. We regard these indicators as relevant benchmarks, with which we manage our measures in an impact-oriented manner.

Social Activities by Topic[1)]

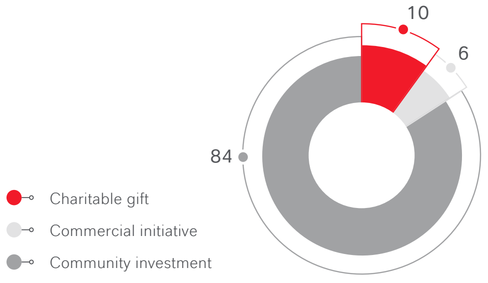
%



1) Number of projects: 94

Social Activities by Type of Investment[1)]

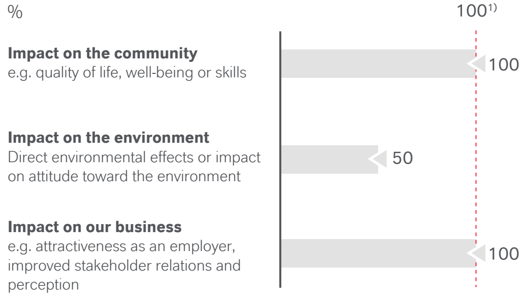
%



1) Number of projects: 94

Impact Dimensions of Evaluated Activities and Projects

%



1) Number of projects: 94

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Commitment to education, climate protection, water and culture

For more than 15 years, we have been running projects at our sites worldwide under the LANXESS education initiative to get young people interested in the natural sciences at an early age. Since 2014, for example, we have helped high schools in Germany improve their chemistry and science teaching. In 2023, LANXESS sponsored a project by the physics project course and the astronomy club at Werner-Heisenberg-Gymnasium in Leverkusen. A helium-filled balloon was launched 38 km into the stratosphere to take measurements and record videos from the edge of the earth's atmosphere.

As preparation for the 55th International Chemistry Olympiad in 2023, 20 school pupils from NRW attended a state seminar in Cologne sponsored by LANXESS. The program focused on having fun while learning, challenging theoretical and practical lessons and a site tour of the Leverkusen Chempark with the opportunity to visit the Central Organics Pilot Plant of the LANXESS subsidiary Saltigo.

The Excellence Lab Day was also held once again in 2023 in cooperation with the Cologne University of Applied Sciences. Eight school pupils from four schools gained an insight into what a future chemistry degree might entail and had the opportunity to work on a challenging experiment in a state-of-the art laboratory.

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At our El Dorado site in the U.S., we support STEM activities at local schools attended by our employees' children. Through USD 30,000 in financial support for STEM education programs, teachers were given assistance in teaching the children about problem solving and critical thinking through real learning experiences.

In Seoul, Republic of Korea, we launched the LANXESS Science Exploration Challenge for young people in 2023. The challenge is run in conjunction with the Seoul Metropolitan Boramae Youth Center and designed for individuals or teams of two to three members between the ages of 17 and 19. Participants submit a research plan on a chemistry topic of their choice. Ten projects are then selected and the participants are given support in carrying it out. The aim of the program is to foster scientific creativity and curiosity in young people.

In Japan, we strove to educate schoolchildren about climate change and its impact. Our program "Climate Class and Science Experiment Workshop", providing opportunities to learn about the environment and the fight against climate change, was continued in 2023. In the reporting year, we offered a virtual and an in-person workshop for children in grades one through six.

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In Brazil, the "Juntos pelo clima/Together for the Climate" project in 2023 saw elementary schoolers learn about ecological challenges and how they can help to solve them on an environmental activity trail.

As part of our cultural commitment, we sponsored the international literature festival lit.Cologne as a lead partner between 2010 and 2023. The Ozawa International Chamber Music Academy in Japan, which we have likewise supported for 13 years, gives talented young musicians from all over Asia the opportunity of first-class musical training.

LANXESS assistance for severe flooding in India

Our activities in India in 2023 focused on assistance for the regions hit by the devastating floods. During the monsoon season, the town of Nagda and the surrounding area experienced the heaviest rainfall seen in 50 years, resulting in heavy flooding. LANXESS India supported the state government and district administration by providing food packages and essential supplies for local residents, as well as in the neighboring area of our Jhagadia site, including Bharuch and Ankleshwar. We also supported the Nagda municipal council's welfare campaign, where plastic-coated GSM roof sheeting was provided for the homes of less affluent rural communities.

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 1.5 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%.

LANXESS has set ambitious medium- and long-term targets to fulfill our responsibility as a global specialty chemicals company: By 2040, LANXESS wants to significantly reduce its own emissions (Scope 1) and emissions from purchased energy (Scope 2) and become climate neutral. By 2030, we aim to reduce our greenhouse gas emissions to around 1.3 million metric tons of

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CO_2e, an 80% decrease on the level of emissions at the time LANXESS was established. We achieved a reduction of around 73% in the reporting year.

The Group also intends to make the entire supply chain climate neutral by 2050. To this end, LANXESS launched the "Net Zero Value Chain" initiative in 2022.

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 targets for the reduction of emissions and confirmed that LANXESS is supporting the objective of limiting global warming to 1.5 degrees Celsius. At the same time, the SBTi also confirmed our Scope 3 emissions reduction target as ambitious and acknowledged our long-term "climate-neutrality targets." 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 (CO_2e).

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Initiatives for our journey to climate neutrality

"Climate Neutral 2040" (Scope 1 + 2)

› Implement climate protection projects that generate major reductions.
› Decouple growth and emissions.
› Strengthen process and technological innovations.
› Offset 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 at our Indian sites to a mix of biomass and solar power. After the planned measures are implemented, we expect our CO_2e emissions to decrease by 150,000 metric tons by the end of 2024. As of the reporting date, the percentage of renewable energy at the Jhagadia site was 53%, while the Nagda site achieved around 88%.

Through these projects and other measures, we want to decrease our CO_2e emissions to 1.3 million metric tons by 2030.

Decouple growth and emissions (long-term target)
Independently of production volumes, 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.

By implementing these measures, we want to decrease our annual emissions to less than 220,000 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.

Clear strategy to lower indirect emissions

Back in 2022, LANXESS launched the “Net Zero Value Chain Program” to cut indirect emissions from the upstream and downstream supply chain (Scope 3). These emissions from purchased raw materials and air pollution produced in logistics and when making end products are to be cut by 60% – from 27.0 million metric tons to 11.0 million metric tons of CO_2 equivalents – by 2030 compared with the reference year 2015.

One example of the program in action is our growing Scopeblue® product range. This umbrella brand identifies products that are made primarily of certified sustainable raw materials or where the carbon footprint is at least 50% lower than that of a product made from conventional raw materials. As well as ion exchange resins made from fossil-based raw materials, for example, LANXESS now also offers resins made partly of sustainable raw materials in accordance with the mass balance approach. 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. LANXESS therefore continues to work on an extensive risk analysis, based on three climate scenarios.

Transitional climate risks were also closely analyzed in the reporting year. We perform these scenario analyses globally for all locations and assess the risks that could arise in the short, medium and long terms.

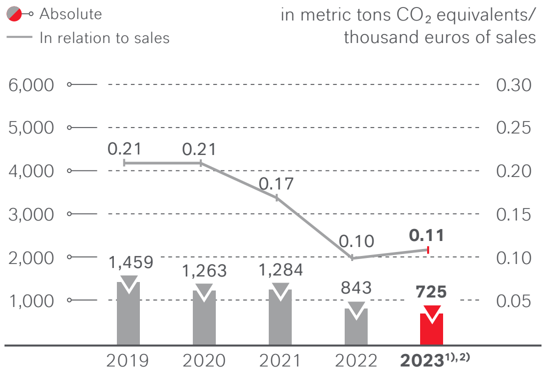
Uncertainty over emissions trading

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 our CO_2 emissions by the end of the fourth trading period in 2030. At present, however, we cannot precisely estimate the effects of planned changes in the allocation of emissions certificates as the benchmarks required have not yet been published. 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. Expanding the scope to include waste in 2023 also entails additional costs. The transition from the n-ETS to the EU-ETS II will also pose additional risks from 2027 onward, as the CO_2 costs fluctuate significantly and are difficult to calculate.

CDP gives LANXESS top score

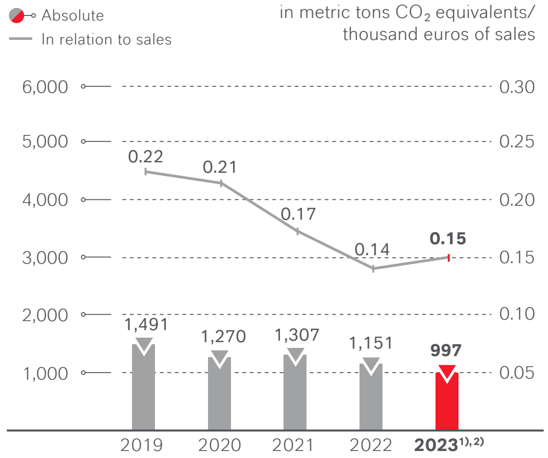
For more than a decade, we have been participating in the international climate protection initiative CDP (formerly the Carbon Disclosure Project), each year sharing data and information on climate protection and the reduction of emissions. We received a grade of "A" in the "climate" category in the assessment for 2023, which puts us in the top 25% of companies in the chemicals industry. These gratifying results encouraged us to continue systematically pursuing our climate protection strategy. In the reporting year, we also received an "A–" from CDP for our water security efforts.

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



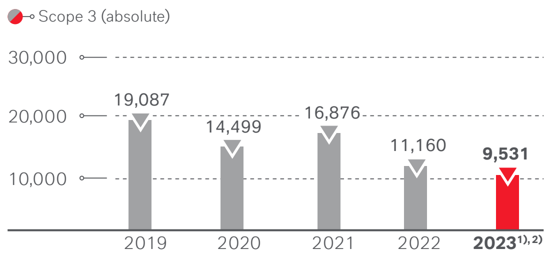
1) Continuing operations
2) LANXESS total: Scope 1: 801, specific: 0.11

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



1) Continuing operations
2) LANXESS total: Scope 2: 1,016, specific: 0.14

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



1) Continuing operations
2) LANXESS total: 10,333

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The transition from coal to biomass at our Indian sites continues apace and is contributing to the reduction of our CO_2 figures. Although absolute Scope 1 emissions decreased, specific Scope 1 emissions increased slightly year-on-year as a result of lower sales.

For continuing operations, Scope 2 emissions are also significantly below the previous year's level. This development is based on the one hand on a slightly lower production volume and on the other hand on the growing percentage of renewable indirect energy.

Compared to the previous year, the specific figure increased slightly due to lower sales.

In fiscal year 2023, we again registered significantly lower Scope 3 emissions due to a change in raw materials purchasing.

Other atmospheric emissions

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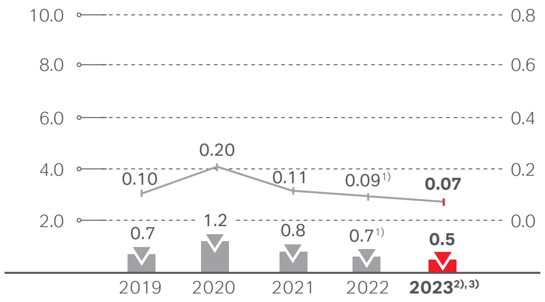
VOC Emissions

in metric tons | in kilograms/thousand euros of sales



1) Figure restated
2) Continuing operations
3) LANXESS total: VOC: 0.5, specific: 0.07

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In fiscal year 2023, absolute VOC emissions decreased slightly again. Specific emissions are therefore also below the previous year's level.

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.

Absolute energy consumption decreased again in 2023. Due to a simultaneous drop in sales, specific energy consumption in the reporting year was higher than in the previous year. Efficiency measures also helped lower 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, the energy mix shifted slightly in favor of direct 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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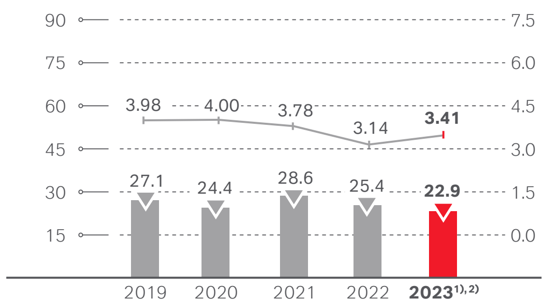
Energy Consumption (Balance Sheet)

in petajoules | in gigajoules/thousand euros of sales



1) Continuing operations
2) LANXESS total: Energy: 23.8, specific: 3.35

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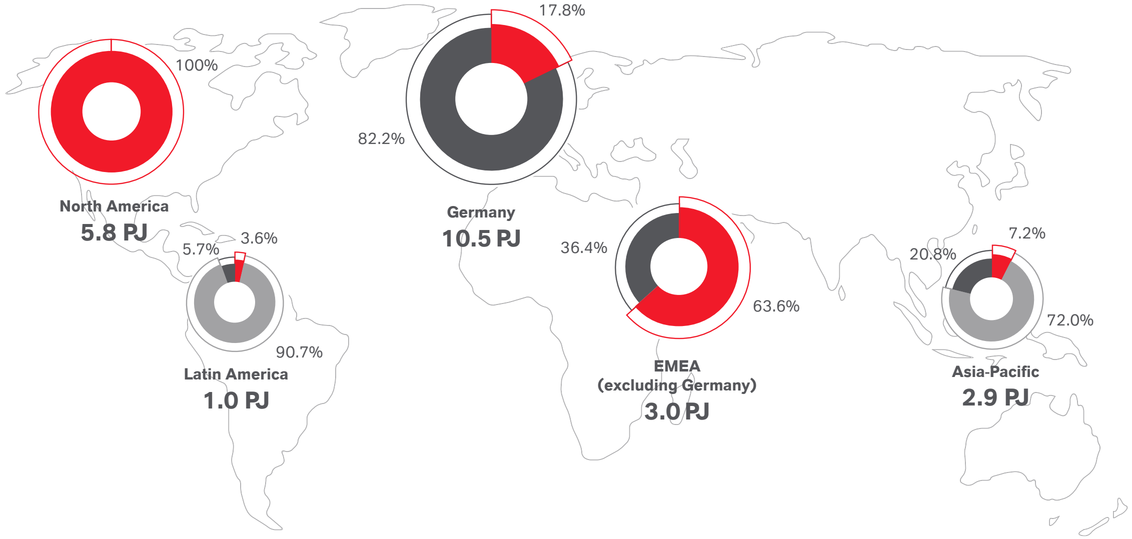
Direct and Indirect Energy Consumption by Region[1)]

in petajoules/%



1) Continuing operations

Sustainable logistics

We select our transportation solutions individually worldwide in line with the principles of safety, punctuality and cost-efficiency. In doing so, we also take into account the CO_2 emissions resulting from our supply chain.

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We are endeavoring to transition from road transport to intermodal transport options. For example, we use digital solutions to record 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.

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Furthermore, we plan to make increasing use of comparatively low-emission combined-transport options, where most of the distance involved is covered by rail, barge or sea vessel, thus keeping journeys by road to a minimum. Europe in particular has good infrastructure for this kind of transport. One good example of this are the links between the plants in the Lower Rhine region, in particular Leverkusen and Uerdingen. The new concepts connecting the plants in the Lower Rhine region to European international ports are key to making our transport solutions sustainable.

When selecting our logistics service providers, especially for overland transport in Europe, we take particular note of EcoVadis and SQAS Standard certification. This allows us to focus on sustainability and fulfill our environmental and social responsibilities alike.

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 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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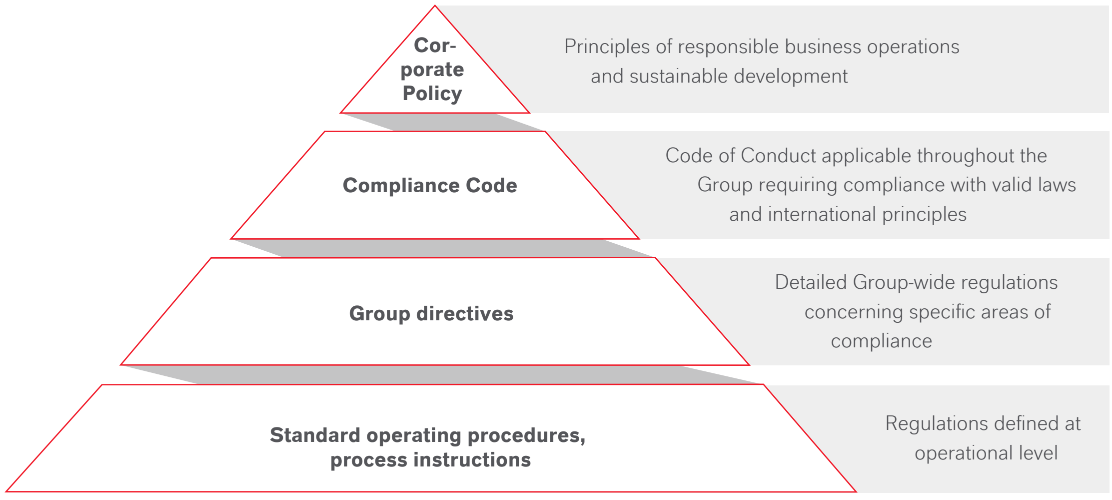
Compliance organization

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



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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.

NFR

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 evaluation at least once a year as part of our risk management system. We also carry out human rights risk analyses on an annual and ad hoc basis across the Group. These take account of the requirements of the German Act on Corporate Due Diligence in Supply Chains (LkSG) and cover our own business units as well as direct and, where necessary, indirect suppliers. If risks are identified, suitable preventive or corrective actions are taken. The risk assessments are coordinated by Group headquarters and carried out by the responsible departments. 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.

NFR

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.

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 in the reporting year. We will not tolerate verified misconduct and it will result in appropriate disciplinary measures up to and including dismissal.

NFR

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 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 generally 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 “Social & 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. We report on compliance with our due diligence obligations under the German Act on Corporate Due Diligence in Supply Chains on our website.

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. Group-wide guidelines define 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 occasional, low-value gifts (e.g. promotional gifts).

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.

NFR

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.

More than
6,000
compliance training sessions attended

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.

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

We also communicate our clear expectations for the prevention of corruption to our suppliers and service providers in our 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.

To avoid conflicts of interest, all employees must separate their personal interests from those of the company. Our Code of Conduct clearly requires employees to disclose potential conflicts of interest, for example as a result of secondary employment or personal business relationships that could conflict with the interests of LANXESS. There were no verified conflicts of interest in the reporting year. We will not tolerate verified misconduct and it will result in appropriate disciplinary measures up to and including dismissal.

LANXESS complies with all applicable anti-money laundering and terrorist financing laws and regulations. We do not do business with partners that are subject to relevant sanctions, that engage in illegal business activities or whose funds are derived from illegitimate sources. To ensure this, LANXESS describes the requirements placed on our business partners in the Business Partner Code of Conduct and has established a Group-wide trade compliance management system. We did not receive any reports or other indications of cases involving money laundering or terrorist financing at our company for the last fiscal year.

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 (see page 41) 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 still challenging market conditions and weak economy, which hit our sector particularly hard, posed major challenges for the company and, in turn, for our employees in the reporting year. LANXESS is resolutely tackling these challenges through the FORWARD! action plan to stabilize the company in the short term and make it more structurally efficient in the long term. Short-term immediate measures under the program in 2023 included a hiring freeze throughout Europe, postponing the global Merit round from April to October, suspending the Individual Performance Payment (IPP) rewarding particularly good performance from the second quarter onward, significantly reducing the Annual Performance Payment (APP), a six-month voluntary salary cut for the Board of Management (25% of fixed salary) and at executive level (10% of fixed salary) and, for Germany, a 65% reduction in the collectively agreed annual benefit. As part of negotiations with the Group Works Council, it was agreed to suspend the collectively agreed demography payment in Germany for 2024. Structural personnel measures included 870 job cuts worldwide, more than half of which in Germany. This downsizing is achieved by not filling vacancies as they arise, as well as by natural turnover, transfers and the termination of employment relationships, for example by offering severance agreements. Measures under the FORWARD! action plan were communicated to employees in depth.

In times of major change, a strong corporate culture is especially important. The motto for “Performance Culture Day 2023” was “We take the challenge and focus on performance” – because we can only master the major challenges together. The activities emphasized the importance of diversity, openness and feedback and improved communication across business units and hierarchies (see page 51).

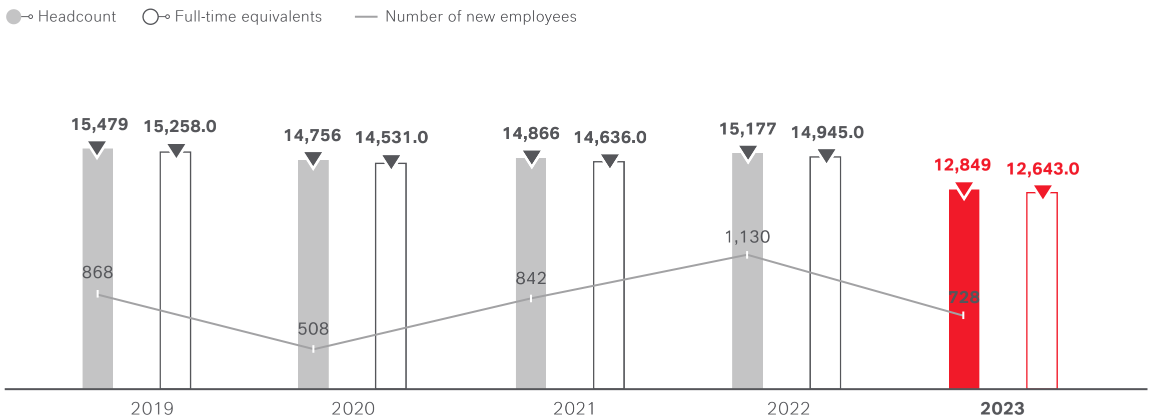
This communication is exemplified by the LANXESS women’s network WInX (Women Initiative LANXESS) established in 2021, which continued to expand and step up its activities in 2023. As well as sessions to stimulate discussion of issues and workshops, other activities on offer included presentation training (see page 43). Health was another priority for HR work in 2023. This was the focus of numerous in-person and online events (see page 52).

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

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.

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 2023. 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 2023, we again encouraged our managers and employees to consider unconscious patterns of thought and bias through the Performance Culture events "Just Do It" and the "Performance Dialog Impulse."

Ratio of Disabled Employees at German Companies

	2019	2020	2021	2022	2023
Ratio in %	5.9	6.2	6.2	6.8	6.8

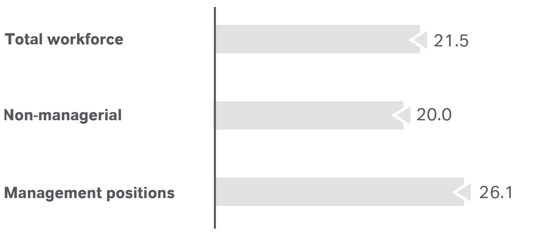
Gender diversity remains an important focus topic for us – with the clear target of increasing the proportion of women in the company. In addition, the German Act on Equal Participation of Women and Men in Executive Positions in the Private and the Public Sector commits us to set targets in Germany for aspects such as increasing the share of women at the two management levels below the Board of Management.

Accordingly, in April 2022 LANXESS set the target of increasing the proportion of female employees to at least 25% at the first level and 28% at the second level below the Board of Management by June 30, 2027. In the reporting year, women made up 23.1% of the first management level below the Board of Management and 28.4% of the second level below the Board of Management.

NFR

We have also set further targets above and beyond the legal requirements, and one of our consistent aims is to ensure that women account for at least 30% of all management positions by the end of 2030. At the end of 2023, the proportion was 26.1% (previous year: 25.2%).

Proportion of Women
%



Further D&I targets can be found in the targets table on page 17.

Networks can make an important contribution to the promotion of diversity, equal opportunities and inclusion. WInX – our global "Women Initiative LANXESS" – connects women at 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.

D&I (Diversity & Inclusion)
Leverage diversity to improve business results

WInX (Women Initiative LANXESS)
Promote gender equality

Attraction and retention
- Attract female talents
- Retain workforce and knowledge

Advancement
- Let role models guide the path
- Upskill and coach women

Awareness
- Increase transparency through KPIs
- Reduce unconscious biases

Allyship
- Foster gender equality with male allies
- Get leaders to actively support women

NFR

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

Proportion of women[1]	2019	2020	2021	2022[2]	2023	Goal	Target date
First level below the Board of Management	20.9%	16.7%	18.2%	22.5%	**23.1%**	25%	June 30, 2027
Second level below the Board of Management	25.1%	23.4%	25.7%	24.8%	**28.4%**	28%	June 30, 2027
Board of Management (number of women)	0	1	1	0	**1**	–[3]	–

1) Figures as of December 31 of the respective fiscal 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.

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. To reflect this, we continued to expand and network our recruiting teams in Great Britain and the Netherlands and bolstered our internal knowledge sharing. Identifying and approaching specific promising external staff, known as active sourcing, has become a permanent tool around the world. Specialized LANXESS recruitment teams work in the U.S., China, India and Europe and, since 2023, in Great Britain and the Netherlands. 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. This significantly reduced recruiting costs even in a challenging labor market.

Our recruitment process is highly digitalized. Our software platform covers all processes from recruiting to onboarding to the signing of employment contracts. It helps to make approaching and acquiring new talent standardized, transparent and candidate-focused. We can also keep our business units and global management up to date on the status of an application process at all times through standardized reports. In 2023, we successfully rolled out the software platform in Canada, the Netherlands and Great Britain.

Even in challenging times, we 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, diversity and, increasingly, sustainability. 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 numerous social media campaigns with a focus on the U.S. market. Making contact via social media and, in particular, through videos, also plays a key role in education. We also attended university and apprenticeship fairs around the world.

New Employees by Age Group, Gender and Region

	EMEA (excluding Germany)		Germany		North America		Latin America		Asia-Pacific		**Total**
Age group	**f**	**m**	**f**	**m**	**f**	**m**	**f**	**m**	**f**	**m**	
< 30	8	20	16	76	12	60	5	12	10	19	**238**
30–49	17	46	39	106	20	87	5	11	23	47	**401**
≥ 50	6	9	3	37	8	21	0	0	2	3	**89**
Total	**31**	**75**	**58**	**219**	**40**	**168**	**10**	**23**	**35**	**69**	**728**
Region total	**106**		**277**		**208**		**33**		**104**		
%											
Age group	**f**	**m**	**f**	**m**	**f**	**m**	**f**	**m**	**f**	**m**	
< 30	26.7	17.2	8.2	9.4	20.5	34.4	11.5	24.1	27.0	24.1	**15.0**
30–49	9.4	9.0	6.0	4.5	10.1	11.7	3.8	3.1	7.4	4.7	**6.2**
≥ 50	4.4	1.8	0.5	1.3	3.1	2.7	0	0	2.7	1.0	**1.6**
Total	**8.9**	**6.7**	**4.2**	**3.7**	**7.8**	**9.9**	**4.9**	**4.3**	**8.3**	**4.9**	**5.4**
Region total	**7.2**		**3.8**		**9.4**		**4.4**		**5.7**		

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 2023, we hired five people who indicated their gender as “other/undeclared/unknown.” Including temporary employees, the number of new employees increases to 1,216 (all genders included).

Despite difficulties on the labor market and at the company, we were able to fill some urgent vacancies in the reporting year. A total of 728 new employees joined the Group (1,216 including temporary employees). Reflecting increasing demographic change, the new hires were spread across all functions. Overall, 2023 was dominated by the challenges of financial difficulties at the company combined with higher expectations among applicants in a clear employees’ market. This combination makes it increasingly challenging to attract external applicants to LANXESS and fill vacancies. Positioning our employer brand is all the more important and is possible only by raising greater awareness of sustainability issues and ensuring that the chemical industry is viewed as a solutions provider. Increasing product marketing for sustainable products (Scope Blue) on social media was helpful here.

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 talents receive diverse practical learning opportunities as well as targeted training and opportunities for internal networking. In 2023, we acquired 14 new talents (five women, nine men). The goal remains to hire them once they have successfully completed their management apprenticeship and for them to take on leadership positions in the medium and long term.

NFR

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. Given the difficult economic conditions and structural changes, we fell slightly short of this target in the reporting year at 79.5% (previous year: 85%).

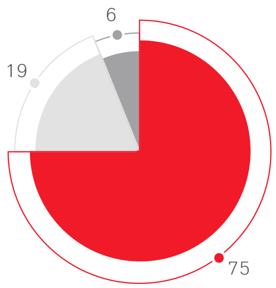
201 apprentices on eight technical, scientific and commercial career paths and young talents in four dual-study programs started their apprenticeships at LANXESS Deutschland GmbH on September 1, 2023. The proportion of female career starters was 7.5% in the reporting year (previous year: 7%). Taking the new intake into account, 642 apprentices are employed at LANXESS Deutschland GmbH (as of October 1, 2023). The proportion of female apprentices across all years is around 7%. We invested around €22 million (previous year: €22 million) in the vocational training of young talents in 2023.

NFR

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. The "Meet & Match – Dreh Dein Ding" event was supplemented with the "Meet & Match – Business" format, which aims to recruit apprentices for commercial careers. At the two events, junior recruits signed an apprenticeship contract within a day after passing a test and an interview.

Apprentices by Career Path[1)]

%



1) LANXESS Deutschland GmbH

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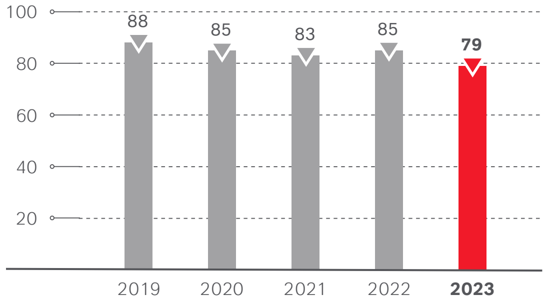
Hire Rate of Apprentices and Students on Combined Work and Bachelor's Degree Courses at LANXESS[1)]

%



1) LANXESS in Germany

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 also cooperated with the Iochpe Foundation in Brazil. The program was launched in July 2022 and ended in May 2023. Through this cooperation, we again enabled ten young people from disadvantaged backgrounds to take part in a 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 45 apprentices worked for us at the LANXESS sites in Nagda and Jhagadia in the reporting year.

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Apprentice ratio[1)]

8.14%

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.

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. Despite the challenging situation at present, we are still looking ahead to the future and continuing to work on retaining young staff at our company. As part of this, we offer attractive development opportunities. 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. Various workstreams were launched in 2022 to cater more closely to the personnel needs and challenges of P&T. HR and the department in question devised joint solutions to specifically gear talent acquisition, remuneration, work flexibility and employee retention and development to P&T requirements. Four of the seven working groups have already met their targets. The other working groups will be reassessed and potentially restructured at the next personnel conference.

To pass on the immense knowledge of our employees entering retirement to subsequent generations, we successfully rolled out a knowledge transfer program in 2021. It aims to identify departing knowledge carriers at an early stage, systematically record their implicit knowledge, and ensure its structured transfer to subsequent generations. This is achieved through moderated transfer processes (expert debriefings) and self-guided processes (learning tandems). Since the project was initiated in 2021, there have been 35 successful expert debriefings and five learning tandems in Germany, the EMEA region and the U.S. Expertise is centralized and digitalized as part of the knowledge transfer program. A plant-specific knowledge database – the Plant Wiki PLUS – has already been introduced at four German plants. LANXESS received the HR Excellence Award for the project in 2022 and took second place in the German "Personalwirtschaftspreis" (Human Resources Award) in 2023.

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 assumptions used for the analysis varying country by country. Our aim is always to identify staff shortages at an early stage so that we can take measures and countermeasures in good time.

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

12,849
LANXESS employees worldwide

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

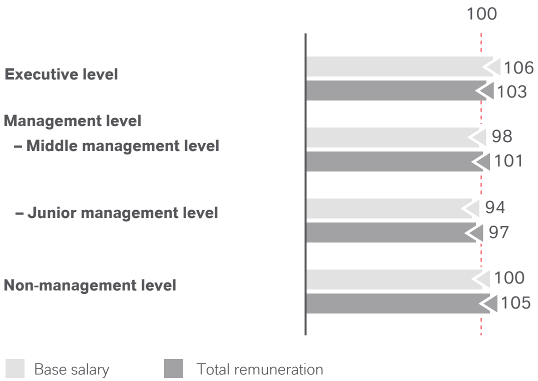
	EMEA (excluding Germany)		Germany		North America		Latin America		Asia-Pacific		**Total**
Age group	f	m	f	m	f	m	f	m	f	m	
< 30	25	85	178	753	56	171	41	47	32	55	**1,443**
30–49	166	417	632	2,267	196	729	122	343	292	909	**6,073**
≥ 50	133	416	540	2,699	249	752	31	125	73	315	**5,333**
Total	**324**	**918**	**1,350**	**5,719**	**501**	**1,652**	**194**	**515**	**397**	**1,279**	**12,849**
Region total	**1,242**		**7,069**		**2,153**		**709**		**1,676**		

1) In total, we had 12,849 employees in the reporting year.

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.

Remuneration Ratio of Women to Men
%



The difference between the average remuneration for men and women at LANXESS is less than ±6% for all individual levels. These salary differences represent the most critical approach and are influenced by further, non-gender-specific variables – such as professional experience, salary differences due to geography or function, or differing work histories. It is close to the clear goal of our HR policy 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 most of its employees bonus systems geared toward the company's long-term success. In total, 92.3% (previous year: 86%) of LANXESS employees worldwide participated in our variable compensation systems in 2023. Nevertheless, the amounts paid out were far lower in 2023.

The central performance-based compensation component is the Annual Performance Payment (APP), which we provide on a non-pay-scale basis 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 pre target. Further individual targets in areas such as safety and sustainability additionally apply to top management. In April 2023, we shared around €68 million of our profits for fiscal year 2022 with our employees worldwide (2021: €136 million). This was far lower than in the previous year, reflecting the strained business performance in 2022.

With the Individual Performance Payment (IPP), managers can also reward employees' extraordinary individual achievements during the year in a prompt and unbureaucratic way. About 91% of our employees worldwide are entitled to receive the IPP. Around €0.2 million was awarded in fiscal year 2023. The amount was considerably lower than in previous years on account of the company's financial situation.

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 15). 100% of those eligible participated in the current LTSP program in 2023.

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 in 2023 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 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, 2023, this was 93% (previous year: 93%) of our total workforce worldwide.

NFR

In line with our office-based employees' desire for more flexible working and working-time models, we introduced "Xwork – Flexible Work" and global flexibility principles five years ago. A significant aspect of this flexibility is the ability to work remotely. The last few years have shown that much of our office employees' work can be done from home.

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

	EMEA (excluding Germany)		Germany		North America		Latin America		Asia-Pacific		**Total**
Contract	**f**	**m**	**f**	**m**	**f**	**m**	**f**	**m**	**f**	**m**	
Permanent contract	324	918	1,350	5,719	501	1,652	194	515	397	1,279	**12,849**
Full-time	280	887	875	4,410	496	1,652	194	515	393	1,279	**10,981**
Part-time	44	31	475	1,309	5				4		**1,868**
Temporary contract	25	27	109	694	5	5	27	29	17	52	**990**
Full-time	21	27	80	646	5	5	18	19	15	51	**887**
Part-time	4		29	48			9	10	2	1	**103**
Total	**349**	**945**	**1,459**	**6,413**	**506**	**1,657**	**221**	**544**	**414**	**1,331**	**13,839**

1) In total, we had 13,844 employees in the reporting year (including temporary employees). The difference of five employees is because five employees indicated their gender as "other/undeclared/undefined." In fiscal year 2023, we also employed a total of 41 temporary staff members (10 women, 30 men and one person "undeclared") at our German companies.

NFR

For creative activities and team interactions, however, going into the office is still indispensable for success and employee wellbeing. Accordingly, employees can work remotely for an average of up to eight days a month in addition to working in the office – provided the tasks are suitable for remote working. Guidelines to this effect were adopted in the U.S., Great Britain, India and in central and eastern Europe. Countries in which no LANXESS guidelines on remote working previously existed, such as Korea and Australia, have now also published internal guidelines.

NFR

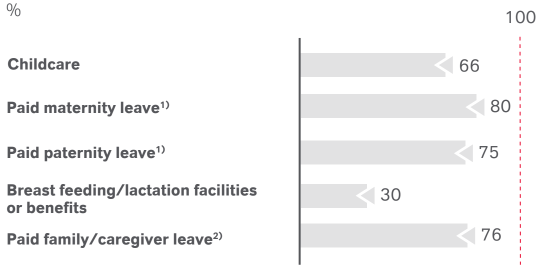
The "flexitime" model derived for Germany from the Xwork principles aims to enable employees in management to work part-time in an intelligent way. In the Flexi-95 model, the level of employment is reduced to 95% with a corresponding adjustment to remuneration, meaning that a full-time worker is entitled 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 2023, there were 199 active participants, of which 55 in senior management.

Work/life balance has become even more important under the difficult conditions of the coronavirus pandemic. Since January 2023, we have offered our employees in Germany a number of new childcare options, such as two additional daycare center locations. A total of 8% of the workforce in Germany aged between 20 and 40 were on parental leave for a time. Of this figure, 57% were fathers. 100% of the employees who ended a parental leave period in 2023 returned to a job at LANXESS, 99% of which still worked in the company at the end of 2023.

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.

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 150 employees in Germany since

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.

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. In fiscal year 2023, about 7,700 employees took advantage of this offer.

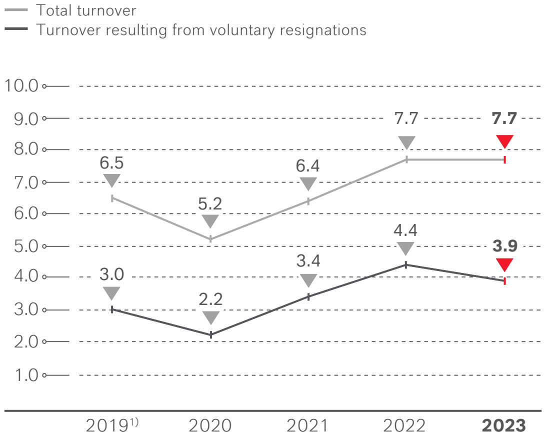
Commitment and loyalty

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 on a regular basis for a critical discussion of culture issues. Additional regional performance culture groups were established in the U.S. and EMEA region in 2023 (see pages 42 and 53).

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. Employee surveys were carried out at selected locations in 2023, for example in the U.S. and the Netherlands.

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.

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 3.9% (previous year: 4.4%), 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 has clearly become 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 2.6% (previous year: 2.8%). 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 1.3% worldwide in the reporting year (previous year: 1.7%).

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

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

	EMEA (excluding Germany)		Germany		North America		Latin America		Asia-Pacific		Total	
											%	Abs.
Age group	f	m	f	m	f	m	f	m	f	m		
< 30	6.7	6.9	1.0	1.2	5.1	8.0	4.6	6.0	8.1	11.4	**3.5**	**56**
30–49	3.3	3.3	1.5	0.6	3.5	2.8	0.8	0.8	1.9	1.6	**1.6**	**101**
≥ 50	0	1.0	0	0	1.9	1.6	0	0	0	0	**0.4**	**22**
Total	**2.3**	**2.7**	**0.9**	**0.4**	**2.9**	**2.8**	**1.5**	**1.1**	**2.1**	**1.8**	**1.3**	**179**
Region total	**2.6**		**0.5**		**2.8**		**1.2**		**1.9**			
Region total (absolute)	**38**		**36**		**62**		**9**		**34**			

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 (excluding Germany)		Germany		North America		Latin America		Asia-Pacific		Total	
											%	Abs.
Age group	f	m	f	m	f	m	f	m	f	m		
< 30	6.7	11.2	5.2	5.7	6.8	13.8	9.2	8.0	16.2	15.2	**7.9**	**125**
30–49	9.4	8.4	4.0	2.9	10.1	6.9	2.3	2.8	3.9	4.4	**4.6**	**293**
≥ 50	4.4	2.7	1.4	1.2	3.1	3.7	0	0	5.5	1.0	**1.9**	**104**
Total	**7.2**	**6.2**	**3.2**	**2.5**	**6.2**	**6.2**	**3.4**	**2.6**	**5.2**	**4.2**	**3.9**	**522**
Region total	**6.4**		**2.6**		**6.2**		**2.8**		**4.4**			
Region total (absolute)	**94**		**190**		**136**		**21**		**81**			

Total Turnover by Age Group, Gender and Region

	EMEA (excluding Germany)		Germany		North America		Latin America		Asia-Pacific		**Total**
Age group	**f**	**m**	**f**	**m**	**f**	**m**	**f**	**m**	**f**	**m**	
< 30	2	14	10	59	4	35	6	6	10	17	**163**
30–49	21	54	29	83	27	74	11	24	22	77	**422**
≥ 50	10	41	25	204	28	105	2	12	8	29	**464**
Total	**33**	**109**	**64**	**346**	**59**	**214**	**19**	**42**	**40**	**123**	**1,049**
%											
Age group	**f**	**m**	**f**	**m**	**f**	**m**	**f**	**m**	**f**	**m**	
< 30	6.7	12.0	5.2	7.3	6.8	20.1	13.8	12.1	27.0	21.5	**10.3**
30–49	11.7	10.6	4.5	3.6	13.6	10.0	8.5	6.7	7.1	7.6	**6.6**
≥ 50	7.3	8.4	4.5	7.3	10.9	13.6	6.7	9.1	11.0	9.2	**8.4**
Total	**9.5**	**9.8**	**4.6**	**5.8**	**11.5**	**12.7**	**9.3**	**7.8**	**9.5**	**8.8**	**7.7**
Region total	**9.7**		**5.6**		**12.4**		**8.2**		**9.0**		

chemical and petrochemical industry for the fourth time in a row, while our Indian subsidiary received the FICCI Chemical & Petrochemicals Award 2023 for Sustainability and Excellence. In China, we were again recognized as a top employer for our HR work. In Germany, LANXESS also placed second in the 2023 "Personalwirtschaftspreis" (Human Resources Award).

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. We also provided additional opportunities to best support our managers and employees in economically challenging times, for example through social learning and dialog formats, team workshops and digital learning.

In 2023, we carried out some training face-to face again, but also continued to develop and implement 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 further rolled out internationally. This means that our employees now benefit from more than 21,000 additional digital learning opportunities for their professional and interdisciplinary development and the strengthening of future skills. In 2023, LinkedIn Learning helped employees make effective use of the new Microsoft 365 applications. Our internal network includes 70 LinkedIn Learning curators who develop tailored learning pathways, increasing the quality of digital learning. Globally, more than 95% of our workforce received training in the reporting year, including both basic and safety training, as well as further education to further their careers and skills.

Strategic manager development again played a central role last year. Our development programs promote the key skills that managers need in a constantly changing business world. We provide both in-person and virtual management development programs, as this hybrid format ensures an optimum combination of effective training and flexibility, with a mix of face-to-face contact and digital learning. 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.

As well as the training programs, we have prepared a simple overview of the further training we recommend for our managers. These recommendations are regularly updated and are designed to improve individual leadership skills and encourage the ongoing professional development of our managers.

NFR

With our global, cross-divisional and cross-hierarchical “compass,” and “eXplorer” 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.

Events were held in person again in 2023, supplemented by virtual and individual learning opportunities. Although the specific targets for female and non-German participants expired in the reporting year, we exceeded our previous quotas: 93 people took part in the talent programs in 2023. The share of 33% female and 56% non-German participants demonstrates that we are committed to strengthening diversity in our talent programs.

International deployments are another key component of our systematic HR development. At the end of 2023, 33 employees – i. e. around 1% of our specialist and managerial staff – were deployed outside their contractual country as expatriates. To support their development, we also send younger employees in particular on shorter assignments abroad throughout the year. 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.

The World Day for Safety and Health at Work in April 2023 addressed the impact climate change has on people’s health and safety. A series of health events were organized around the world, including the digital “Health for future” event, which discussed health-related measures to combat climate change. In Germany, we talked to our employees about the links between food, the climate and health and offered skin screening. At the Leverkusen and Uerdingen sites, we organized trade fairs in collaboration with occupational health physicians, a health insurance fund and a PPE manufacturer.

As part of mental health week in October, we looked at how to deal with uncertainty and fear in times of crisis. We ran various campaigns around the world aiming, for example, to promote good mental health. As part of “mindful@LXS,” an online mindfulness program, we provided six modules in English and German on mindfulness training and improving resilience. Screening based on the Vienna stress test was also carried out at the Leverkusen, Cologne and Mannheim sites.

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 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 2023, we designed a new seminar for managers and ran the first series of events in Germany and in the EMEA and Americas regions. Working in small groups, managers reflected on their personal self-care and leadership style with regard to how these benefit their health.

In company integration management, we continued our collaboration with an external service provider for case management. Our goal here is to establish uniform quality standards at all LANXESS locations and to provide the growing number of employees who return to work after an illness with prompt professional advice and permanent reintegration.

Expanding the division-specific OHM was a particular priority in 2023. A total of five plants from four German sites and around 450 employees took part in a program with the goal of further improving prevention and health-promoting working conditions and systematically embedding this way of working in the divisions. The internal health groups, whose role involves training employees as health promoters, also worked on this. Measures were also implemented and evaluated that aim to improve ergonomics in plant-specific activities or that address mental health at work.

In occupational health promotion, we arranged activities related to exercise and addiction at the workplace, among other topics, in 2023.

We also promote wide-ranging measures to promote employee 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 the "mindful@LXS" program to our employees worldwide.

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).

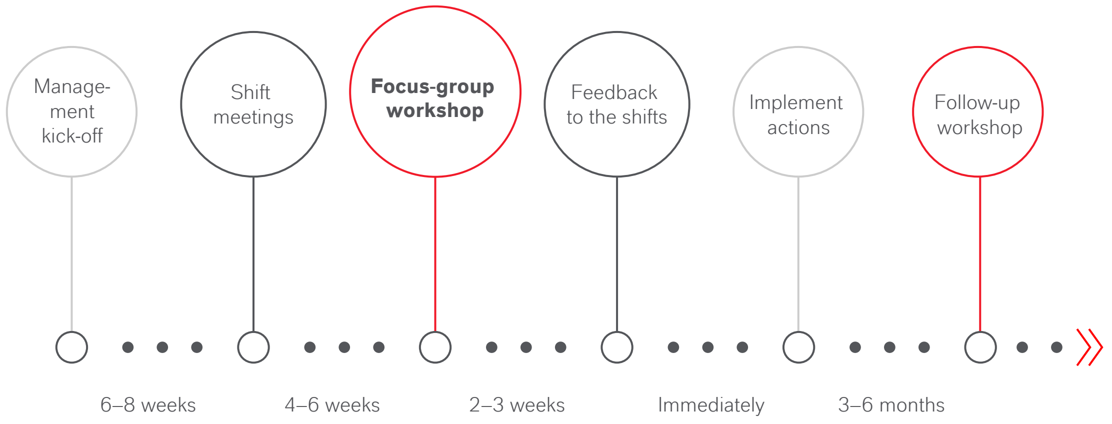
As ever, the work of the Xact team is focused on stabilizing and fostering a positive culture of safety and greater alignment toward behavior-based safety. To this end, we developed a systematic process called the Safety Culture Development (SCD) Process, which was launched globally in 2019.

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 useful processes and tools are the aspects with the greatest potential for improvement.

By the end of 2023, 99 of the roughly 140 planned focus-group workshops had been carried out in Germany, Argentina, Belgium, Brazil, France, India, Italy, Canada, Great Britain, the U.S. and China. The process was continued in 2024 and open workshops conducted.

Our Safety Culture Development Process



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 and behavioral reasons for unsafe actions. 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
- Mindfulness/vigilance
- Positive reinforcement of safe behavior
- Communication/feedback culture

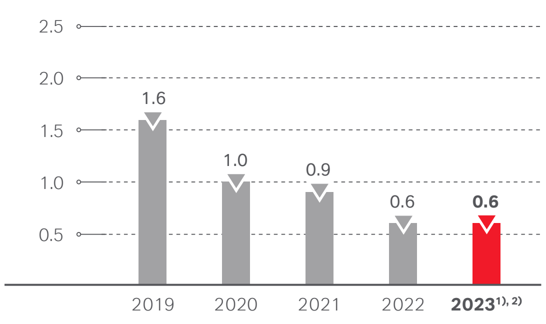
The Xact initiative has summarized these six cornerstones in a guidebook called "How Can Safety Culture Be Made Visible?". It was introduced worldwide in six languages in early 2021 and is a key element of our communication about safety. In order to make the content of the Xact guidebook more visual, the global Xact-Community developed digital flashcards in which employees presented their own examples and experiences in video messages. Knowledge is imparted and consolidated in interactive exercises. Five of a total of six digital flashcards have already been created and provided to employees in eleven languages on local e-learning platforms. Flashcard #6 "Communication/feedback culture" was created in English and German at the end of 2023 and will be translated into other languages and rolled out internationally at the start of 2024. More than 6,000 employees have already used this learning opportunity.

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.

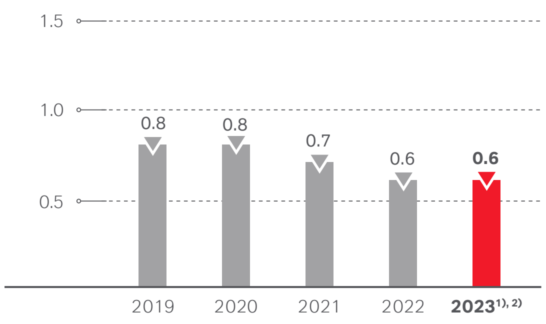
Indicators for the assessment of occupational safety at LANXESS are the recordable incident rate (RIR: number of incidents per 200,000 working hours that have to be reported according to the Occupational Safety and Health Administration [OSHA]) and the lost time injury frequency rate (LTIFR: accidents per million hours worked) for accidents with days lost. The LTIFR in 2023 was 0.6 (as of December 1, 2023) and thus higher than the previous year's low level of 0.6, again within our medium-term target of < 1.0.

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

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 0.6 (as of December 1, 2023) and thus in line with the previous year's level of 0.6. Companies have been taking occupational safety increasingly seriously in recent years and so the low number of reports of serious accidents remained unchanged.

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 and the stable rate at present as evidence that the structured transfer of knowledge and the many occupational safety measures at LANXESS are having a positive effect.

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 fifth 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.

The award was granted in 2023 to a team from India for three effective training methods that reduce risk when working in confined spaces: presence, digital and simulation ("safer confined space work"). The initiative also includes identifying hazards in the confined space and providing training plans, suitable rescue equipment and practical simulation training for rescue teams. The concept has already been successfully put into practice at both Indian production sites.

Second place was awarded jointly to the "Mobile first aid/extinguishing station" (Inorganic Pigments business unit, IPG, Krefeld-Uerdingen) and "Safety goes digital" (Polymer Additives business unit, PLA, Leverkusen) projects.

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.

The first half of 2023 was dominated by the joint venture with Advent. Key aspects here were agreements reached with employee representatives to successful transfer employees to the new company Envalior and the changes to the collectively agreed wage structure agreement this required. The collective bargaining partners were involved in the latter. Negotiations and dialog took place in an environment of constructive collaboration.

Given Germany's economic performance and the impact on the Group, the focus in the second half of fiscal year 2023 was on adjusting the business and, in turn, the workforce to the new situation. The aim was to manage this crisis together with the employee representatives using a range of measures.

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 substances not subject to labeling requirements 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 and hazardous goods 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 – who produce our raw materials, for example – for their products. 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

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

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

The second significant perspective is the product carbon footprint (PCF) and the circular potential of our products. Here, it is important to understand and account for the upstream value chain as well as our own production. 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.

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 five categories:

- **Energizer:** 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
- **Performer:** These products 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.
- **Transitioner:** Products in this category 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.
- **2024/2026 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.
- **Phase out:** Roadmap products for which action plans were established between 2021 and 2023 with the target of replacing them with sustainable alternatives by 2030. If using sustainable alternatives is not possible, we will withdraw the products from the market by 2026 and not replace them.

In 2023, we already generated 83% of our total sales with products that fulfill our sustainability requirements. 17% of our sales were attributable to products that did not (yet) completely fulfill these. As of the 2023 reporting date, specific action plans had been developed for all roadmap products (2021–2023). Based on the reference year 2021, we will stop marketing for 21% of sales generated with roadmap products by 2026 and offer non-critical alternatives for a further 69% by 2030. In the case of the remaining 10% of sales generated by roadmap products that we cannot currently replace, our analysis has shown that they are used exclusively by professionals under controlled, safe conditions.

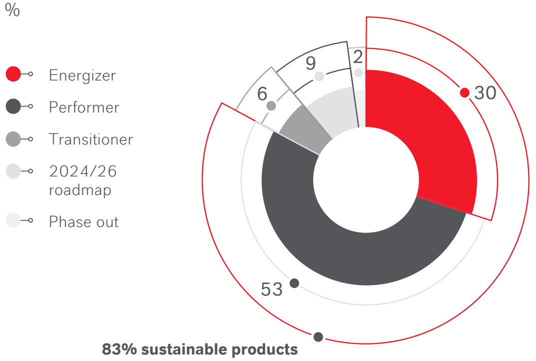
Based on a detailed analysis of our entire product portfolio, we prepared a new roadmap process in 2023. We will develop additional action plans in the next three years for all products previously categorized as transitioners that already have confirmed or expected critical properties. These products will be added to the 2024/2026 roadmap in the future.

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 2023

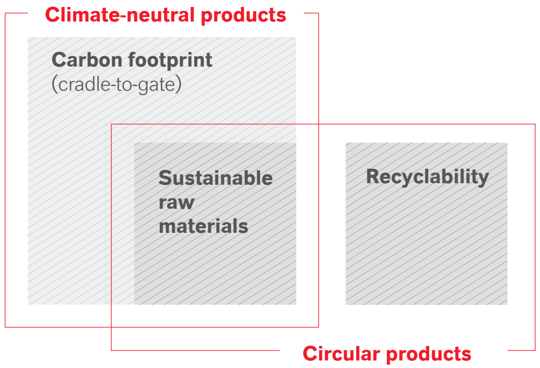
%



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 product carbon footprint (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 toward 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").

While LANXESS has achieved closer proximity to end customers following its acquisitions of Theseo, the Microbial Control business from the corporation International Flavors & Fragrances, and Emerald Kalama Chemical, most of our products are still sold to industrial customers. Only they or customers even further downstream use them to produce end products for a wide range of markets. 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 the importance of our product portfolio to climate protection and the circular economy 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 decades 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. In particular, appropriate additives significantly extend the product lifecycle of plastics. 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 2023, 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."

"Scopeblue®" products contain more than 50% sustainable raw materials and so they provide green solutions and help promote the circular economy. Another product has now been awarded the sustainability label – Neolone BioG Preservative. It has been approved for use in cosmetic and personal care products in accordance with the COSMOS standard and fulfills the ISO 16128 definition of a naturally derived ingredient.

We also further developed our electric mobility and battery work in 2023. In El Dorado, Arkansas, U.S., a project for the commercial and sustainable extraction of lithium for batteries is on track. LANXESS is working together with the Canadian company Standard Lithium Ltd. on this project. If the company produces lithium for batteries on an industrial scale, LANXESS will supply the necessary brine for the extraction of the lithium.

We have found another application for LANXESS Lewatit® ion exchange resins in lithium-ion battery recycling. We are currently working on Lewatit resins to extract lithium, nickel, cobalt, and manganese from the black mass that arises during recycling so that they can be reused for cathode materials.

Good industrial plant hygiene is essential to sustainable production. For this reason, we – one of the world's largest suppliers of antimicrobial protection products – and Tennants GmbH have agreed on a strategic cooperation for integrated solutions in the field of industrial plant hygiene. The aim of this is to combine our biocide portfolio and the Bielefeld company's adenosine triphosphate (ATP) technology. ATP technology can be used to quickly and reliably monitor hygiene levels at plants, ensuring the efficient use of biocides.

LANXESS has developed UltraPure 1296 MD PLUS for semiconductor production, a new mixed-bed resin for ultra-pure water with a far lower content of metals such as iron, zinc and sodium compared to standard products. In addition, the special production process for UltraPure 1296 MD PLUS ensures only very little total organic carbon (TOC) and particles are released.

After being launched on the U.S. market and then approved in Australia, the EU and Canada in 2023, our innovative, natural preservative Nagardo® has now also been approved in Ecuador, Colombia and Peru. LANXESS wants to sell its preservative to beverage producers around the world in the future. Nagardo not only efficiently safeguards product quality, it also allows European beverage producers 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 currently the most effective natural preservative for non-alcoholic beverages on the market. It won in the "Innovation" and "Product Launches" categories at the prestigious 2023 Just Drinks Excellence Awards organized by the online magazine "Just Drinks."

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. The Flavors & Fragrances business unit is now working on making the Group's value chain climate neutral by 2050. By the end of 2023, it will offer sustainable product variants for its entire portfolio of flavors and fragrances, preservatives and animal nutrition products. To provide this sustainable range, ISCC Plus certification must be granted for all five of the business unit's production sites. This was achieved by mid-2023.

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.

Especially in challenging times like these, proximity to the market and direct contact with our customers are of the utmost importance to us. In-person conversations, customer visits, on-site support and our own events are particularly important to this and so we further expanded these activities in 2023 after the pandemic years. The same is true of attending trade fairs and exhibitions. To reduce travel expenses, we have focused on strategically relevant events such as the European Coating Show for the Inorganic Pigments business unit and AQUATECH for the Liquid Purification Technologies business unit. These events allow us to meet many of our key customers and partners in one place. Nevertheless, virtual collaboration still plays an important role in our interactions with customers. Remote meetings are now standard and help us save travel costs and time while at the same time increasing the amount of contact. Through webinars and technical workshops, we reach a broad target group.

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 2023, we launched a project to improve the complaints process in the Lubricant Additives, Polymer Additives and Urethane Systems business units. This involved detailed analyses of the differences and priorities in the various business units and regions. In the Liquid Purification Technologies business unit, multiple departments assess and discuss complaints each month. A new role of “Complaint & Data Manager” was also created here in 2023.

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 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.

To position the business units in an increasingly competitive market and further boost their online presence, Saltigo, Flavors & Fragrances and Material Protection Products launched a joint LinkedIn Showcase Page called “LANXESS Personal Care & Cosmetics.” The aim of this is 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™. Inorganic Pigments regularly sends its sales partners newsletters discussing topics relevant to its own product marketing.

The rollout of the sales software successfully introduced in 2020 is almost complete. It enables flexible access to customer information regardless of internet connection or technical equipment. This means that our sales employees are always up to date, no matter where they are, and can respond to the specific needs of our customers. The software has proved a valuable tool for the sales teams and offers new features and content, such as an area specifically dedicated to sustainability. It has already been presented at trade fairs, where it proved very successful. It was also well received by customers.

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 2023/24 survey, the customer retention index (CRI) score was 74. We therefore gained three points versus the 2021/22 survey and were likewise three points ahead of our competitors again. This positive development, driven in particular by our customers' increased desire for long-term business relationships with us and their greater willingness to recommend us, shows that our customers appreciate our efforts to be a reliable partner, especially in difficult times.

As sustainability was already a focus area in the 2022 survey, Saltigo contacted numerous customers, explained the various measures (green chlorine, green sodium hydroxide, green hydrogen etc.) and, where data was available, presented the carbon footprint of customer-specific projects. Saltigo customers were positive about the progress and rated the business unit the best-in-class supplier in Europe.

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 retain them in the long term. For example, the Polymer Additives business unit increased its training on new software systems, improving its on-time, in-full figures. The Inorganic Pigments business unit significantly reduced lead and shipping times.

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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 (Regulation (EU) 2020/852) – 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

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

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 the delegated acts of the Taxonomy Regulation and potentially contribute to the achievement of one of the six environmental objectives. To determine alignment, an EU taxonomy objective is to be used to assess whether all of the technical screening criteria are met for each activity. It must make a substantial contribution to an environmental objective 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. For each of the six environmental objectives, the European Commission issued delegated acts with technical screening criteria for relevant economic activities. The initial focus was on the climate objectives. In 2023, criteria were established for the other four environmental objectives. The Climate Delegated Act was also amended in 2023. As part of this amendment, new economic activities were included and selective changes made to technical screening criteria for existing economic activities.

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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. Climate-related environmental objectives have been subject to taxonomy eligibility and alignment reporting requirements since 2022. For the other four environmental objectives and the newly included activities in the Climate Delegated Act, only taxonomy eligibility reporting is required for fiscal year 2023.

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 IFRS requirements as presented in the notes to the consolidated financial statements.

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Capital expenditures and operational expenditures

We report the proportion of expenditures and expenses incurred in connection with the operation 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 the Taxonomy Regulation.

Relevant capital expenditures comprise firstly our capital expenditures to maintain our production plants for taxonomy-eligible or taxonomy-aligned products, including production plants added via business acquisitions. Relevant spending/expenses for non-sales-generating activities are also to be taken into account and are described in the delegated acts.

The numerator is the share of additions from investments and business acquisitions that relate to taxonomy-eligible or taxonomy-aligned 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 185 and 187. The recognition and measurement rules as presented in the notes to the consolidated financial statements apply accordingly.

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Relevant operating expenditures are direct non-capitalized costs relating to research and development, building renovation measures, short-term leases, maintenance and repair. These must be covered by the ratio's denominator. 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 and therefore not included in the denominator (see consolidated financial statements).

The operational expenditures in connection with research, development and patents include for example costs for our scientific departments and laboratories. These expenditures are reported in the Notes on page 213 in accordance with IAS 38.126 et seq. Maintenance includes all operating expenses for maintenance measures, overhauls of production plants, the implementation of legal requirements and plant downtimes in the relevant reporting period, which according to our accounting guidelines cannot be capitalized and are therefore not a component of capital expenditures. This also includes direct expenses for maintenance materials as well as external and internal maintenance services. Costs for building modernization that cannot be capitalized are immaterial and are not reported separately.

The ratio's numerator covers those expenses for fiscal year 2023 that relate to taxonomy-eligible or taxonomy-aligned activities. The denominator covers all non-capitalizable expenses for research, development and maintenance.

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 have the greatest potential for helping significantly reduce greenhouse gas emissions. 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 significant reduction potential. LANXESS – as a specialty chemicals company – is not focused on such products.

In terms of the other four environmental objectives, the activities covered by the Taxonomy Regulation relate to the chemical industry only to a very limited extent. These are essentially activities that do not generate sales, such as remediation measures. 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 in the delegated acts on the climate goals and the other four environmental goals. The data-gathering process likewise took place centrally on the basis of consolidated data. In this way, we ruled out the double counting of sales, capital expenditures and operational expenditures.

Economic activities that LANXESS classifies as taxonomy-eligible:

- CCM[1] 3.17. "Manufacture of plastics in primary form": LANXESS produces high-quality **plastics** for a broad range of applications – from the automotive and electrical/electronics industries to water treatment.
- CCM[1] 3.14. "Manufacture of other organic basic chemicals": This activity covers our **adipic acid**. It is a precursor that is in high demand in the plastics industry, e.g. to make polyamides or polyurethanes.
- CCM[1] 3.4. "Manufacture of batteries": LANXESS produces **components for battery manufacturing that** are used in electric vehicles.

1) Climate Change Mitigation

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As well as the sales-generating activities, the following economic activities are also taxonomy-eligible:

- CCM[1] 5.4. “Renewal of water collection, treatment and supply systems” at the site in Leverkusen
- CCM[1] 6.5. “Transport by motorbikes, passenger cars and light commercial vehicles”
- CCM[1] 7.7. “Acquisition and ownership of buildings”
- PPC[2] 2.4. “Remediation of contaminated sites and areas.” LANXESS is building a groundwater treatment plant in South Africa.

Taxonomy-aligned activities

Since fiscal year 2022, LANXESS has also been required to report on the taxonomy alignment of its economic activities. We 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 also whether they provide the minimum social safeguards. The 2023 review related to the activities defined as part of the climate objectives. No compliance review is required until fiscal year 2024 for activities covered by environmental objectives three to six.

Substantial contribution

Our business activities contribute to climate change mitigation. We do not disclose taxonomy-eligible activities in connection with the second environmental objective, climate change adaptation, because we generate no sales from enabling activities in relation to this environmental objective and identified no separate CapEx (or OpEx) in the reporting year that contributes specifically to climate change adaptation.

- CCM[1] 3.4.: LANXESS manufactures components for batteries at the Leverkusen site that are mainly used for electric cars.
- CCM[1] 3.17.: As part of this, LANXESS produces plastics used for renewable raw materials at the Leverkusen site. In addition to plant-based raw materials, LANXESS also views green caustic soda in the context of renewable raw materials.
- CCM[1] 5.4.: Investing in a wastewater treatment plant in Leverkusen resulted in significantly more efficient pretreatment of a wastewater flow, achieving considerable energy savings.

Do no significant harm (“DNSH”)

LANXESS’s economic activities that make a substantial contribution to climate change mitigation were analyzed according to the DNSH criteria. To assess the “climate change adaptation” criterion, physical climate risks and climate trends were identified for the corresponding site and their relevance for the economic activity 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 economic activities were 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 25).

No criteria that negatively impact the “transition to a circular economy” environmental objective have been defined for the activities 3.17 and 5.4. For activity 3.4, we regularly review whether it is possible to reuse battery materials and to use secondary raw materials for the manufacture of battery components. The criteria relating to recycling processes are not applicable because LANXESS does not perform this activity.

In our roadmap process, we manage products and production processes involving SVHC with the aim of developing safe and sustainable alternatives. Our products contain no SVHC in a concentration of more than 0.1% by mass. All raw materials used are handled following the necessary safety precautions. Our taxonomy-aligned products therefore meet the “pollution prevention and control” criteria.

1) Climate Change Mitigation
2) Pollution, Prevention & Control

NFR

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 "Safe and Sustainable Sites," page 22). For the single relevant site, evidence was provided that it is not located in a biodiversity sensitive area.

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 Social & Governance sub-committee, and further formalized the processes that guarantee the requirements for minimum safeguards. 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 19), for anti-corruption (see "Anti-corruption" under "Good Corporate Governance," page 39), for taxes (Tax Guideline) and for fair competition.

Further information on corporate governance at LANXESS

NFR

Results

Sales

In fiscal year 2023, LANXESS generated 8.2% of its external sales with products allocable to taxonomy-eligible activities. The remaining 91.8% of sales relate to products that are not included in the taxonomy's activity categories.

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 generated total sales of €548 million classified as taxonomy-eligible. The taxonomy-aligned sales in the reporting year were 2.3%.

NFR

Capital expenditures

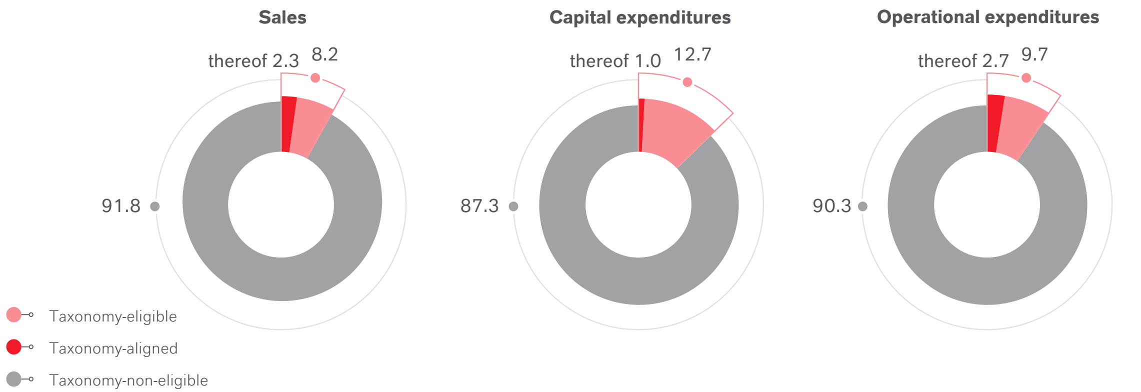
In the reporting year, the share of taxonomy-eligible capital expenditures was 12.7%, with investments in buildings accounting for the majority. Therefore, the share of taxonomy-non-eligible activities in our capital expenditures is 87.3%. The share of taxonomy-eligible capital expenditures amounts to 1.0% of our capital expenditures. All taxonomy-aligned capital expenditures comprise additions to property, plant and equipment.

Operational expenditures

In the reporting year, the share of operational expenditures for taxonomy-eligible products amounted to 9.7% of the total operating expenditures. Therefore, the share of taxonomy-non-eligible operating expenditures is 90.3%. The share of taxonomy-eligible operational expenditures amounts to 2.7% of our operating expenditures.

Key Data Pursuant to EU Taxonomy Regulation

%



NFR

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

Fiscal year 2023	2023			Substantial contribution criteria						DNSH criteria ("do no significant harm")									
Economic activities (1)	**Code (2)**	**Net sales (3)**	**Proportion of net sales, 2023 (4)**	**Climate change mitigation (5)**	**Climate change adaptation (6)**	**Water (7)**	**Pollution (8)**	**Circular economy (9)**	**Biodiversity (10)**	**Climate change mitigation (11)**	**Climate change adaptation (12)**	**Water (13)**	**Pollution (14)**	**Circular economy (15)**	**Biodiversity (16)**	**Minimum safeguards (17)**	**Proportion of taxonomy aligned (A.1.) or eligible (A.2.) turnover, year 2022 (18)**	**Category enabling activity (19)**	**Category transitional activity (20)**
		Currency	%	Y;N; N/EL	Y;N; N/EL	Y;N; N/EL	Y;N; N/EL	Y;N; N/EL	Y;N; N/EL	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	CCM 3.4.	€14,956,873	0.2%	Y	N/EL	N/EL	N/EL	N/EL	N/EL	Y	Y	Y	Y	Y	Y	Y	0.2%	E	
3.17. Manufacture of plastics in primary form	CCM 3.17.	€137,574,579	2.0%	Y	N/EL	N/EL	N/EL	N/EL	N/EL	Y	Y	Y	Y	Y	Y	Y	0.0%		T
Net sales of environmentally sustainable activities (taxonomy-aligned) (A.1)		**€152,531,452**	**2.3%**	**2.3%**	**N/EL**	**N/EL**	**N/EL**	**N/EL**	**N/EL**	**Y**	**Y**	**Y**	**Y**	**Y**	**Y**	**Y**	**0.2%**		
of which enabling activity		€14,956,873	0.2%	0.2%	N/EL	N/EL	N/EL	N/EL	N/EL	Y	Y	Y	Y	Y	Y	Y	0.2%	E	
of which transitional activity		€137,574,579	2.0%	2.0%													0.0%		T
A.2 Taxonomy-eligible but not environmentally sustainable activities (not taxonomy-aligned activities)																			
				EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL										
3.14. Manufacture of other organic basic chemicals	CCM 3.14.	€55,190,090	0.8%	EL	N/EL	N/EL	N/EL	N/EL	N/EL								1.0%		
3.17. Manufacture of plastics in primary form	CCM 3.17.	€340,122,770	5.1%	EL	N/EL	N/EL	N/EL	N/EL	N/EL								7.0%		
Net sales of taxonomy-eligible but not environmentally sustainable activities (not taxonomy-aligned activities) (A.2)		**€395,312,860**	**5.9%**	**5.9%**													8.0%		
A. Sales of taxonomy-eligible activities (A.1 + A.2)		**€547,844,312**	**8.2%**	**8.2%**													8.2%		

B. TAXONOMY-NON-ELIGIBLE ACTIVITIES			
Net sales of taxonomy-non-eligible activities		€6,166,439,162	**91.8%**
Total		**€6,714,283,474**	**100%**

Gas and nuclear activities are not relevant for LANXESS, so we do not present the special templates.

The taxonomy-aligned sales result from production, the company's main business activity. These are external sales.

Significant changes compared with the previous year arise from the recognition of taxonomy-aligned products under CCM 3.17.

Y Yes, activity is taxonomy-eligible and taxonomy-aligned with the relevant environmental objective
N No, activity is taxonomy-eligible but not taxonomy-aligned with the relevant environmental objective
EL Activity is eligible for the relevant environmental objective
N/EL Activity is not eligible for the relevant environmental objective

NFR

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

Fiscal year 2023	2023			Substantial contribution criteria						DNSH criteria ("do no significant harm")									
Economic activities (1)	Code (2)	CapEx (3)	Proportion of CapEx 2023 (4)	Climate change mitigation (5)	Climate change adaptation (6)	Water (7)	Pollution (8)	Circular economy (9)	Biodiversity (10)	Climate change mitigation (11)	Climate change adaptation (12)	Water (13)	Pollution (14)	Circular economy (15)	Biodiversity (16)	Minimum safeguards (17)	Proportion of taxonomy aligned (A.1.) or eligible (A.2.) CapEx, year 2022 (18)	Category enabling activity (19)	Category transitional activity (20)
		Currency	%	Y;N; N/EL	Y;N; N/EL	Y;N; N/EL	Y;N; N/EL	Y;N; N/EL	Y;N; N/EL	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	CCM 3.4.	€210,000	0.1%	Y	N/EL	N/EL	N/EL	N/EL	N/EL	Y	Y	Y	Y	Y	Y	Y	0.2%	E	
3.17. Manufacture of plastics in primary form	CCM 3.17.	€3,709,935	0.9%	Y	N/EL	N/EL	N/EL	N/EL	N/EL	Y	Y	Y	Y	Y	Y	Y	0.0%		T
5.4. Renewal of water collection, treatment and supply systems	CCM 5.4.	€258,000	0.1%	Y	N/EL	N/EL	N/EL	N/EL	N/EL								0.3%		
CapEx of environmentally sustainable activities (taxonomy-aligned) (A.1)		**€4,177,935**	**1.0%**	**1.0%**	**N/EL**	**N/EL**	**N/EL**	**N/EL**	**N/EL**	**Y**	**Y**	**Y**	**Y**	**Y**	**Y**	**Y**	**0.5%**		
of which enabling activity		€210,000	0.1%	0.1%	N/EL	N/EL	N/EL	N/EL	N/EL	Y	Y	Y	Y	Y	Y	Y	0.2%	E	
of which transitional activity		€3,709,935	0.9%	0.9%															T
A.2 Taxonomy-eligible but not environmentally sustainable activities (not taxonomy-aligned activities)																			
				EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL										
3.14. Manufacture of other organic basic chemicals	CCM 3.14.	€2,431,064	0.6%	EL	N/EL	N/EL	N/EL	N/EL	N/EL								0.2%		
3.17. Manufacture of plastics in primary form	CCM 3.17.	€14,679,748	3.7%	EL	N/EL	N/EL	N/EL	N/EL	N/EL								2.0%		
6.5. Transport by motorbikes, passenger cars and light commercial vehicles	CCM 6.5.	€5,421,732	1.4%	EL	N/EL	N/EL	N/EL	N/EL	N/EL										
7.7. Acquisition and ownership of buildings	CCM 7.7.	€21,611,343	5.4%	EL	N/EL	N/EL	N/EL	N/EL	N/EL								0.0%		
2.4. Remediation of contaminated sites and areas	PPC 2.4.	€2,392,000	0.6%	N/EL	N/EL	N/EL	EL	N/EL	N/EL										
CapEx of taxonomy-eligible but not environmentally sustainable activities (not taxonomy-aligned activities) (A.2)		**€46,535,888**	**11.6%**	**11.0%**			**0.6%**										2.2%		
A. CapEx of taxonomy-eligible activities (A.1 + A.2)		**€50,713,823**	**12.7%**	**12.1%**			**0.6%**										2.7%		
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																			
CapEx of taxonomy-non-eligible activities		**€349,675,687**	**87.3%**																
Total		**€400,389,509**	**100%**																

Gas and nuclear activities are not relevant for LANXESS, so we do not present the special templates.

Significant changes compared with the previous year arise from the recognition of taxonomy-aligned products under CCM 3.17.

Y Yes, activity is taxonomy-eligible and taxonomy-aligned with the relevant environmental objective
N No, activity is taxonomy-eligible but not taxonomy-aligned with the relevant environmental objective
EL Activity is eligible for the relevant environmental objective
N/EL Activity is not eligible for the relevant environmental objective

NFR

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

Fiscal year 2023		2023		Substantial contribution criteria						DNSH criteria ("do no significant harm")									
Economic activities (1)	**Code (2)**	**OpEx (3)**	**Proportion of OpEx 2023 (4)**	**Climate change mitigation (5)**	**Climate change adaptation (6)**	**Water (7)**	**Pollution (8)**	**Circular economy (9)**	**Biodiversity (10)**	**Climate change mitigation (11)**	**Climate change adaptation (12)**	**Water (13)**	**Pollution (14)**	**Circular economy (15)**	**Biodiversity (16)**	**Minimum safeguards (17)**	**Proportion of taxonomy aligned (A.1.) or eligible (A.2.) OpEx, year 2022 (18)**	**Category enabling activity (19)**	**Category transitional activity (20)**
		Currency	%	Y;N; N/EL	Y;N; N/EL	Y;N; N/EL	Y;N; N/EL	Y;N; N/EL	Y;N; N/EL	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)																			
3.17. Manufacture of plastics in primary form	CCM 3.17.	€10,868,734	2.7%	Y	N/EL	N/EL	N/EL	N/EL	N/EL	Y	Y	Y	Y	Y	Y	Y	0.0%		T
OpEx of environmentally sustainable activities (taxonomy-aligned)[1] (A.1)		**€10,868,734[2]**	**2.7%**	**2.7%**	**N/EL**	**N/EL**	**N/EL**	**N/EL**	**N/EL**	**Y**	**Y**	**Y**	**Y**	**Y**	**Y**	**Y**	**0.1%**		
of which enabling activity		€0	0.0%	0.0%	N/EL	N/EL	N/EL	N/EL	N/EL	Y	Y	Y	Y	Y	Y	Y	0.1%	E	
of which transitional activity		€10,868,734	2.7%	2.7%															T
A.2 Taxonomy-eligible but not environmentally sustainable activities (not taxonomy-aligned activities)																			
				EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL										
3.14. Manufacture of other organic basic chemicals	CCM 3.14.	€3,204,844	0.8%	EL	N/EL	N/EL	N/EL	N/EL	N/EL								0.8%		
3.17. Manufacture of plastics in primary form	CCM 3.17.	€20,458,750	5.1%	EL	N/EL	N/EL	N/EL	N/EL	N/EL								7.2%		
7.7. Acquisition and ownership of buildings	CCM 7.7.	€4,488,098	1.1%	EL	N/EL	N/EL	N/EL	N/EL	N/EL								0.0%		
OpEx of taxonomy-eligible but not environmentally sustainable activities (not taxonomy-aligned activities) (A.2)		**€28,151,692**	**7.0%**	**7.0%**													8.0%		
A. OpEx of taxonomy-eligible activities (A.1 + A.2)		**€39,020,427**	**9.7%**	**9.7%**													8.1%		
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																			
OpEx of taxonomy-non-eligible activities		**€362,489,714**	**90.3%**																
Total		**€401,510,140**	**100%**																

Gas and nuclear activities are not relevant for LANXESS, so we do not present the special templates.

Significant changes compared with the previous year arise from the recognition of taxonomy-aligned products under CCM 3.17.

Y Yes, activity is taxonomy-eligible and taxonomy-aligned with the relevant environmental objective
N No, activity is taxonomy-eligible but not taxonomy-aligned with the relevant environmental objective
EL Activity is eligible for the relevant environmental objective
N/EL Activity is not eligible for the relevant environmental objective
1) The taxonomy-aligned operational expenditures result from the production of plastics at the Leverkusen site, for which renewable raw materials are used.
2) Of the taxonomy-aligned operational expenditures, around 40% are attributable to research and development and around 60% to maintenance.

LANXESS ON THE CAPITAL MARKET

LANXESS on the Capital Market

The 2023 stock market year was dominated by high levels of volatility due to persistent uncertainties over future economic development, the ongoing war in Ukraine and other geopolitical crises. High rates of inflation and rising financing costs significantly depressed growth momentum in key markets, also affecting company outlooks.

Only when worries about inflation eased at the end of the year, combined with initial signals from central banks of an end to restrictive monetary policy, did stock markets break the downward trend dominating since August 2023 and pick up significantly again. Nevertheless, the adverse factors affecting economic performance remained in place into the new year.

The 2023 stock market year started strong, both for the LANXESS share and for the relevant DAX, MDAX and FTSEurofirst 300 Eurozone Chemicals benchmark indices. Propelled by a substantial upward trend, the LANXESS share price climbed by almost 20% to an annual high of €47.83 on February 3, 2023 (intraday Xetra). As the year went on, the weak economy and impact of high raw material and energy costs squeezed operating business. This was also reflected in the further price trajectory of the LANXESS share in the reporting year. In light of the weak environment, at the same time as presenting figures for fiscal year 2022 we also had to issue a cautious outlook in March 2023, resulting in a considerable decline in our share price. In the weeks that followed, the price moved sideways within a narrow range.

As a result of the challenging economic environment and made worse by the ongoing reduction in chemical product inventories among our customers, demand dropped by more than expected and so we were forced to lower our expectations for the second quarter and for the year as a whole on June 19, 2023. It did not pick up again in the subsequent quarters either. We initiated a Group-wide savings program in response to this muted demand, but it was unable to compensate for ongoing inventory reduction among our customers in the short term. As a result of operating performance, the LANXESS share price reached its low for the year on October 26, 2023, at €20.14 (intraday Xetra). With operating business also failing to pick up in the fourth quarter of 2023, the negative impact of inventory reduction among our customers in the agricultural sector, and supplier-related production cuts in the Flavors & Fragrances business unit at the site in Botlek, Netherlands, the full-year forecast was further adjusted on November 6, 2023, and the dividend proposal for fiscal year 2023 reduced to €0.10 per share.

Our share price gained some momentum again following the publication of the third quarter figures and a round table discussion and direct communication with our analysts. Shored up by the general year-end rally on the stock market, the LANXESS share price picked up again and closed the stock market year on December 29, 2023, at €28.37 (Xetra). This equates to a 24.7% price decline as against the end of 2022, putting the LANXESS share behind the relevant benchmark indices. The MDAX closed the stock market year up 6.7% at 27,137 points, with the DAX up 19.0% at 16,752 points. The FTSEurofirst 300 Eurozone Chemicals sector index also saw considerable growth of 18.3% to 4,796 points.

LANXESS Stock at a Glance

		2020	2021	2022	2023
Capital stock/no. of shares[1]	€/no. of shares	87,447,852	86,346,303	86,346,303	**86,346,303**
Market capitalization	€ billion	5.49	4.71	3.26	**2.45**
High/low[1]	€	64.86/25.68	67.38/50.46	59.04/28.16	**47.83/20.14**
Closing price	€	62.76	54.50	37.70	**28.37**
Adjusted earnings per share from continuing operations	€	3.50[3]	4.83	3.75[2]	**0.13**
Dividend per share	€	1.00	1.05	1.05	**0.10[4]**

1) As of end of year (intraday Xetra): December 31, 2020; December 31, 2021; December 31, 2022; December 31, 2023.
2) Earnings per share from continuing operations disregarding exceptional charges and income, amortization of intangible assets, attributable tax effects, income from investments accounted for using the equity method, and the non-recurring earnings effects from the settlement of interest rate hedges in 2022.
3) Including Business Unit High Performance Materials
4) Dividend proposal to the Annual Stockholders' Meeting on May 24, 2024.

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, among others
Investment grade ratings	Moody's: Baa3 (negative)[1] Scope: BBB (negative)[2]

1) Since November, 2023
2) Since February, 2024

DIVIDEND POLICY

We aim to pay a stable or increased dividend each year. For each year's proposal, we will take certain factors, such as the economic situation and our financial leverage, into consideration. We will however always pay a dividend. At the Annual Stockholders' Meeting on May 24, 2024, the Board of Management and the Supervisory Board will propose a dividend of €0.10 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 2023, the percentage of such investors was unchanged at around 92%. The remaining roughly 8% of LANXESS stocks are held by private investors.

Our investors were mainly based in the U.S., Germany and France in 2023. The percentage of U.S. stockholders most recently increased sharply to around 52% (previous year: 43%). Far fewer stocks were held in Germany as of the reporting date at about 22% (previous year: 31%). The holdings of investors in Great Britain also declined to around 4% (previous year: 7%). They thus fell slightly behind French investors, whose holdings have remained stable at 5% since 2022.

The share of investors from elsewhere in Europe increased slightly year-on-year to around 16% (previous year: 15%). In other regions, this share also rose slightly to about 5% (previous year: 4%).

You can find an overview of the institutional investors who are required to inform us if they hold at least 3% of outstanding LANXESS stocks 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. The sustainability-linked financing framework complements our existing debt issuance program and creates a framework that allows us to link bonds to sustainability targets.

No new bonds were issued in fiscal year 2023. The €500 million hybrid bond (ISIN: XS1 405763019) that matures in 2076 was redeemed early at the first possible repayment date on June 6, 2023.

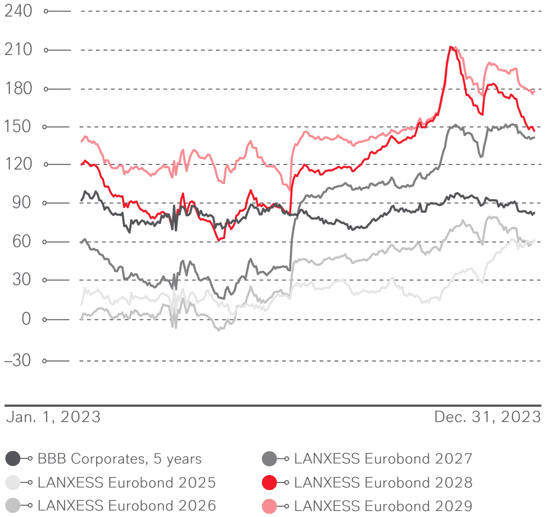
There are thus five outstanding LANXESS bonds at present. All LANXESS Eurobonds are listed on the Luxembourg Stock Exchange.

Further information on the respective bond conditions can be found on our website.

Overview of LANXESS's Main Bonds

ISIN/WKN	Volume	Duration	Coupon
XS1 820748538	€500 million	May 16, 2018–May 16, 2025	1.125%
XS1 501367921	€500 million	October 7, 2016–October 7, 2026	1.000%
XS2 383886947	€500 million	September 8, 2021–September 8, 2027	0.000%
XS2 459163619	€600 million	March 22, 2022–March 22, 2028	1.750%
XS2 415386726	€600 million	December 1, 2021–December 1, 2029	0.625%

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 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.

Geopolitical crises and monetary policy measures taken by central banks in response to the sustained period of high inflation were once again the main source of volatile risk premiums for corporate bonds last year. High energy costs in Europe and weak demand particularly affected risk premium performance in the European chemical sector. Changes to LANXESS profit expectations and the rating also increased the credit risk premium for LANXESS bonds. The LANXESS Group continues to have competitive access to capital market finance.

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.

Rating agencies again assessed LANXESS's creditworthiness in the reporting year. Moody's gives LANXESS a "Baa3" rating with a negative outlook[1] and Scope Ratings a "BBB" rating likewise with a negative outlook[2]. The ratings reflect the challenging market environment in the chemical industry at present and higher debt leverage due to the decline in earnings in 2023. LANXESS is focusing on reducing its debt and has already taken important steps to do so, including through its "FORWARD!" program and the announced sale of the Urethanes Solutions business.

1) Since November, 2023
2) Since February, 2024

The agencies took a positive view of our continuous transformation into a specialty chemicals company with a focus on stable businesses in various medium-sized markets, the accordingly lower cyclicality and the good geographical diversification. As part of this transformation, the High Performance Materials business unit was successfully transferred to the joint venture with Advent for high-performance engineering polymers, and the joint company "Envalior" was established. The rating agencies commented generally positively on the transaction.

Further information on the development of LANXESS ratings and rating outlook since 2015

Detailed information, downloadable publications, and contacts

CORPORATE GOVERNANCE

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

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

In the Corporate Governance Statement pursuant to Sections 289f, 315d of the German Commercial Code (HGB), 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 ON THE GERMAN CORPORATE GOVERNANCE CODE PURSUANT TO SECTION 161 OF THE GERMAN STOCK CORPORATION ACT

On December 15, 2023, 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 (AktG):

“Since the issuance of the last declaration of compliance on December 9, 2022, LANXESS AG has complied with the recommendations of the Government Commission on the German Corporate Governance Code (‘Government Commission’) as amended on April 28, 2022, which were published by the Federal Ministry of Justice and Consumer Protection in the official section of the Federal Gazette, with the exception described below and will comply with them without exception in the future:

The share of variable compensation received by the Board of Management as a result of achieving long-term targets does not yet exceed the share from short-term targets in all existing Board of Management employment contracts (deviation from recommendation G.6 of the German Corporate Governance Code (GCGC)).

Following the publication of the then new version of the GCGC on March 20, 2020, and the resulting introduction of recommendation G. 6, the Supervisory Board began to successively implement this recommendation when concluding new Board of Management employment contracts in connection with upcoming (re-)appointments on the basis of a revised Board of Management compensation system as of January 1, 2021. In order to maintain the weighting of individual compensation components and thus the total amount of compensation originally agreed in existing Board of Management employment contracts, however, these contracts were not amended. Following the latest (re-)appointments of Board of Management members in 2023, recommendation G.6 of the GCGC will be fully implemented in all contracts of serving Board of Management members from April 1, 2024, onward.”

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. Overview of the implementation of sustainability 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.

From the appointment of Frederique van Baarle on April 1, 2023, until the end of fiscal year 2023, the Board of Management of LANXESS AG temporarily had five members again. After the former CFO Michael Pontzen left at his own request on August 31 and his role was taken over by the former Head of the Treasury & Investor Relations department, Oliver Stratmann, these five members were Matthias Zachert (Chairman), Frederique van Baarle, Dr. Anno Borkowsky, Dr. Hubert Fink and Oliver Stratmann. Dr. Anno Borkowsky retired and stepped down from the Board of Management of LANXESS AG at the end of the fiscal year on December 31, 2023. There are currently no plans to appoint a successor. 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, focusing on sustainable value creation, 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 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 and climate action. 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 2023 can be found in the Report of the Supervisory Board and on the company's website.

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. Rules of procedure of the Supervisory Board

The Board of Management provides full and timely reports to the Supervisory Board about the course 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 effectively it as a whole and its individual committees fulfill their tasks. An externally supported self-assessment was last carried out in fiscal year 2022. 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. The other members of the Presidial Committee are Birgit Bierther, Manuela Strauch, Hans van Bylen, Ralf Sikorski and 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, 2023, 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. Ms. Knapp and Mr. van Bylen 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 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 accordance with the German Stock Corporation Act, 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 (minimum participation requirement).

Following the appointment of Frederique van Baarle as of April 1, 2023, the LANXESS Board of Management has a female member again, meaning that the temporary vacancy resulting from Dr. Stephanie Coßmann's departure in fiscal year 2022 was quickly filled.

The Board of Management last adopted new targets for the management levels below the Board of Management in April 2022. These plan for greater representation than before in accordance with the company's interest in continually 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 2023, these figures amounted to 23.1% and 28.4%, 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, 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 Section 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. This requirement was met in fiscal year 2023 thanks to the appointment of Frederique van Baarle as of April 1, 2023.

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 newly appointed 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 complies entirely with the current diversity concept.

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, cybersecurity, 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 the 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, by e-mail or electronically.

As in the previous years, which were impacted by the COVID-19 pandemic, the company's Annual Stockholders' Meeting on May 24, 2023, was again held with the Supervisory Board's approval as a virtual Annual Stockholders' Meeting without the physical presence of the stockholders or their authorized representatives. This followed careful examination and consideration of all decision-making criteria relevant for the event format.

By resolution of the Annual Stockholders' Meeting of May 24, 2023, the company's articles of association were amended and the Board of Management was authorized to arrange for the Annual Stockholders' Meeting to continue to be held without the physical presence of the stockholders or their authorized representatives at the venue of the Annual Stockholders' Meeting (virtual Annual Stockholders' Meeting). This authorization applies to virtual Annual Stockholders' Meetings held during a two-year period following the entry of this amendment to the articles of association in the company's commercial register, which occurred on June 12, 2023.

COMPENSATION SYSTEM AND COMPENSATION 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 of LANXESS AG on May 24, 2023, by a majority of 90.48%. The most recent resolution of the Annual Stockholders' Meeting 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 AG website.

The total number of shares of LANXESS AG held by members of the Board of Management and Supervisory Board as of December 31, 2023, 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 accounts for fiscal year 2023 were audited by the auditor PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft (PwC) for the last time. The condensed financial statements and interim management report included in the 2023 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 line with the external rotation required by law, the Annual Stockholders' Meeting of LANXESS AG on May 24, 2023, accepted the Supervisory Board's nomination and appointed KPMG AG Wirtschaftsprüfungsgesellschaft as the new auditor of the financial statements for fiscal year 2024 and as the auditor for the review of the condensed financial statements and interim management report included in the 2024 half-year financial report. 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 2024

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, 2023)

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 (resigned as of December 31, 2023) Member of the Board of Management	• Member of the Board of Administration of Hüttenes-Albertus Chemische Werke GmbH (since July 1, 2023)	• Member of the Executive Board of LANXESS Deutschland GmbH • Chairman of the Board of Directors of LANXESS Hong Kong Ltd. • Member 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 • Chairman of the Supervisory Board of LANXESS Performance Materials GmbH (resigned as of March 29, 2023)
Frederique van Baarle Member of the Board of Management		• Member of the Executive Board of LANXESS Deutschland GmbH (since April 1, 2023) • Chairwoman of the Board of Directors of LANXESS Corp. (since November 1, 2023)
Oliver Stratmann Member of the Board of Management		• Member of the Executive Board of LANXESS Deutschland GmbH (since September 1, 2023)

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
- Etex NV, Brussels, Belgium
- Ontex Group NV, Erembodegem (Aalst), Belgium (Chairman)

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]
- Grillo-Werke AG, Duisburg[1] (since March 16, 2023)
- Martur Fompak International/Automotive Seating Systems AS, Istanbul, Turkey
- 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)]
• Compagnie de Saint-Gobain S.A., Courbevoie, France (member of the Board of Directors – Conseil d'Administration – and Chairwoman of the Audit Committee)
• Signify NV, Eindhoven, Netherlands (member of the Supervisory Board and Chairwoman of the Audit Committee)

Dr. Rainier van Roessel
• Self-employed consultant
• Former member of the Board of Management and Labor Relations Director of LANXESS AG

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

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)
• RAG AG, Herne[1)]
• RWE AG, Essen[1)] (Vice Chairman)
• RWE Power AG, Cologne and Essen[1)] (Vice Chairman)
• RWE Generation SE, Essen[1)] (resigned February 28, 2023)
• Chemie Pensionsfonds, Wiesbaden[1)] (Chairman, resigned as of December 31, 2023)

Serving Members

Birgit Bierther
• Member of the LANXESS Works Council at the Cologne SIte (until October 31, 2023 as chairwoman)

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 Group Managerial Employees' Committee of LANXESS AG
• 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
• Vice Chairwoman of the LANXESS Group Works Council
• Chairwoman of the LANXESS Works Council at the Leverkusen site

Further offices:
• LANXESS Deutschland GmbH, Cologne[1)]
• Saltigo GmbH, Leverkusen[1)]

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

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

1) Statutory supervisory boards.

Report of the Supervisory Board

DEAR STOCKHOLDERS,

Fiscal year 2023 was the most challenging year in LANXESS's history. In difficult times for global politics and with a recession in Germany, the company was adversely affected by generally low demand, which was exacerbated by the inventory reduction among customers as well as the reduction of the company's own inventories.

In April, the company completed the contribution of the High Performance Materials business unit to Envalior, the joint company for high-performance engineering plastics formed with private equity investor Advent International. In line with the acquisitions of previous years, this step further sharpened the focus of LANXESS's business portfolio on specialty chemicals.

This progress was made in a difficult environment for global politics and the world economy, which also had a significant influence on our company. The year was shaped by the ongoing war in Ukraine, still high raw material and energy prices, and generally subdued consumer confidence. As a result, LANXESS had to adjust its forecast for the full year in June. In order to counteract the generally weak demand, we promptly implemented the FORWARD! action plan, which includes immediate measures to stabilize earnings as well as a medium-term plan to permanently lower the cost base. Because of the persistently weak demand, inventory reduction by our customers, and supplier-related production cuts, we had to adjust our forecast again in November.

However, LANXESS again achieved positive results 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 from purchased energy (Scope 2) by 2040. This target was expanded to include emissions from the upstream and downstream supply chains (Scope 3). We likewise wish to make these climate neutral by 2050. As part of this strategy, last year we entered into additional cooperations that enable us to offer sustainable alternatives in our product portfolio, for example. In 2023, external rating agencies specializing in sustainability therefore gave our holistic sustainability strategy very good ratings once again.

For fiscal year 2024, we continue to expect a difficult environment with political uncertainties. Our focus for 2024 is the realization of cost savings through the FORWARD! program and the management of our businesses in a persistently challenging environment.

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, 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 five 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 difficult situation in the chemical industry in the reporting year, the development of raw material, energy and logistics costs, the performance of LANXESS stock, the energy supply at LANXESS sites in Germany, the effects of the Ukraine war on LANXESS's business activities, sustainability issues, and the FORWARD! cost reduction and stabilization project initiated by the company. The Supervisory Board addressed the following important issues:

The focus of the Supervisory Board's financial statements meeting held on March 14, 2023, was the review of the annual financial statements and consolidated financial statements for fiscal year 2022 and the proposal for use of the distributable profit. We discussed and approved the non-financial Group report 2022, 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, 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 2022 on the basis of the identified target attainment and on the payout of the 2019 LTSP tranche.

At the meeting on May 9, 2023, the Board of Management informed us about the status of the preparations for the upcoming virtual Annual Stockholder's Meeting. The Board of Management also gave us a full report on environmental protection and occupational and plant safety, which was subsequently discussed by the full Supervisory Board. In connection with a Board of Management personnel decision, we furthermore resolved to reappoint Matthias Zachert as a member and as Chairman of the Board of Management of LANXESS AG for a further five years with effect from April 1, 2024. We also amended Frederique van Baarle's service contract in connection with her assumption of additional functions in the U.S.

At the meeting on August 3, 2023, the Board of Management gave us a full report on the FORWARD! project initiated in response to the company's difficult economic situation. The immediate measures introduced with the project are intended to lower costs and stabilize earnings. In the medium term, the business excellence program is also to be refined with the help of business excellence initiatives as part of the project. In addition, we obtained information about the structure of LANXESS's global purchasing organization and the strategic purchasing processes that have been implemented. We held a detailed discussion with the Board of Management about the development of costs for raw materials, energy, and logistics. Finally, we attended to human resources matters on the Board of Management and resolved upon the mutually agreed termination of Michael Pontzen's appointment as a member of the Board of Management with effect from August 31, 2023, which Michael Pontzen had sought ahead of time, and the conclusion of a termination agreement. We appointed Oliver Stratmann to succeed Michael Pontzen as Chief Financial Officer for a period of three years with effect from September 1, 2023.

At the meeting on November 8, 2023, the Board of Management again informed us about the status of the FORWARD! cost reduction and stabilization project. We also addressed sustainability management and ESG targets at LANXESS. We obtained information about the implementation of the sustainability targets adopted in 2018 and the internal management structure established for this purpose. We then discussed significant sustainability issues with the Board of Management. The Board of Management also informed us about the succession planning system at LANXESS and the processes implemented for this purpose. Finally, the Board of Management explained the financial policy targets and measures to secure the company's financial stability even in times of crisis.

At its meeting on December 15, 2023, the Supervisory Board reviewed in full and approved the corporate planning for 2024 proposed by the Board of Management. After reviewing compliance with the recommendations and suggestions of the German Corporate Governance Code (GCGC), we resolved to issue a declaration of compliance. The Board of Management also informed us about the business development of Envalior, the joint company with Advent International. The Supervisory Board also defined the conditions for the Board of Management's variable compensation components and target total compensation for fiscal year 2024.

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 100%. All meetings were held in person, apart from two meetings of the Nominations Committee, which were held by video conference. 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 2023

Supervisory Board members	Supervisory Board		Presidial Committee		Audit Committee		Nominations Committee		Total	
	Attendance	%	Attendance	%	Attendance	%	Attendance	%	Attendance	%
Dr. Matthias L. Wolfgruber, Chairman	5/5	100	5/5	100			3/3	100	13/13	100
Ralf Sikorski, Vice Chairman	5/5	100	5/5	100					10/10	100
Birgit Bierther	5/5	100	5/5	100					10/10	100
Armando Dente	5/5	100			4/4	100			9/9	100
Dr. Hans-Dieter Gerriets	5/5	100			4/4	100			9/9	100
Dr. Heike Hanagarth	5/5	100					3/3	100	8/8	100
Pamela Knapp	5/5	100			4/4	100			9/9	100
Lawrence A. Rosen	5/5	100			4/4	100	3/3	100	12/12	100
Iris Schmitz	5/5	100			4/4	100			9/9	100
Manuela Strauch	5/5	100	5/5	100					10/10	100
Hans van Bylen	5/5	100	5/5	100	4/4	100			14/14	100
Dr. Rainier van Roessel	5/5	100	5/5	100					10/10	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 2022, the quarterly statements issued during fiscal year 2023, and the condensed consolidated financial statements and interim management report included in the 2023 half-year financial report. It 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 2022. 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 2023 financial statements. Utilization of production capacity was another regular topic. The Committee also found out about changes in equity, LANXESS's liquidity management, the Group's pension systems, strategies to hedge currency risks, 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 development of energy and raw material prices, including hedging. The external auditor reported on the auditing activities at two of the four Audit Committee meetings.

The Nominations Committee met three times in fiscal year 2023. It prepared the Supervisory Board's nominations to the Annual Stockholders' Meeting of stockholder representatives for the Supervisory Board elections. The Committee formed pursuant to Section 27, Paragraph 3 of the German Codetermination Act did not need to convene.

The chairmen of the committees each reported on the meetings and the work of the committees at the meetings of the full Supervisory Board.

CORPORATE GOVERNANCE AND DECLARATION OF COMPLIANCE

The Supervisory Board also dealt 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 2023 were audited by PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, the auditor appointed for the last time by the Annual Stockholders' Meeting on May 24, 2023, and engaged by the Supervisory Board. The auditor issued an unqualified opinion in each case. The auditor carried out the audit in accordance with Section 317 of the German Commercial Code and Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC according to a selection procedure implemented by the company. The auditor responsible for the audit was 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 12, 2024. 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 13, 2024. 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 MANAGEMENT

There were changes in the composition of the Board of Management of LANXESS AG in fiscal year 2023. On the basis of the Supervisory Board resolution of November 8, 2022, Frederique van Baarle joined the Board of Management of LANXESS AG with effect from April 1, 2023. Frederique van Baarle also holds the office of Labor Director. Oliver Stratmann was appointed as a member of the Board of Management as of September 1, 2023, succeeding Michael Pontzen as Chief Financial Officer. Dr. Anno Borkowsky retired and stepped down from the Board of Management as of the end of December 31, 2023.

The composition of the Supervisory Board did not change in fiscal year 2023.

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 dedication and service in the extraordinarily difficult fiscal year 2023.

Cologne, March 13, 2024

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
LANXESS Chemical B.V., Rotterdam, Netherlands	Production and sales	Consumer Protection
LANXESS India Private Limited, Thane, India	Production and sales	Consumer Protection/ Specialty Additives/ Advanced Intermediates
LANXESS Sales Netherlands B.V., Venlo, Netherlands	Sales organization	Specialty Additives
MC (US) 3 LLC, Wilmington, U.S.	Sales organization	Consumer Protection
LANXESS S.r.l., Milan, Italy	Production and sales	Consumer Protection/ Specialty Additives/ Advanced Intermediates
LANXESS Trademark GmbH & Co. KG, Leverkusen, Germany	Holding	

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

LANXESS is counteracting the global economic weakness of the chemicals industry since the start of the year and the still strained economic situation in the short and long terms with its FORWARD! action plan. FORWARD! is a collection of measures for the prompt stabilization of earnings for 2023, sustainable cost reduction via structural adjustments, and the further refinement of LANXESS's business models in 2024 and 2025. A number of immediate measures were already taken in the second half of the year. According to internal reporting, one-time savings of around €50 million as a result of cost reductions and €50 million as a result of lower investments were realized in the reporting year. Specific structural measures were also initiated in order to permanently reduce costs by €150 million by 2025. In addition to 870 job cuts worldwide and the refinement of business models, market access is to be improved. This is intended to strengthen LANXESS's businesses in the long term in order to increase the earnings level and permanently improve the earnings margin. In the current reporting year, there were one-time exceptional charges in connection with with the FORWARD! action plan, especially human resources measures, of €111 million.

On April 1, 2023, LANXESS and Advent International ("Advent") established a new company for high-performance engineering polymers. The company, called Envalior, combines the Engineering Materials business of the Dutch group Royal DSM with LANXESS's High Performance Materials business unit. LANXESS currently holds 40.94% of the new company. The final ownership interest depends on the final valuation of the business contributed by LANXESS.

With 18 production sites, 14 research locations and around 4,000 employees, Envalior – on the basis of preliminary information – generated total sales of approximately €2 billion in the nine months of fiscal year 2023 after it was formed.

LANXESS received a payment of around €1.27 billion for contributing the High Performance Materials business unit to Envalior, which was used primarily to reduce net financial debt. The deconsolidation of the High Performance Materials business unit resulted in a gain of approximately €1.37 billion. Starting in the second quarter of 2023, the minority interest in Envalior GmbH, Cologne, Germany, is included in the LANXESS consolidated financial statements using the equity method. The amount of the gain on the deconsolidation and of the income from the minority stake in Envalior accounted for using the equity method was influenced by retrospective adjustments of the opening balance as of April 1, 2023, which were made within the one-year measurement period in analogous application of IFRS 3. As of December 31, 2023, the value of the investment accounted for using the equity method was therefore €776 million.

Most recently and until the contribution to Envalior, the High Performance Materials business unit was reported as a discontinued operation in accordance with IFRS 5. The earnings contributions were shown in the income statement in a single line item as income from discontinued operations.

Frederique van Baarle was appointed to the Board of Management as of April 1, 2023, and took responsibility for the Human Resources Group function and the duties of the Labor Director. Starting October 1, 2023, she also assumed Board of Management responsibility for the Americas region. Michael Pontzen left the Board of Management as of August 31, 2023. He was succeeded as Chief Financial Officer and member of the Board of Management by Oliver Stratmann as of September 1, 2023. Dr. Anno Borkowsky left the Board of Management as planned on December 31, 2023, and retired. There are no plans to appoint a successor for the time being. His responsibilities were assumed by the remaining Board of Management members: Frederique van Baarle took responsibility for the Specialty Additives segment with the Polymer Additives, Lubricant Additives Business and Rhein Chemie business units. CFO Oliver Stratmann took responsibility for the EMEA region and Dr. Hubert Fink for the Asia-Pacific region.

The Segments in Brief

LANXESS bundles its business with consumer protection products and the custom synthesis of specialty active ingredients in the Consumer Protection segment.

Consumer Protection

Business Units	Material Protection Products
	Flavors & Fragrances
	Saltigo
	Liquid Purification Technologies
Sites	Jarinu, Brazil
	Bitterfeld, Dormagen, Krefeld-Uerdingen, Leverkusen, Wietmarschen, Germany
	Laval, France
	Sudbury, Hull, Widnes, Great Britain
	Jhagadia, Nagda, India
	Rotterdam/Botlek, 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
	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

LANXESS bundles its businesses in the field of chemical intermediates for industry and the manufacturing of chemical precursors in the Advanced Intermediates segment.

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

On account of the uncertain macroeconomic situation, operating crisis management was a priority for LANXESS in 2023. Nonetheless, we continued to pursue our strategy for long-term transformation into a climate-neutral and circular economy with fair conditions for people and nature.

Our primary strategic objective is to be a profitable specialty chemicals company with stable growth. In the early summer of 2023, we reacted to the weak business performance with the FORWARD! action plan. The first two phases of FORWARD! focus on cost reductions and efficiency gains. From 2024, the third FORWARD! phase is characterized by transformation and will further refine the business model as a pure specialty chemicals company. At the end of 2023, we initiated the process to sell our Urethane Systems business unit (All other segments), the final polymer business remaining at LANXESS, and thus entered an important new stage on the journey to become a pure specialty chemicals company.

Transformation for a Sustainable Economy

Sustainability is anchored at the core of our strategy. As a chemicals company, we rely on a wide range of vital ecosystem resources and services, such as air, water, and energy. We are aware that our business activity creates both opportunities and risks for biodiversity. Our sustainability strategy is therefore holistic and contributes to the protection of biodiversity on the one hand, while the individual measures and targets are geared toward specific action areas such as climate change mitigation or the protection of water as a resource and have a medium-term impact on the other.

To this end, we consistently gear our product portfolio to the needs of a sustainable world that has been transformed by climate change. For example, we determine our products' carbon footprints and continuously reduce emissions. The Advanced Intermediates segment offers particularly high potential for reduction. Besides their own carbon footprint, the material protection additives of the Specialty Additives segment focus on sustainable use of the products by our customers. Our additives make it possible to use materials for longer and thus reduce the carbon footprint of these products. They offer potential for the circular economy and ensure that materials can be used in a second lifecycle. The Consumer Protection segment's products help people live in a changing world – whether with highly effective disinfectants that safeguard against the risk of bacteria and other germs or through our contribution to the development of better-adapted pesticides to protect the food chain.

VALUE MANAGEMENT AND CONTROL SYSTEM

Financial Performance Indicators

		2019	2020	2021	2022	2023
EBITDA pre exceptionals[1]	€ million	1,019	862	815	930	512
EBITDA margin pre exceptionals[1]	%	15.0	14.1	13.4	11.5	7.6
Capital employed[2]	€ million	5,588	5,272	7,606	8,188[3]	6,659
ROCE	%	10.0	7.5	6.6	4.8[3]	(0.8)
Days of sales in inventory (DSI)	Days	65.7	64.1	70.6	84.9	85.2
Days of sales outstanding (DSO)	Days	42.3	44.6	45.4	39.1	38.4
Net financial liabilities	€ million	2,522	1,012	2,345	3,814	2,498
Net financial liabilities after deduction of short-term money market investments and securities	€ million	1,742	1,012	2,245	3,814	2,498
Net financial debt ratio		1.7x	1.2x	2.2x	4.1x	4.9x
Investment ratio[1]	%	7.5	7.5	6.9	5.0	4.9

1) Figures from 2021 onward not including High Performance Materials business unit.
2) Capital employed adjusted as of December 31 of each year. Details can be found under "Profitability."
3) Prior-year figure restated.

To achieve our strategic goals, we use indicators 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 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 1,994 thousand metric tons in the previous year, CO_2e emissions in continuing operations came to 1,722 thousand metric tons in fiscal year 2023. We achieved an LTIFR of 0.6 after 0.5 in continuing operations and 0.6 including discontinued operations in the previous year.

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

Earning Power

The key indicator for steering the earning power of the LANXESS Group and the individual segments is EBITDA pre exceptionals. It is calculated from EBIT by adding back depreciation and impairments of property, plant and equipment as well as amortization and impairments of intangible assets, subtracting reversals of impairment charges on property, plant, equipment and intangible assets, and excluding exceptional items. The latter are effects that, by nature or extent, have a significant impact on the earnings position, but for which inclusion in the evaluation of business performance over several reporting periods does not seem to be appropriate. Exceptional items may include write-downs, reversals of impairment charges or the proceeds from the disposal of assets, certain expenses for strategic projects in the fields of IT and digitalization, restructuring expenses and income from the reversal of provisions established in this context, 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 annual budget planning, 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 to compare 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 a 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 the reporting year 2023, the ROCE was minus 0.8%. It was negatively impacted by the fact that EBIT pre exceptionals was negative at minus €53 million in the reporting period and significantly below the previous year's figure of €389 million. The capital employed of €6,659 million in the reporting period was adjusted by €1,402 million for investments accounted for using the equity method, investments in shares of money market funds that can be sold at any time, and a shareholder loan granted to Envalior GmbH in connection with the formation of Envalior. In the previous year, the ROCE was 4.8% and capital employed amounted to €8,188 million. Capital employed was adjusted by an amount of €1,425 million. This resulted from assets allocated to discontinued operations in the statement of financial position, the investment in shares of money market funds that can be sold at any time, and investments accounted for using the equity method.

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 the 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 2023, DSI was at 85.2 days (previous year: 84.9 days) and DSO at 38.4 days (previous year: 39.1 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 ratio is an indicator that describes cash outflows for capital expenditures divided by sales.

Debt

Net financial liabilities are the total of current and non-current financial liabilities less liabilities for accrued interest, cash, cash equivalents and near-cash assets. As of the end of the reporting year, they amounted to €2,498 million. The near-cash assets included in this item amounted to €350 million. As in the previous year, no further short-term money market investments and securities were held. The comparative figure as of December 31, 2022, was €3,814 million. The decrease in net financial liabilities resulted primarily from the payment received in connection with the formation of Envalior. The cash received was used in particular for the repayment of the hybrid bond utilizing the first redemption option on June 6, 2023, and the repayment of various bilateral bank loans. Another reason was the amount of capital tied up in net working capital, which was successfully reduced in the reporting year, and the resulting cash inflow. 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 4.9 as of December 31, 2023, after 4.1 at the previous year's reporting date. Although debt has decreased in absolute terms, the net financial debt ratio is increased as of December 31, 2023, due to the earnings decline as a result of the global economic weakness of the chemicals industry.

At Group level, we also consider provisions for pensions and other post-employment benefits to be components of debt. Compared with the end of 2022, they increased by €131 million to €498 million. Including this additional component of debt, adjusted for related deferred tax assets of €145 million (previous year: €65 million) and reduced by the receivables relating to pension obligations of €23 million (previous year: €24 million), which were recognized under other non-current assets, the total net debt ratio in relation to EBITDA pre exceptionals was 5.5, compared with 4.4 at the previous year's reporting date.

Net Financial Liabilities

€ million	2019	2020	2021	2022	2023
Non-current financial liabilities	2,777	2,265	2,829	3,417	2,938
Current financial liabilities	66	566	675	830	72
Less:					
Liabilities for accrued interest	(25)	(25)	(25)	(30)	(16)
Cash and cash equivalents	(296)	(271)	(643)	(324)	(146)
Near-cash assets	0	(1,523)	(491)	(79)	(350)
Net financial liabilities	2,522	1,012	2,345	3,814	2,498
after deduction of short-term money market investments and securities	(780)	0	(100)	0	0
Net financial liabilities after deduction of short-term money market investments and securities	**1,742**	**1,012**	**2,245**	**3,814**	**2,498**

BUSINESS PROCESSES AND EMPLOYEES

Procurement

LANXESS uses its centrally managed global procurement organization – Global Procurement & Logistics – to secure a reliable supply of raw and other materials, energy and services. "Global Categories" closely coordinate with our business units to pool LANXESS's requirements in the raw materials, packaging materials, technical goods, 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. In the reporting period, the availability of logistics capacity improved considerably compared to the previous year, due among other things to the more stable global supply chains and a weaker world economy.

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, such as 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.

Our biggest suppliers of chemical raw materials in 2023 included BASF, BP, Covestro, Enterprise Products, Evonik, ExxonMobil, INEOS, OQ Chemicals, Sasol, Shell and Total.

Among the most important strategic raw materials for our production operations in fiscal year 2023 were aniline, benzene, chlorine and caustic soda, cyclohexane, nitric acid and toluene. In total, strategic raw materials accounted for a procurement volume of €1.7 billion in fiscal year 2023 (previous year: €2.2 billion). This equates to around 75% of our total procurement spend for raw materials and goods in 2023, which amounted to €2.2 billion (previous year: €3.4 billion). The procurement volume was significantly below the previous year's level. This resulted in particular from decreased raw material prices and less raw material needed due to reduced production volumes. Our total procurement spend in 2023 was €4.2 billion (previous year: €5.7 billion).

Production

LANXESS is a global producer of specialty chemicals. Our production facilities make anywhere from very small batches of custom-synthesized products to intermediates and 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; Rotterdam/Botlek, Netherlands; Baytown, Charleston, El Dorado and Kalama, U.S.; Elmira, Canada; Porto Feliz, Brazil; Jhagadia and Nagda, India; and Nantong 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 long-standing customer base includes leaders in each of its user industries. We have well-established customer relationships in all sales regions. To meet our customers' needs, we have set up flexible marketing and sales structures. We manage our sales throughout the world through 70 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 support them individually, each of our business units manages its own sales organization. Another competitive advantage is derived from having 55 of our own production sites in 17 countries. Wherever possible, customers are supplied from production sites in the same region, so that they benefit from 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. We offer them an individualized, well-focused approach, which we are able to provide because of our sales organizations, which 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

%	2023
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 2023 and in the previous year, our top ten customers accounted for about 22% of total sales. None of our customers accounted for more than 6% of Group sales. Particularly due to lower procurement prices for raw materials and energy, which resulted in reduced selling prices and thus lower sales, the number of customers with annual sales exceeding €20 million decreased from 61 in the previous year to 46 in fiscal year 2023. 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 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 new formulations for disinfectants and fragrances, new and optimized ion exchange resins, sustainable lubricant additives, and innovative flame retardants, for example.

Cost trend and employees

Research and development expenses in 2023 totaled €99 million, or 1.5% of sales (previous year: €102 million or 1.3%). The Material Protection Products, Saltigo, Polymer Additives and Lubricant Additives business units accounted for the largest share of these expenses. Urethane Systems, Material Protection Products, Saltigo and Liquid Purification Technologies 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

	2019	2020	2021	2022	2023
Research and development expenses (€ million)	114	108	95	102	99
% of sales	1.7	1.8	1.6	1.3	1.5

Figures from 2021 onward not including High Performance Materials business unit.

At the end of 2023, 472 people – against 490 in the previous year – were employed in our research and development laboratories worldwide.

Number of Employees in Research and Development

	2019	2020	2021	2022	2023
Year end	516	517	456	490	472
% of Group employees	3.6	3.6	3.5	3.7	3.7

Figures from 2021 onward not including 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 2023 was 241 compared to 223 in the previous year, 157 (previous year: 140) of which aimed to develop new products and applications or improve existing ones. The remaining 84 projects (previous year: 83) concerned process technology issues with a view to reducing costs, increasing efficiency or improving sustainability.

The results of our innovation activities are protected by patents, where this is possible and expedient. In the course of 2023, we submitted 49 priority applications worldwide. As of December 31, 2023, the full patent portfolio included approximately 660 patent families covering around 5,430 property rights.

Employees

The LANXESS Group had 12,849 employees as of December 31, 2023, against 13,126 employees in the previous year. The number of employees declined in all regions, primarily due to the human resources measures already carried out in the reporting period as part of the FORWARD! action plan.

Employees by Region

	2022	2023
EMEA (excluding Germany)	1,306	1,242
Germany	7,099	7,069
Americas	2,975	2,862
Asia-Pacific	1,746	1,676
	13,126	**12,849**

Personnel expenses in the reporting year increased from €1,369 million to €1,404 million, primarily due to measures in connection with the FORWARD! action plan and pay adjustments, with wages and salaries accounting for the majority of this figure at €1,121 million. Lower expenses for performance-based variable compensation had an opposite effect.

Personnel Expenses

€ million	2022	2023
Wages and salaries	1,080	1,121
Social security contributions	185	191
Retirement benefit expenses	91	79
Social assistance benefits	13	13
	1,369	**1,404**

ECONOMIC REPORT

LEGAL ENVIRONMENT

There were no changes in the legal environment in fiscal year 2023 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 2023 was primarily characterized by the ongoing impact of the war in Ukraine and in the second half of the year by the conflict in Israel/Palestine. 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.

In most economies, inflation had already fallen sharply compared to the previous year. This was particularly driven by the development of energy prices, but core inflation also declined in many places.

In terms of the economy as a whole, global growth was lower than in the previous year. The weakest growth was recorded by the EMEA region (including Germany) at just 1.0%, while Germany even slid into a minor recession with a 0.3% contraction. The Asia-Pacific region generated the biggest increase in its gross domestic product at 4.5%.

At 2.0%, the global chemical industry's growth in fiscal year 2023 was slightly lower than in the previous year but was driven exclusively by an increase of 5.0% in the Asia-Pacific region. The chemical industry declined in both Europe and the Americas. Germany in particular saw a further decline of 7.5%.

Gross Domestic Product and Chemical Industry in 2023

Change vs. prior year in real terms (%)	Gross domestic product	Chemical industry
Americas	2.5	(2.5)
EMEA (incl. Germany)	1.0	(4.5)
Germany	(0.3)	(7.5)
Asia-Pacific	4.5	5.0
World	**2.5**	**2.0**

Sources: S&P Global Market Intelligence; German gross domestic product according to the Federal Statistical Office (Destatis).

In the U.S., falling inflation, driven by the Inflation Reduction Act, contributed to a relaxation of monetary policy, the effects of which included the depreciation of the U.S. dollar: One euro was worth US$1.11 at the end of 2023. The value of the U.S. currency thus decreased by 3.7% from the closing price of US$1.07 at the end of 2022. The U.S. dollar was also slightly weaker on average over the year at US$1.08 to the euro, against US$1.05 in the previous year. Due to the regional positioning of our business, a weaker U.S. dollar tends to have a negative effect on our earnings. Centralized hedging activities limit any impact that cannot be neutralized by ensuring that production and sales take place in the same currency area.

Compared with the previous year, procurement prices for raw materials and energy and freight and logistics costs declined. The change in raw material costs particularly reflects the more balanced supply and demand situation compared with the previous year. In addition, the decline in freight and logistics costs corresponded to the economic trend. These cost components have stabilized at a pre-COVID level. At the end of the reporting period, however, new cost increases were triggered by the Houthi militias' attacks on merchant ships in the Red Sea and by the increase in the truck toll in Germany as of December 1, 2023.

Development of Major Customer Industries

Global automobile production was up 7.5% year-on-year in the reporting year. This was chiefly attributable to the European market, which grew by 9.0% – Germany by as much as 13% – while the American market grew by 4.5% and the Asia-Pacific region by 7.5%.

In 2023, agrochemicals saw a decline of 2.0%, driven primarily by the Americas region, especially Brazil, which dropped by 18%. The EMEA region, like Germany, also declined by 5.0%. Only the Asia-Pacific region grew by 3.0%.

The global construction industry shrank slightly by 0.5%, driven primarily by the Americas with a 5% decline. The Asia-Pacific and EMEA (including Germany) regions grew slightly, while Germany itself saw a decline of 1.5%.

The global food industry stagnated in 2023, but with regional differences. While the Asia-Pacific region recorded slight growth of 1.0%, the Americas and the EMEA region (including Germany) declined by minus 1.0% and minus 0.5%, respectively.

The global electrical/electronics industry grew by 3.5%. This was primarily driven by the Asia-Pacific region at 4.0% and the EMEA region (including Germany) at 2.5%, while the Americas region almost stagnated at 0.5%.

The industry for consumer staples grew by only 2.5% worldwide, driven by the Asia-Pacific region at 4.5% and the Americas region at 3.0%, while the EMEA region (including Germany) even declined slightly at minus 0.5%, primarily due to a sharp decline of 9.5% in Germany.

Overall, the development of many major customer industries fell short of expectations. This is also reflected in our business performance.

Development of Major Customer Industries in 2023

Change vs. prior year in real terms (%)	Automotive	Agro-chemicals[1]	Construction	Food	Electrical/ electronics	Consumer staples
Americas	4.5	(11.5)	(5.0)	(1.0)	0.5	3.0
EMEA (incl. Germany)	9.0	(5.0)	0.5	(0.5)	2.5	(0.5)
Germany	13.0	(5.0)	(1.5)	(2.5)	3.0	(9.5)
Asia-Pacific	7.5	3.0	1.5	1.0	4.0	4.5
World	**7.5**	**(2.0)**	**(0.5)**	**0.0**	**3.5**	**2.5**

1) Pesticides and other organic agrochemical products.
Sources: S&P Global Market Intelligence, development in construction costs according to Oxford Economics.

KEY EVENTS INFLUENCING THE COMPANY'S BUSINESS

Business was significantly influenced by the globally weak economic environment in the chemicals industry and the still strained economic situation. Inventory reduction among our customers, which continued into the second half of the year, and generally weaker demand, especially in our Specialty Additives and Advanced Intermediates segments, led to lower sales volumes, higher idle costs, and thus a significant earnings decline and a negative effect on our relative earnings margin. Lower procurement prices for raw materials and energy were passed on to customers via lower selling prices. Our Consumer Protection segment saw a comparatively moderate earnings decline, due in part to the contribution of the Microbial Control business acquired at the beginning of July 2022.

With demand weaker than expected in places, there are negative effects on the cash inflows expected in the future. Because these cash inflows in individual business units no longer reflected the respective carrying amounts, impairment tests as of December 31, 2023, resulted in write-downs of approximately €400 million, which were recognized as exceptional items. The write-downs decrease the goodwill resulting from acquisitions and relate to our Flavors & Fragrances business unit (Consumer Protection segment) and Polymer Additives business unit (Specialty Additives segment).

The net income of the reporting year was particularly influenced by the gain on the deconsolidation of the High Performance Materials business unit. The income from the investment in Envalior accounted for using the equity method of minus €181 million had a negative effect, which resulted in particular from high interest expenses and earnings effects due to the purchase price allocation at the level of Envalior.

We used the funds received in connection with the contribution of the High Performance Materials business unit to Envalior to significantly reduce our net financial debt. Thanks to our holdings of cash and cash equivalents and liquidity reserves in the form of undrawn credit lines, we had sound liquidity as of December 31, 2023.

COMPARISON OF FORECAST AND ACTUAL BUSINESS

Comparison of Forecast and Actual Business 2023

	Forecast for 2023 in Annual Report 2022	Actual 2023
Business development: Group		
EBITDA pre exceptionals	• At the previous year's level • Positive contribution from the acquisition of the Microbial Control business • Effects from the more resilient business portfolio, improved by recent transactions • Improvement in the global supply chain situation • Recessionary business environment in the first half of the year with continuing inventory reduction among our customers • High energy prices from the fourth quarter of 2022 affecting the start of 2023	• EBITDA pre exceptionals: €512 million (previous year: €930 million) • Positive earnings contribution from the acquisition of the Microbial Control business in 2022 • Improvement in global supply chains following disruption in 2022 • Globally weak economic environment in the chemicals industry, inventory reduction by us and among our customers, higher idle costs • Lower procurement prices for raw materials and energy resulting in lower selling prices
Business development: segments		
Consumer Protection	• Development significantly above the previous year • Positive portfolio effect from the contribution of the acquired Microbial Control business • Good performance in the agrochemicals business	• EBITDA pre exceptionals slightly to moderately below the previous year: €310 million (previous year: €363 million) • Positive portfolio effect from the acquisition of the Microbial Control business in 2022 • Low demand in various end markets • Lower capacity utilization due partly to production difficulties on the part of two suppliers
Specialty Additives	• Business development significantly below the previous year's very good level • Development primarily due to weakness in the construction industry	• EBITDA pre exceptionals significantly below the previous year's level: €209 million (previous year: €479 million) • Weaker demand from the construction, electrical/electronics and automotive industries
Advanced Intermediates	• Earnings at or slightly below the previous year's level • Sluggish demand in the construction industry to particularly affect our inorganic pigments business • Broadly diversified customer structure has a positive effect overall • Uncertainty over development of energy costs	• EBITDA pre exceptionals significantly below the previous year's level: €121 million (previous year: €291 million) • Demand even weaker than expected, especially from the construction sector • Inventory reduction by us and our customers, higher idle costs • Negative impact of higher energy and logistics costs was passed on
All other segments	• Considerably better earnings compared to the previous year	• EBITDA pre exceptionals moderately to significantly better than in the previous year: minus €128 million (previous year: minus €203 million)
Capital expenditures		
Cash outflows for capital expenditures	• Around €400 million	• €326 million (previous year: €407 million) • Reduction as part of the FORWARD! action plan
Environment and occupational health and safety		
CO_2e emissions	• At the previous year's level	• CO_2e emissions: 1,722 thousand metric tons (previous year: 1,994 thousand metric tons)
Lost time injury frequency rate (LTIFR: accidents per million hours worked) for accidents with days lost	• Target of LTIFR below 1.0	• LTIFR: 0.6 (previous year: 0.6 or 0.5 in continuing operations)

In the combined management report for fiscal year 2022, we expected EBITDA pre exceptionals to be at the previous year's level in 2023. We adjusted our guidance over the course of fiscal year 2023 and most recently anticipated EBITDA pre exceptionals of between €500 million and €550 million, significantly lower than the previous year's figure of €930 million. The actual earnings amounted to €512 million.

We had expected LANXESS AG's net income according to German commercial law in the reporting year to be far worse than in the previous year. There was net income of €15 million in the reporting period after net income of €1,014 million in the previous year. The net income in the previous year was shaped primarily by high income from investments due to the profit transfer at LANXESS Deutschland GmbH. This income was significantly increased above all by the contribution of the High Performance Materials business unit to LANXESS Performance Materials GmbH.

BUSINESS PERFORMANCE OF THE LANXESS GROUP

- Sustainable savings of €150 million by 2025 initiated by structural measures of the FORWARD! action plan
- Formation of Envalior as of April 1, 2023; funds received reduce net financial debt
- Lower demand from nearly all end markets impacts sales development in all segments
- Group sales down significantly to €6,714 million from previous year's €8,088 million
- Substantial debt reduction against the previous year due to proceeds from the contribution of the High Performance Materials business unit to Envalior as well as strong operating cash flow
- Positive earnings contribution from the Microbial Control business acquired in 2022
- EBITDA pre exceptionals of €512 million, down on the previous year's figure of €930 million mainly as a result of volumes
- EBITDA margin pre exceptionals of 7.6% after 11.5% in the previous year; primarily due to low capacity utilization and associated idle costs
- Net income from continuing operations of minus €843 million significantly reduced by write-downs of around €400 million on goodwill from acquisitions
- Adjusted earnings per share from continuing operations down from €3.72 to €0.13

Key Financial Data

€ million	2022	2023	Change %
Sales	8,088	6,714	(17.0)
Gross profit	1,937	1,268	(34.5)
EBITDA pre exceptionals	930	512	(44.9)
EBITDA margin pre exceptionals	11.5%	7.6%	–
EBITDA	826	328	(60.3)
Operating result (EBIT) pre exceptionals	389	(53)	< (100)
Operating result (EBIT)	280	(668)	< (100)
EBIT margin	3.5%	(9.9)%	–
Financial result	(23)	(279)	< (100)
Income before income taxes	257	(947)	< (100)
Net income from continuing operations	184	(843)	< (100)
Net income from discontinued operations	66	1,286	> 100
Net income	250	443	77.2
Earnings per share (€)	2.90	5.13	76.9
Adjusted earnings per share from continuing operations (€)	3.72	0.13	(96.5)

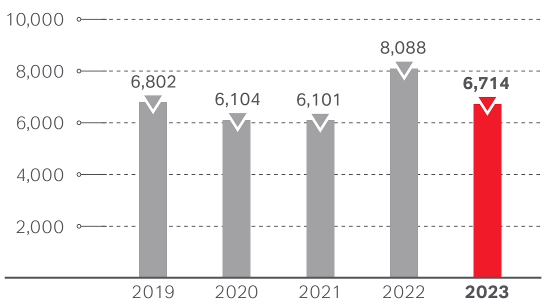
Sales

Sales of the LANXESS Group amounted to €6,714 million in the reporting period, down by €1,374 million, or 17.0%, from the previous year's figure. In the previous year, the sales amounted to €8,088 million. This sales development in the reporting year was particularly influenced by inventory reduction among our customers, which continued into the second half of the year, albeit at a diminishing level, and exacerbated weak demand in large parts of the industry. Sales were also negatively affected by lower selling prices driven by raw material and energy prices.

Shifts in exchange rates, especially due to a weaker U.S. dollar, also reduced sales. The portfolio changes due to the contribution from the Microbial Control business acquired at the beginning of July 2022 had a positive effect on sales at Group level. Adjusted for currency and portfolio effects, the LANXESS Group recorded a 17.8% decrease in operational sales in fiscal year 2023.

Group Sales

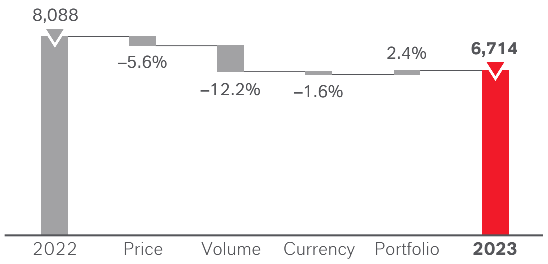
€ million



Figures from 2021 onward not including High Performance Materials business unit.

Effects on Sales

€ million/%



Effects on Sales

%	2023
Price	(5.6)
Volume	(12.2)
Currency	(1.6)
Portfolio	2.4
	(17.0)

Sales by Segment

€ million	2022	2023	Change %	Proportion of Group sales %
Consumer Protection	2,366	2,340	(1.1)	34.9
Specialty Additives	2,970	2,325	(21.7)	34.6
Advanced Intermediates	2,413	1,775	(26.4)	26.4
All other segments	339	274	(19.2)	4.1
	8,088	**6,714**	**(17.0)**	**100.0**

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. Our business is managed primarily on the basis of regular Group-wide forecasts with respect to the Group's operating target. For additional information, please see "Company-specific leading indicators" in this management report.

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

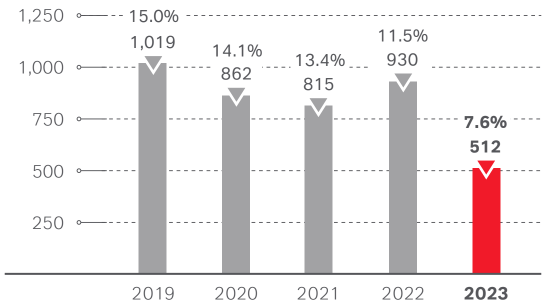
Gross Profit

The cost of sales decreased by 11.5% year-on-year to €5,446 million. In the previous year, the cost of sales amounted to €6,151 million. The decrease resulted primarily from significantly lower sales volumes in the existing business and lower procurement prices for raw materials and energy. As in the previous year, emissions rights were sold to compensate for high German energy costs, which continue to distort international competition. Shifts in exchange rates also led to lower manufacturing costs. In contrast, the contribution from the Microbial Control business acquired at the beginning of July 2022 resulted in a portfolio-related increase. Capacity utilization of 58% was a significant 11 percentage points lower than in the previous year, mainly because of weak demand and a reduction in our inventories. Gross profit was €1,268 million, down by €669 million or 34.5% from the previous year. In particular, lower sales volumes, weaker capacity utilization and therefore higher idle costs, and the change in exchange rates had a negative impact on earnings performance. Reduced procurement prices for raw materials and energy and the portfolio change had a positive effect on earnings. The gross margin of 18.9% was significantly below the previous year's figure of 23.9%.

EBITDA Pre Exceptionals and Operating Result (EBIT)

EBITDA and EBITDA Margin Pre Exceptionals

€ million/%



Figures from 2021 onward not including High Performance Materials business unit.

In a globally weak economic environment in the chemicals industry and a still strained economic situation, the operating result before depreciation, amortization, write-downs and reversals (EBITDA) pre exceptionals decreased by €418 million, or 44.9%, to €512 million in fiscal year 2023, after €930 million in the previous year. The weaker demand and the associated reduction in sales volumes and higher idle costs led to a significant earnings decline, primarily in the Specialty Additives and Advanced Intermediates segments. In addition, lower procurement prices for raw materials and energy in these two segments resulted in a decrease in selling prices. In contrast, our Consumer Protection segment saw a comparatively moderate earnings decline and benefited from the contribution of the Microbial Control business acquired at the beginning of July 2022. The change in exchange rates, especially a weaker U.S. dollar, had a negative effect at Group level. Details on the individual segments can be found in the table below and under "Segment Information."

EBITDA Pre Exceptionals by Segment

€ million	2022	2023	Change %
Consumer Protection	363	310	(14.6)
Specialty Additives	479	209	(56.4)
Advanced Intermediates	291	121	(58.4)
All other segments	(203)	(128)	36.9
	930	**512**	**(44.9)**

All functional cost areas developed positively. This was particularly due to the volume-driven reduction in costs, shifts in exchange rates, and initial cost savings as a result of the FORWARD! action plan. The portfolio-driven cost increase due to the Microbial Control business acquired at the beginning of July 2022 was thus offset. Due in particular to lower freight rates, selling expenses also fell by 12.3% to €933 million. Research and development costs came to €99 million, compared to €102 million in the previous year. General administration expenses were €279 million after €319 million in the previous year. The Group EBITDA margin pre exceptionals came in at 7.6%, against 11.5% in the previous year.

The operating result (EBIT) totaled minus €668 million compared with €280 million in the previous year. Depreciation, amortization and write-downs on intangible assets and property, plant and equipment increased by €450 million compared with the figure for the previous year to €996 million, primarily due to write-downs on goodwill resulting from the impairment testing in the Flavors & Fragrances and Polymer Additives business units as of December 31, 2023, the adjustment of the production network of the Advanced Industrial Intermediates business unit as part of the FORWARD! action plan, and the acquisition completed in 2022. The write-downs amounted to €434 million, of which €431 million was attributable to exceptional items. In the previous year, depreciation, amortization and write-downs of €546 million included write-downs of €10 million, €5 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, declined by €453 million to minus €625 million compared with minus €172 million in the previous year, particularly due to the write-downs. Adjusted for exceptional items, the figure was minus €10 million. This equates to an improvement of €53 million compared with the previous year's balance. The previous year was negatively affected in particular by currency hedges due to the strong development of the U.S. dollar.

There were net negative exceptional items of €615 million in the reporting year. Most of the exceptional items related to write-downs on the goodwill from the acquisitions of the Flavors & Fragrances and Polymer Additives business units. The exceptional items within EBITDA of €184 million related predominantly to expenses as part of the FORWARD! action plan and expenses in connection with digitalization projects, strategic IT projects, and M&A and integration activities. In the previous year, negative exceptional items of €109 million were incurred. These affected EBITDA by a total of €104 million and resulted mainly from expenses in connection with strategic IT projects, digitalization projects, and M&A and integration activities. Details about the exceptional items can be found under “Notes on EBIT and EBITDA (Pre Exceptionals).”

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

Reconciliation of EBITDA Pre Exceptionals to EBIT

€ million	2022	2023	Change %
EBITDA pre exceptionals	**930**	**512**	**(44.9)**
Depreciation and amortization	(546)	(996)	(82.4)
Exceptional items in EBITDA	(104)	(184)	(76.9)
Operating result (EBIT)	**280**	**(668)**	**< (100)**

Financial Result

The financial result for fiscal year 2023 amounted to minus €279 million, compared with minus €23 million for the previous year. Income from the investment accounted for using the equity method in Envalior GmbH, Cologne, Germany, and in Viance LLC, Wilmington, U.S., came to minus €172 million in total. The income from Envalior was negatively affected in particular by high interest expenses and effects of the purchase price allocation. LANXESS's net interest result was minus €60 million compared with minus €68 million in the previous year. The other financial result amounted to minus €47 million and resulted primarily from expenses in connection with the measurement of a right to offer relating to the minority interest in Envalior. Income from the measurement of a shareholder loan granted to Envalior GmbH in connection with the formation of Envalior had the opposite effect. In the previous year, the other financial result of €42 million stemmed primarily from the income from the settlement of interest rate hedges of €83 million. This was offset by an effect resulting from the market valuation of warrants for shares in the company Standard Lithium Ltd., Vancouver, Canada.

Income Before Income Taxes

Due in particular to the development of operating earnings, write-downs, and income from investments accounted for using the equity method, income before income taxes deteriorated by €1,204 million to minus €947 million. Income before income taxes in the previous year came to €257 million.

Income Taxes

There was tax income of €105 million in fiscal year 2023, compared to tax expenses of €72 million the year before. Particularly because the write-downs on goodwill do not trigger tax effects and the income from investments accounted for using the equity method is not offset by income taxes at LANXESS level, the effective tax rate of 11.1% was considerably lower than the previous year's 28.0%.

Net Income

Due especially to the gain on the deconsolidation of the High Performance Materials business unit in connection with the formation of Envalior, net income and net income from discontinued operations were significantly higher than in the previous year. Net income from continuing operations was significantly below the previous year's figure, primarily due to the development of operating earnings and the write-downs on goodwill acquired in earlier acquisitions. Net income for the reporting year amounted to €443 million, of which minus €843 million was attributable to continuing operations. Net income from discontinued operations amounted to €1,286 million in the reporting year. In the previous year, €184 million of the net income of €250 million was attributable to continuing operations, and €66 million was attributable to the discontinued operations of the High Performance Materials business unit. Non-controlling interests accounted for earnings of €1 million in fiscal year 2023 and in the previous year, which is allocable to continuing operations.

Reconciliation of EBIT to Net Income

€ million	2022	2023	Change %
Operating result (EBIT)	**280**	**(668)**	**< (100)**
Income from investments accounted for using the equity method	3	(172)	< (100)
Net interest expense	(68)	(60)	11.8
Other financial income and expense	42	(47)	< (100)
Financial result	**(23)**	**(279)**	**< (100)**
Income before income taxes	**257**	**(947)**	**< (100)**
Income taxes	(72)	105	> 100
Income after income taxes from continuing operations	**185[1]**	**(842)[1]**	**< (100)**
Income after income taxes from discontinued operations	**66**	**1,286**	**> 100**
Income after income taxes	**251**	**444**	**76.9**
Income attributable to non-controlling interests	1	1	0.0
Net income from continuing operations	**184**	**(843)**	**< (100)**
Net income from discontinued operations	**66**	**1,286**	**> 100**
Net income	**250**	**443**	**77.2**

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

Earnings Per Share/Adjusted Earnings Per Share from Continuing Operations

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 €5.13, higher than the €2.90 recorded in the previous year. Earnings per share from continuing operations were minus €9.76 against €2.13 in the previous year.

Net Income and Earnings per Share

	2022	2023
Net income (€ million)	**250**	**443**
from continuing operations (€ million)	184	(843)
from discontinued operations (€ million)	66	1,286
Weighted average number of shares outstanding	86,346,303	86,346,303
Earnings per share (€)	**2.90**	**5.13**
from continuing operations (€)	2.13	(9.76)
from discontinued operations (€)	0.77	14.89

We also calculate adjusted earnings per share from continuing operations, 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, attributable tax effects, and the non-recurring earnings effects from the settlement of interest rate hedges in the third quarter of 2022. As a result of our minority stakes, we do not have a controlling influence on the operational business of investments accounted for using the equity method. Therefore, we also adjust earnings per share for the reporting year and the previous year for income from investments accounted for using the equity method.

Adjusted earnings per share from continuing operations were €0.13 against €3.72 in the previous year.

Reconciliation of Net Income from Continuing Operations to Adjusted Earnings per Share from Continuing Operations

€ million	2022	2023
Net income from continuing operations	**184**	**(843)**
Exceptional items[1]	109	615
Amortization of intangible assets[1]	153	163
Income in connection with the settlement of interest rate swaps	(83)	–
Income taxes[1]	(39)	(96)
Income from investments accounted for using the equity method	(3)	172
Adjusted net income from continuing operations	**321**	**11**
Weighted average number of shares outstanding	86,346,303	86,346,303
Adjusted earnings per share from continuing operations (€)	**3.72**	**0.13**

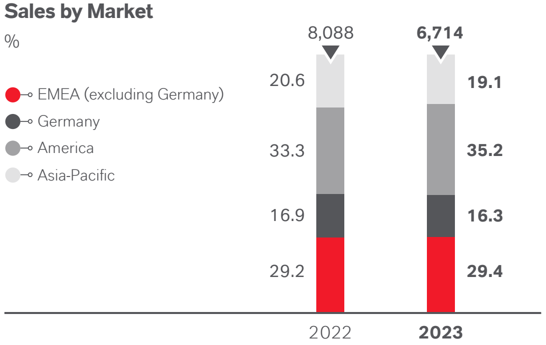
1) Excluding items attributable to non-controlling interests.

BUSINESS TRENDS BY REGION

Sales by Market

	2022		2023		Change
	€ million	%	€ million	%	%
EMEA (excluding Germany)	2,364	29.2	1,972	29.4	(16.6)
Germany	1,366	16.9	1,098	16.3	(19.6)
Americas	2,694	33.3	2,362	35.2	(12.3)
Asia-Pacific	1,664	20.6	1,282	19.1	(23.0)
	8,088	**100.0**	**6,714**	**100.0**	**(17.0)**

Sales by Market
%



The reporting year includes a portfolio effect from the Microbial Control business acquired at the beginning of July 2022, which influenced the Consumer Protection segment. It affected all regions, but especially the Americas.

EMEA (Excluding Germany)

Sales in the EMEA region (excluding Germany) decreased by €392 million, or 16.6%, to €1,972 million. After adjustment for small portfolio and currency effects, sales declined by 17.8%. All segments were affected and recorded a sales decline of a low double-digit percentage. The negative development in the region resulted primarily from the business performance in Italy, Switzerland and France.

Germany

In Germany, the Group generated sales of €1,098 million, down by €268 million, or 19.6%, on the previous year. After adjustment for minor portfolio effects, sales decreased by 20.0%. The declining business development particularly related to the Advanced Intermediates segment and, to a much lesser extent, the Specialty Additives segment, which posted a relative sales decline of a low double-digit percentage. Sales in the Consumer Protection segment dropped by a mid-single-digit percentage.

Americas

Sales in this region came to €2,362 million, down by €332 million, or 12.3%, on the previous year. After adjustment for considerable portfolio and currency effects, the sales decline amounted to 14.6%. The Specialty Additives and Advanced Intermediates segments made a significant contribution to this with a decline of a low double-digit percentage. The Consumer Protection segment also saw negative business development of a mid-single-digit percentage. The region was chiefly influenced by the development in the United States.

Asia-Pacific

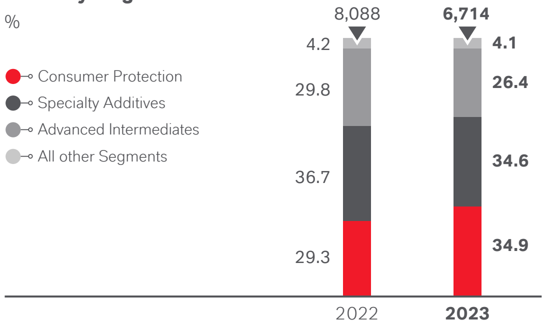
Sales in the Asia-Pacific region decreased by €382 million, or 23.0%, to €1,282 million. After adjustment for currency and portfolio effects, the decline came to 21.4%. Business performance was driven by the Specialty Additives segment and, to a lesser extent, the Advanced Intermediates segment, each with a decline by a low double-digit percentage. The businesses of the Consumer Protection segment saw a sales decline by a low single-digit percentage. The significant negative impetus in the region came from China, Korea and Japan.

SEGMENT INFORMATION

- Consumer Protection: Comparatively stable sales and earnings development despite massive inventory reduction by customers
- Specialty Additives: Lower capacity utilization due to inventory reduction, weaker demand and lower prices result in sales and earnings decline
- Advanced Intermediates: Business development characterized by lower sales volumes due to inventory reduction, weak demand and lower selling prices in nearly all end industries

Sales by Segment

%



Consumer Protection

Overview of Key Data

	2022		2023		
	€ million	Margin %	€ million	Margin %	Change %
Sales	2,366		2,340		(1.1)
EBITDA pre exceptionals	363	15.3	310	13.2	(14.6)
EBITDA	338	14.3	296	12.6	(12.4)
Operating result (EBIT) pre exceptionals	195	8.2	110	4.7	(43.6)
Operating result (EBIT)	170	7.2	(163)	(7.0)	< (100)
Cash outflows for capital expenditures	129		87		(32.6)
Depreciation and amortization	168		459		> 100
Employees (as of Dec. 31)	3,566		3,555		(0.3)

In our Consumer Protection segment, sales amounted to €2,340 million in fiscal year 2023, close to the prior-year figure of €2,366 million. The previous year's level was almost reached in particular because of the portfolio change in the Material Protection Products business unit, which reported higher sales from the Microbial Control business acquired as of July 1, 2022. Overall, there was a positive portfolio effect of 8.4% at segment level. This was offset by lower sales volumes due to weaker demand from various end markets, ongoing inventory reduction among our customers, and lower capacity utilization, particularly because of the limited availability of raw materials and steam as a result of production difficulties on the part of two suppliers of the Flavors & Fragrances business unit.

At segment level, sales decreased by 7.2% due to lower volumes. Shifts in exchange rates also had a negative effect on all business units, which totaled 1.5% in the segment. At segment level, lower selling prices reduced sales by 0.8%. Sales in the Americas and Asia-Pacific regions were above, in all other regions below the level of the previous year.

EBITDA pre exceptionals in the Consumer Protection segment decreased by €53 million, or 14.6%, to €310 million, compared with the previous year's figure of €363 million. Lower sales volumes in all business units, due in particular to weaker demand, higher idle costs as a result of lower capacity utilization, and lower selling prices had a negative effect on earnings and margin development. Shifts in exchange rates also had a slightly negative effect on earnings. Lower procurement prices for raw materials and energy, decreased freight costs, and the positive earnings contribution from the Microbial Control business acquired at the beginning of July 2022, which was integrated into the Material Protection Products business unit, had a positive effect. The EBITDA margin pre exceptionals decreased from 15.3% to 13.2%.

In the reporting year, negative exceptional items of €273 million were attributable to the segment, €14 million of which impacted EBITDA. Most of the exceptional items related to write-downs on the goodwill of the Flavors & Fragrances business unit. The exceptional items within EBITDA mostly related to expenses incurred in connection with the FORWARD! action plan. In the previous year, the segment recorded negative exceptional items of €25 million, which impacted EBITDA. The exceptional items of the previous year essentially related to the strategic realignment of the specialty chemicals business and the associated integration of the acquired businesses. Further details can be found under "Notes on EBIT and EBITDA (Pre Exceptionals)."

Specialty Additives

Overview of Key Data

	2022		2023		
	€ million	Margin %	€ million	Margin %	Change %
Sales	2,970		2,325		(21.7)
EBITDA pre exceptionals	479	16.1	209	9.0	(56.4)
EBITDA	474	16.0	189	8.1	(60.1)
Operating result (EBIT) pre exceptionals	290	9.8	25	1.1	(91.4)
Operating result (EBIT)	284	9.6	(142)	(6.1)	< (100)
Cash outflows for capital expenditures	125		122		(2.4)
Depreciation and amortization	190		331		74.2
Employees (as of Dec. 31)	2,985		2,945		(1.3)

Our Specialty Additives segment posted sales of €2,325 million in fiscal year 2023, down by 21.7% on the previous year's figure of €2,970 million. Particularly due to weaker demand from the construction, electrical/electronics and automotive industries, all business units of the segment generated lower sales. Volumes fell short of the previous year and reduced sales by 15.1% at segment level. The Lubricant Additives business unit maintained its selling prices at the previous year's level, while the lower selling prices generated by the segment's other two business units led to a sales decline totaling 4.5% at segment level. Shifts in exchange rates also had a negative impact in all business units and reduced the segment's sales by 2.1%. Sales in all regions were below the level of the previous year.

EBITDA pre exceptionals for the Specialty Additives segment was €209 million, down €270 million, or 56.4%, from the prior-year level. Lower sales volumes due to weaker demand and lower selling prices had a negative impact on earnings. Compared with the good earnings of the previous year, which primarily resulted from price recoveries due to higher raw material and energy prices, the Polymer Additives and Rhein Chemie business units in particular saw lower selling prices in the reporting year. Targeted inventory reduction, which exacerbated the low capacity utilization, likewise had a negative impact on earnings and the margin. Shifts in exchange rates had a slightly positive effect on earnings. The EBITDA margin pre exceptionals was 9.0%, against 16.1% in the previous year.

In fiscal year 2023, negative exceptional items totaled €167 million, €20 million of which impacted EBITDA. Most of the exceptional items related to write-downs on the goodwill of the Polymer Additives business unit. The exceptional items within EBITDA primarily related to initial expenses incurred in connection with the FORWARD! action plan. The previous year's exceptional items amounted to €6 million, of which €5 million impacted EBITDA, and mainly related to the adjustment of the production network in the North America region. Further details can be found under "Notes on EBIT and EBITDA (Pre Exceptionals)."

Advanced Intermediates

Overview of Key Data

	2022		2023		
	€ million	Margin %	€ million	Margin %	Change %
Sales	2,413		1,775		(26.4)
EBITDA pre exceptionals	291	12.1	121	6.8	(58.4)
EBITDA	291	12.1	88	5.0	(69.8)
Operating result (EBIT) pre exceptionals	172	7.1	11	0.6	(93.6)
Operating result (EBIT)	172	7.1	(42)	(2.4)	< (100)
Cash outflows for capital expenditures	95		80		(15.8)
Depreciation and amortization	119		130		9.2
Employees (as of Dec. 31)	3,010		2,941		(2.3)

Our Advanced Intermediates segment recorded sales of €1,775 million in fiscal year 2023, down 26.4% from the figure for the previous year. Both sales volumes and selling prices of the segment's two business units were below the previous year's level. The sales decline was particularly influenced by the significantly lower sales volumes in the business units, which were below the previous year as a result of weaker demand – due in part to inventory reduction – especially from the construction and chemical industries, but also from other customer industries. Overall, there was a negative volume effect of 13.2% at segment level. The lower procurement prices for raw materials and energy resulted in lower selling prices, which had a negative effect on sales of 12.3% at segment level. In addition, shifts in exchange rates had a negative effect on both business units and decreased the segment's sales by 0.9% in total. Sales in all regions were below the level of the previous year.

EBITDA pre exceptionals in the Advanced Intermediates segment decreased by €170 million, or 58.4%, to €121 million, compared with the previous year's figure of €291 million. In particular, the lower selling prices in both business units, due to generally weak demand, and capacity utilization had a negative impact on earnings and the margin. The lower procurement prices for raw materials and energy also resulted in reduced selling prices, and the shift in exchange rates had a negative effect on earnings. The sale of emissions rights helped to mitigate the negative effects of persistently high energy costs. The EBITDA margin pre exceptionals was 6.8%, against 12.1% in the previous year.

In the reporting year, the segment incurred negative exceptional items of €53 million, €33 million of which impacted EBITDA. These primarily related to expenses for human resources measures as part of the FORWARD! action plan and expenses by the Advanced Industrial Intermediates business unit in connection with the planned closure of hexane oxidation production at the site in Krefeld-Uerdingen, Germany. Expenses also resulted from the closure of the site in Mapleton, U.S., which was already initiated in 2021. There were no negative exceptional items in operating earnings in the previous year. Details can be found under "Notes on EBIT and EBITDA (Pre Exceptionals)."

All Other Segments

Overview of Key Data

	2022	2023	
	€ million	€ million	Change %
Sales	339	274	(19.2)
EBITDA pre exceptionals	(203)	(128)	36.9
EBITDA	(277)	(245)	11.6
Operating result (EBIT) pre exceptionals	(268)	(199)	25.7
Operating result (EBIT)	(346)	(321)	7.2
Cash outflows for capital expenditures	58	37	(36.2)
Depreciation and amortization	69	76	10.1
Employees (as of Dec. 31)	3,565	3,408	(4.4)

The sales reported in **"All other segments"** for the reporting year and the previous year mainly relate to the business of the Urethane Systems business unit. EBITDA pre exceptionals came to minus €128 million, compared with minus €203 million in the previous year, and resulted mainly from expenses for the activities of the corporate functions. The decline in expenses related in particular to the absence of expenses from currency hedges in the previous year and savings measures in the current fiscal year. In the reporting year, net negative exceptional items of €122 million were incurred, €117 million of which impacted EBITDA. The exceptional items related primarily to expenses as part of the FORWARD! action plan and expenses in connection with digitalization projects, strategic IT projects and M&A activities. Net negative exceptional items totaling €78 million were incurred in the previous year, €74 million of which impacted EBITDA. These 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. Further details can be found under "Notes on EBIT and EBITDA (Pre Exceptionals)."

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 2022	EBIT 2023	EBITDA 2022	EBITDA 2023
EBIT/EBITDA pre exceptionals	**389**	**(53)**	**930**	**512**
Consumer Protection	**(25)**	**(273)**	**(25)**	**(14)**
Write-downs on goodwill[1]	0	(259)	0	0
FORWARD![2]	0	(11)	0	(11)
Strategic realignment[3]	(25)	(3)	(25)	(3)
Specialty Additives	**(6)**	**(167)**	**(5)**	**(20)**
Write-downs on goodwill[1]	0	(147)	0	0
FORWARD![2]	0	(17)	0	(17)
Strategic realignment	0	(2)	0	(2)
Adjustment of the production network	(6)	(1)	(5)	(1)
Advanced Intermediates	**0**	**(53)**	**0**	**(33)**
FORWARD![2]	0	(46)	0	(31)
Adjustment of the production network[4]	0	(7)	0	(2)
All other segments	**(78)**	**(122)**	**(74)**	**(117)**
FORWARD![2]	0	(37)	0	(37)
Strategic realignment	0	(9)	0	(9)
Strategic IT projects (SAP S/4HANA and other IT applications)	(32)	(24)	(32)	(23)
M&A costs, digitalization and other	(46)	(52)	(42)	(48)
Total exceptional items	**(109)**	**(615)**	**(104)**	**(184)**
EBIT/EBITDA	**280**	**(668)**	**826**	**328**

1) The exceptional items related to write-downs on goodwill, which resulted from impairment testing in the Flavors & Fragrances and Polymer Additives business units as of December 31, 2023.
2) The exceptional items relating to the FORWARD! action plan particularly related to human resources measures and expenses in the Advanced Intermediates segment in connection with the planned closure of hexane oxidation production at the site in Krefeld-Uerdingen, Germany.
3) These exceptional items mainly related to integration activities in connection with the Microbial Control business acquired in 2022.
4) These exceptional items mainly related to the closure of the site in Mapleton, U.S., which was already initiated in 2021.

STATEMENT OF FINANCIAL POSITION AND FINANCIAL CONDITION

Assets and Liabilities

- Significant reduction in net financial liabilities from €3,814 million to €2,498 million, mainly due to the proceeds from contributing the High Performance Materials business unit to Envalior and a targeted reduction of net working capital
- Increase in equity ratio from 39.2% to 46.6%

Structure of the Statement of Financial Position

	Dec. 31, 2022		Dec. 31, 2023		
	€ million	%	€ million	%	Change %
ASSETS					
Non-current assets	6,437	57.0	6,756	69.9	5.0
Current assets	4,850	43.0	2,909	30.1	(40.0)
Total assets	**11,287**	**100.0**	**9,665**	**100.0**	**(14.4)**
EQUITY AND LIABILITIES					
Equity (including non-controlling interests)	4,427	39.2	4,507	46.6	1.8
Non-current liabilities	4,434	39.3	3,984	41.2	(10.1)
Current liabilities	2,426	21.5	1,174	12.1	(51.6)
Total equity and liabilities	**11,287**	**100.0**	**9,665**	**100.0**	**(14.4)**

Prior-year figures restated.

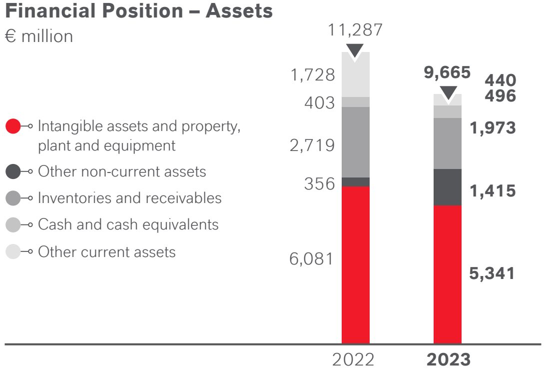
Structure of the Statement of Financial Position

As of December 31, 2023, the LANXESS Group's total assets stood at €9,665 million, €1,622 million or 14.4% lower than at the end of the previous year. This development resulted in particular from the repayment of various bilateral bank loans and the repayment of the hybrid bond of €500 million, which was made possible by the payment received for the contribution of the High Performance Materials business unit to Envalior and the significant reduction in net working capital.

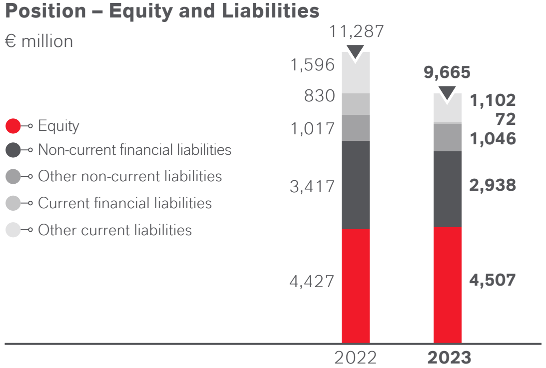
Non-current assets increased by €319 million to €6,756 million. The increase is particularly attributable to a minority interest in Envalior GmbH, Cologne, Germany, acquired in connection with the formation of Envalior, which is included in the consolidated financial statements using the equity method. As of December 31, 2023, it was valued at €776 million. Intangible assets decreased from €3,331 million to €2,721 million. Property, plant and equipment decreased from €2,750 million to €2,620 million. Cash outflows for purchases of property, plant and equipment and intangible assets amounted to €326 million, compared with €407 million in the previous year. Depreciation, amortization and write-downs increased to €996 million compared with the previous year's figure of €546 million, primarily due to write-downs of €434 million and the acquisition of the Microbial Control business at the beginning of July 2022.

The write-downs resulted in particularly from the impairment testing in the Flavors & Fragrances and Polymer Additives business units as of December 31, 2023, and from the adjustment of the production network of the Advanced Industrial Intermediates business unit as part of the FORWARD! action plan. Other investments decreased from €20 million to €14 million, particularly due to the performance of the share of Standard Lithium Ltd., Vancouver, Canada. Other non-current financial assets increased by €185 million from €77 million to €262 million. This change was largely due to a shareholder loan granted to Envalior GmbH, Cologne, Germany, in connection with the formation of Envalior. Deferred tax assets increased by €111 million from the previous year's figure of €54 million to €165 million, while other non-current assets decreased by €4 million from €63 million to €59 million. The ratio of non-current assets to total assets increased from 57.0% to 69.9%.

Structure of the Statement of Financial Position – Assets
€ million



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



Current assets decreased by €1,941 million, or 40.0%, compared with December 31, 2022, to €2,909 million. This decline resulted primarily from the completion of the full transaction for the formation of Envalior and the resulting disposal of assets from the “Assets held for sale and discontinued operations” item. The €245 million or 28.6% decline in trade receivables to €613 million was mainly due to the demand-driven decline in sales. At 38.4, days of sales outstanding (DSO) were below the previous year’s figure of 39.1 days. Inventories decreased by €501 million, or 26.9%, to €1,360 million. The decline in inventories was driven in particular by active inventory management and the lower production volumes due to declining demand. At 85.2, days of sales in inventory (DSI) were slightly above the previous year’s figure of 84.9 days. Cash and cash equivalents decreased from €324 million to €146 million, while near-cash assets increased from €79 million to €350 million as a result of the investment in shares of money market funds that can be sold at any time. The ratio of current assets to total assets was 30.1%, compared with 43.0% as of December 31, 2022.

Equity increased by €80 million, or 1.8%, to €4,507 million compared with December 31, 2022. The increase resulted in particular from the net income influenced by the gain on the deconsolidation of the High Performance Materials business unit. In particular, the exchange differences on translation of operations outside the eurozone recognized in other comprehensive income and effects of the remeasurement of the net defined benefit liability had the opposite effect. The ratio of equity to the Group’s total assets was 46.6% as of December 31, 2023, compared with 39.2% in the previous year.

Non-current liabilities decreased by €450 million to €3,984 million. Provisions for pensions and other post-employment benefits increased by €131 million to €498 million. This increase resulted in particular from the lower discount rates for pension obligations and increased inflation expectations in Germany. Other non-current provisions came to €299 million, compared with €296 million in the previous year. Other non-current financial liabilities decreased mainly as a result of the repayment of the hybrid bond of €500 million utilizing the first redemption option on June 6, 2023. The ratio of non-current liabilities to total assets was 41.2%, compared with 39.3% as of December 31, 2022.

Current liabilities came to €1,174 million, down by €1,252 million, or 51.6%, compared with December 31, 2022. Other current financial liabilities decreased from €830 million to €72 million. The decline primarily reflected the repayment of various bilateral bank loans. In addition, other current provisions decreased by

€50 million to €338 million. The decrease is mainly due to lower personnel-related provisions. Trade payables declined by a total of €125 million to €584 million, primarily due to lower procurement prices for raw materials and energy and the demand-driven decline in production. Another material effect resulted from the completion of the full transaction for the formation of Envalior and the associated disposal of liabilities from the “Liabilities directly related to assets held for sale and discontinued operations” item. The ratio of current liabilities to total assets was 12.1% as of December 31, 2023, after 21.5% at the end of 2022.

At €2,498 million at the end of 2023, net financial liabilities were significantly below the figure of €3,814 million as of December 31, 2022. As in the previous year, no short-term money market investments and securities were held in the reporting year. The Group’s key ratios developed as follows:

Ratios

%		2019	2020	2021	2022[2]	2023
Equity ratio	Equity[1] / Total assets	30.4	33.8	35.7	39.2	46.6
Non-current asset ratio	Non-current assets / Total assets	58.3	54.3	58.3	57.0	69.9
Asset coverage I	Equity[1] / Non-current assets	52.3	62.2	61.3	68.8	66.7
Asset coverage II	Equity[1] and non-current liabilities / Non-current assets	142.4	146.3	132.7	137.7	125.7
Funding structure	Current liabilities / Total liabilities	24.5	31.0	35.2	35.4	22.8

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

Capital Expenditures

In 2023, our capital expenditures for property, plant and equipment and intangible assets decreased from €447 million in the previous year to €400 million due primarily to the targeted reduction of spending as part of the FORWARD! action plan. Cash outflows made up €326 million of this total (previous year: €407 million). In the same period, depreciation and amortization totaled €996 million (previous year: €546 million) and included write-downs of €434 million (previous year: €10 million), which primarily related to impairment testing and the FORWARD! action plan. The increase in depreciation and amortization also resulted from the acquisition of the Microbial Control business in the previous year.

In light of the strained economic situation, we reviewed our planned investment projects again in the past fiscal year as part of our FORWARD! action plan. Capital expenditures therefore focused on the following areas:

- Maintenance
- Targeted optimization and expansion of plants
- Projects to improve plant safety, enhance quality and comply with environmental protection requirements

Around one-fifth of the capital expenditures in 2023 went toward expansion or efficiency improvement measures, while the rest went to maintain existing facilities.

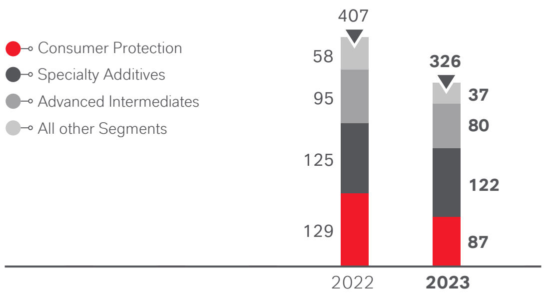
In regional terms, 51% of our capital expenditures in the reporting period were made in Germany, 27% in the Americas, 16% in the EMEA region (excluding Germany), and 6% in Asia-Pacific. Capital expenditures in Germany mostly comprised our investments in maintenance and in expansions initiated in previous years in all segments, but especially investments in the Advanced Industrial Intermediates, Saltigo, Lubricant Additives Business and Inorganic Pigments business units. Capital expenditures in the North America region included investments in the production network for the Polymer Additives business unit’s flame retardants. In EMEA (excluding Germany), they included the Flavors & Fragrances business unit’s investments at the site in Rotterdam/Botlek, Netherlands. In the Asia-Pacific region, LANXESS invested in additional production capacity for Naugalube® 438L products in the Lubricant Additives business unit in Taiwan.

In the Consumer Protection segment, capital expenditures came to €112 million (previous year: €141 million), €87 million (previous year: €129 million) of which were cash outflows. Depreciation, amortization and write-downs increased to €459 million (previous year: €168 million), primarily due to a write-down on goodwill in the Flavors & Fragrances business unit. For example, the cash flows related to several capital expenditures by the Saltigo business unit in connection with contract manufacturing. In addition, LANXESS commissioned a new bottling system for the Material Protection Products business unit's cold sterilization agent Velcorin® at the site in Krefeld-Uerdingen, Germany. At the site in Kalama, U.S., LANXESS completed the capacity expansion for the Flavors & Fragrances business unit's benzyl alcohol. Production capacity was doubled in order to serve the growing customer base in the Americas region.

Capital expenditures of €133 million were made in the Specialty Additives segment (previous year: €137 million). Cash outflows made up €122 million of this total (previous year: €125 million). By contrast, depreciation and amortization stood at €331 million (previous year: €190 million). The increase resulted primarily from the write-down on the goodwill of the Polymer Additives business unit. LANXESS investments included the expansion of the Lubricant Additives business unit's plants 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 generally growing demand, LANXESS invested a sum in the low double-digit millions in euros. The expansion was completed at the end of 2023; the additional volumes will be available from 2024.

Cash Outflows for Capital Expenditures by Segment

€ million



Capital expenditures in the Advanced Intermediates segment amounted to €94 million (previous year: €106 million). The cash outflows of €80 million (previous year: €95 million) compare with depreciation and amortization of €130 million (previous year: €119 million). The capital expenditures also included cash outflows in connection with maintenance in the Inorganic Pigments and Advanced Industrial Intermediates business units at the site in Krefeld-Uerdingen, Germany.

Financial Position

- Strong operating cash flow due to significant reduction in net working capital
- Cash flow from investing activities positively influenced by proceeds from the contribution of the High Performance Materials business unit to Envalior
- 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	2022	2023	Change
Income before income taxes	257	(947)	(1,204)
Depreciation and amortization	546	996	450
Other items	(145)	226	371
Net cash provided by operating activities – continuing operations before change in net working capital	**658**	**275**	**(383)**
Change in net working capital	(471)	577	1,048
Net cash provided by operating activities – continuing operations	**187**	**852**	**665**
Net cash used in (provided by) investing activities – continuing operations	**(996)**	**429**	**1,425**
Net cash provided by (used in) financing activities – continuing operations	**617**	**(1,465)**	**(2,082)**
Change in cash and cash equivalents from continuing operations	(192)	(184)	8
Change in cash and cash equivalents from discontinued operations	(87)	(21)	66
Cash and cash equivalents as of Dec. 31	**360**	**146**	**(214)**
of which continuing operations	324	146	(178)
of which discontinued operations	36	0	(36)

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 €383 million to €275 million in fiscal year 2023. Income before income taxes declined from €257 million to minus €947 million. This was adjusted for the income from investments accounted for using the equity method of minus €172 million, which is included in the "Other items" line. This also includes tax payments of €53 million. At €996 million, non-cash depreciation, amortization and write-downs were €450 million higher than the previous year's figure of €546 million, primarily due to write-downs resulting from the impairment testing in the Flavors & Fragrances and Polymer Additives business units as of December 31, 2023.

The change in net working capital against December 31, 2022, resulted in a cash inflow of €577 million after a cash outflow of €471 million in the previous year. The inflow in the reporting period resulted in particular from active inventory management and the lower production volumes and trade receivables due to declining demand. The drop in trade payables due to lower procurement prices for raw materials and energy and the demand-driven decline in production had the opposite effect. The net cash provided by operating activities totaled €852 million, significantly above the previous year's figure of €187 million.

Investing activities resulted in a cash inflow of €429 million in fiscal year 2023, compared with a cash outflow of €996 million in the prior-year period. The cash inflow of the current year resulted primarily from payments of €1,267 million received in connection with the contribution of the High Performance Materials business unit to Envalior. Cash outflows for financial assets and other assets held for investment purposes resulted from the acquisition of shares of money market funds that can be sold at any time as well as the granting of a shareholder loan to Envalior GmbH, Cologne, Germany. Cash inflows from financial and other assets held for investment purposes from the sale of shares of money market funds that can be sold at any time had the opposite effect. Cash outflows for purchases of intangible assets and property, plant and equipment amounted to €326 million, down on the prior-year figure of €407 million. Interest and dividends received totaled €23 million, up €11 million from the previous year's figure of €12 million.

There was cash outflow from financing activities of €1,465 million, compared to cash inflow of €617 million the year before. The net cash used was primarily due to the repayment of various bilateral bank loans and the repayment of the hybrid bond of €500 million. The interest payments and other financial disbursements amounted to €71 million, compared with €65 million in the previous year. The dividend payment made to LANXESS stockholders amounted to €91 million, as in the previous year. This was countered by the borrowing of bilateral bank loans.

The decrease in cash and cash equivalents from continuing operations in fiscal year 2023 was €184 million after €192 million in the previous year. After taking into account currency related and other changes of €9 million, cash and cash equivalents at the closing date amounted to €146 million, against €360 million at the previous year's closing date.

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 – improved by €746 million from minus €220 million to €526 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. The earnings decline as a result of the global economic weakness of the chemicals industry led to a deterioration in the indicators used by the rating agencies. In November 2023, Moody's lowered its rating by one notch from "Baa2" to "Baa3" with a negative outlook. The rating from Scope Ratings was unchanged at "BBB+" as of the reporting date, but the outlook was adjusted to "negative." In February 2024, the rating was downgraded to "BBB" with a negative outlook. The rating agencies highlight the comparatively high debt in relation to EBITDA and cash flow. At the same time, they recognize the efforts made by LANXESS to improve the rating indicators again in the future via various measures such as the FORWARD! action plan, the planned divestment of the Urethane Systems business unit, and proposing a dividend reduction to the Annual Stockholders' Meeting.

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 2023, LANXESS retained a balanced financing structure and a solid liquidity position. The next significant maturity is for a €500 million bond in May 2025. The other bond maturities are spread very evenly over the years 2026 to 2029. The existing debt issuance program allows the flexible placement of bonds on the capital market. As of December 31, 2023, €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.

On December 31, 2023, LANXESS had a small amount of financing items that were not reported in the statement of financial position in the form of short-term leases and leases of low-value assets.

The Group's total financial liabilities, net of accrued interest, decreased from €4,217 million at the end of 2022 to €2,994 million as of December 31, 2023. This decline primarily resulted from the repayment of the hybrid bond of €500 million and the repayment of various bilateral bank loans totaling €700 million. The funds for repaying the debts primarily came from the payment received in connection with the contribution of the High Performance Materials business unit to Envalior and the significant reduction in net working capital.

Development of LANXESS Ratings and Rating Outlook Since 2019

	2019	2020	2021	2022	2023
Standard & Poor's	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. 26, 2019	Baa2/stable Aug. 31, 2020	Baa2/stable Jul. 28, 2021	Baa2/stable Jul. 14, 2022	Baa3/negative Nov. 17, 2023
Scope Ratings	BBB+/stable Jul. 23, 2019	BBB+/stable Mar. 12, 2020	BBB+/stable Aug. 4, 2021	BBB+/stable Jul. 7, 2022	BBB+/negative Jun. 27, 2023

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. At €2,498 million at the end of the reporting year, they were significantly below the figure of €3,814 million as of December 31, 2022. Cash and cash equivalents amounted to €146 million on December 31, 2023 (previous year: €324 million). As of December 31, 2023, near-cash assets of €350 million were held, which were invested in shares of money market funds that can be sold at any time. As in the previous year, no further short-term money market investments and securities were held. Of the total financial liabilities, almost 100% bear a long-term fixed interest rate over the term of the financing, which is more than in the previous year. 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 1.1% at year-end 2023, down from the previous year's figure of 1.5%.

The following overview shows LANXESS's financing structure as of December 31, 2023, in detail, including its principal liquidity reserves.

Financing Structure

Instrument	Amount € million	Term	Interest rate %	Financial covenant
Eurobond 2018/2025 (€500 million)	502	May 2025	1.125	No
Eurobond 2016/2026 (€500 million)	499	October 2026	1.000	No
Eurobond 2021/2027 (€500 million)	497	September 2027	0.000	No
Eurobond 2022/2028 (€600 million)	605	March 2028	1.750	No
Eurobond 2021/2029 (€600 million)	594	December 2029	0.625	No
Private placement 2012/2027 (€100 million)	102	April 2027	3.950	No
Finance lease	204	n/a		No
Other	7	n/a		No
Less liabilities for accrued interest	(16)			
Total financial liabilities	**2,994**			
Cash and cash equivalents	146	≤ 3 months		
Near-cash assets	350	≤ 3 months		
Total liquidity	**496**			
Net financial liabilities	**2,498**			

The other loans include financial commitments to High-Tech Gründerfonds II and III and the use of bank account overdrafts in a small amount. No refinancing risks existed at the time these financial statements were prepared.

Liquidity Analysis

In addition to cash and cash equivalents of €146 million which are partly held in companies in regulated capital markets, LANXESS holds near-cash assets of €350 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.

Due to our good liquidity position, our solvency was assured at all times in fiscal year 2023.

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 a 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 and Scope 2 greenhouse gas emissions and the increase in the proportion of women at the top three levels of management.

The credit facility remained undrawn in 2023. 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 committed credit facilities of €1.8 billion as of December 31, 2023.

The total of liquid assets and undrawn credit lines gives us available liquidity of around €2.3 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 €6,714 million in the reporting period were 17.0% lower than the previous year's figure of €8,088 million and were influenced in all segments primarily by the negative effects of the weak demand and the inventory reduction among our customers, which continued throughout large parts of fiscal year 2023. Sales were also negatively affected by lower selling prices driven by raw material and energy prices. Moreover, shifts in exchange rates, especially a weaker U.S. dollar, had a negative influence on sales development in all segments. The contribution from the Microbial Control business acquired on July 1, 2022, had a positive effect on sales in the Consumer Protection segment.

In a globally weak economic environment in the chemicals industry and a still strained economic situation, EBITDA pre exceptionals decreased by €418 million from €930 million to €512 million in fiscal year 2023. While the Consumer Protection segment saw a comparatively moderate earnings decline and benefited from the Microbial Control business's portfolio contribution, the EBITDA pre exceptionals of our Specialty Additives and Advanced Intermediates segments were significantly below the previous year's level.

Net income and earnings per share increased from €250 million to €443 million and from €2.90 to €5.13, respectively. Net income from discontinued operations increased from €66 million to €1,286 million. The main reason for the increase was the gain on the deconsolidation of the High Performance Materials business unit in connection with the formation of Envalior. Net income from continuing operations was significantly below the previous year's figure of €184 million and amounted to minus €843 million, mainly as a result of the development of operating earnings, the write-downs on the goodwill of the Flavors & Fragrances and Polymer Additives business units, and the negative result from the investment accounted for using the equity method in Envalior. Earnings per share from continuing operations likewise declined to minus €9.76 against €2.13 in the previous year.

We retained our accounting and financing policy in 2023 and, in accordance with the consistency principle, essentially applied the same measurement methods and exercised the same discretion as in the previous year. The equity ratio increased from 39.2% to 46.6%. Total assets decreased from €11,287 million to €9,665 million.

Near-cash assets increased from €79 million to €350 million as a result of the investment in 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, almost 100% bear a fixed interest rate over the term of the financing. Our material financial liabilities are free of financial covenants. Our statement of financial position shows that our liquidity position remains solid.

After deduction of short-term money market investments and securities, our net financial liabilities amounted to €2,498 million, lower than the previous year's figure of €3,814 million. The decline in the reporting year resulted primarily from the proceeds from contributing the High Performance Materials business unit to Envalior. Another reason was the smaller amount of capital tied up in net working capital as a result of the targeted reduction of our inventories and the demand-driven decline in production volumes. While Scope Ratings confirmed its "BBB+" rating for LANXESS's creditworthiness as of the reporting date, Moody's lowered its rating by one notch from "Baa2" to "Baa3." Both rating agencies changed their outlook to "negative." In February 2024, however, Scope Ratings downgraded the rating to "BBB."

Due to the globally weak economic environment, the economic situation is strained. Earnings performance was very unsatisfactory overall, but we still consider our economic situation to be stable. Through structural measures as part of our FORWARD! action plan, we intend to achieve permanent savings of €150 million by 2025, and still see ourselves as on track to become a profitable specialty chemicals company with stable growth, stronger cash flow, and a more competitive, more sustainable portfolio.

KEY BUSINESS DATA – MULTI-PERIOD OVERVIEW

Indicators

€ million	2019	2020	2021	2022	2023
Earnings performance					
Sales[1]	6,802	6,104	6,101	8,088	6,714
EBITDA pre exceptionals[1]	1,019	862	815	930	512
EBITDA margin pre exceptionals[1]	15.0%	14.1%	13.4%	11.5%	7.6%
EBITDA[1]	910	757	668	826	328
EBIT pre exceptionals[1]	557	396	361	389	(53)
EBIT[1]	407	253	211	280	(668)
EBIT margin[1]	6.0%	4.1%	3.5%	3.5%	(9.9)%
Net income	205	885	267	250	443
Weighted average number of shares outstanding	88,334,641	86,587,838	86,346,303	86,346,303	86,346,303
Earnings per share (€)	2.32	10.22	3.09	2.90	5.13
Financial position					
Cash flow from operating activities[1]	634	594	368	187	852
Depreciation and amortization/reversals of impairment charges[1]	503	504	457	546	996
Cash outflows for capital expenditures[1]	508	456	424	407	326
Net financial liabilities	2,522	1,012	2,345	3,814	2,498
Net financial liabilities after deduction of short-term money market investments and securities	1,742	1,012	2,245	3,814	2,498
Assets and liabilities					
Total assets	8,695	8,880	10,528	11,287[2]	9,665
Non-current assets	5,065	4,823	6,139	6,437[2]	6,756
Current assets	3,630	4,057	4,389	4,850[2]	2,909
Net working capital	1,308	1,134	1,675	2,010	1,389
Equity (including non-controlling interests)	2,647	2,999	3,762	4,427	4,507
Provisions for pensions and other post-employment benefits	1,178	1,205	877	367	498
Indicators					
ROCE[3]	10.0%	7.5%	6.6%	4.8%[2]	(0.8)%
Equity ratio	30.4%	33.8%	35.7%	39.2%	46.6%
Non-current asset ratio	58.3%	54.3%	58.3%	57.0%	69.9%
Asset coverage I	52.3%	62.2%	61.3%	68.8%	66.7%
Net working capital/sales	19.2%	18.6%	22.2%	24.9%	20.7%
Employees (as of Dec. 31)	14,304	14,309	14,866	13,126	12,849

1) Figures from 2021 onward not including High Performance Materials business unit.
2) Prior-year figure restated.
3) Capital employed adjusted as of December 31 of each year. Details can be found under "Profitability."

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	2022	2023	Change %
Sales	**6**	**6**	**0.0**
Cost of sales	(6)	(5)	16.7
Gross profit	**0**	**1**	**–**
General administration expenses	(48)	(36)	25.0
Other operating income	2	3	50.0
Other operating expenses	(1)	(16)	< (100)
Operating result	**(47)**	**(48)**	**(2.1)**
Income from investments in affiliated companies	988	(88)	< (100)
Income from other securities and loans held as financial assets	7	10	42.9
Net interest expense	86	151	75.6
Write-downs on financial assets securities classified as current assets	(4)	0	100
Miscellaneous financial expense and income	(12)	8	> 100
Financial result	**1,065**	**81**	**(92.4)**
Income taxes	(4)	(18)	< (100)
Income after income taxes	**1,014**	**15**	**(98.5)**
Net income for the year	**1,014**	**15**	**(98.5)**
Carryforward to new account	11	427	> 100
Addition to other retained earnings	(507)	0	100
Distributable profit	**518**	**442**	**(14.7)**

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. After deducting the cost of sales, which consisted mostly of personnel expenses and appropriate shares of the general administration expenses, gross profit amounted to €1 million.

General administration expenses declined year-on-year by €12 million, or 25.0%, to €36 million. They principally comprised lower personnel costs and other business expenses not directly related to the services provided to Group companies. Other operating expenses increased from €1 million to €16 million due to expenses in connection with the FORWARD! action plan. In total, the operating result amounted to minus €48 million, compared with minus €47 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, decreased from €1,065 million to €81 million. This change was largely due to the absorption of losses from LANXESS Deutschland GmbH after a profit transfer in the previous year. The result for this company in the previous year was primarily influenced by the contribution of the High Performance Materials business unit to LANXESS Performance Materials GmbH, Cologne, Germany, with disclosure of hidden reserves, which did not affect the tax result. The €65 million improvement in the net interest position to €151 million is primarily attributable to the rise in the general interest rate level.

Income taxes resulted in expenses for previous years of €18 million.

Net income for fiscal year 2023 was €15 million after €1,014 million in the previous year.

As of December 31, 2023, the company reported a distributable profit of €427 million taking into account the profit carryforward of €442 million. In the previous year, a distributable profit of €518 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, 2022		Dec. 31, 2023		Change
	€ million	%	€ million	%	%
ASSETS					
Financial assets	896	9.4	899	11.4	0.3
Non-current assets	**896**	**9.4**	**899**	**11.4**	**0.3**
Receivables from affiliated companies	8,427	88.2	6,569	83.1	(22.0)
Other assets	44	0.5	43	0.5	(2.3)
Liquid assets and securities	156	1.6	381	4.8	> 100
Current assets	**8,627**	**90.3**	**6,993**	**88.4**	**(18.9)**
Prepaid expenses	**31**	**0.3**	**17**	**0.2**	**(45.2)**
Total assets	**9,554**	**100.0**	**7,909**	**100.0**	**(17.2)**
EQUITY AND LIABILITIES					
Equity	**2,754**	**28.8**	**2,678**	**33.9**	**(2.8)**
Provisions	**147**	**1.5**	**160**	**2.0**	**8.8**
Bonds	3,300	34.5	2,800	35.4	(15.2)
Liabilities to banks	730	7.7	16	0.2	(97.8)
Payables to affiliated companies	2,618	27.4	2,254	28.5	(13.9)
Liabilities	5	0.1	1	0.0	(80.0)
Payables	**6,653**	**69.7**	**5,071**	**64.1**	**(23.8)**
Total equity and liabilities	**9,554**	**100.0**	**7,909**	**100.0**	**(17.2)**

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

LANXESS AG had total assets of €7,909 million as of December 31, 2023, which was €1,645 million, or 17.2%, below the prior-year figure. Non-current assets increased slightly by €3 million to €899 million as a result of investments in the pension trust. 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 increased from 9.4% to 11.4%. Current assets decreased by €1,634 million, or 18.9%, to €6,993 million and accounted for 88.4% of total assets, compared with 90.3% in the previous year. Receivables from subsidiaries accounted for 83.1% of total assets and related principally to short-term loans and financial transactions. They declined in particular due to the incoming payment for the receivable recognized in the previous year as a result of the profit or loss transfer from LANXESS Deutschland GmbH. Other receivables largely consisted of tax claims and accounted for 0.5% of total assets, as in the previous year. The share of bank balances and securities in total assets increased from 1.6% to 4.8% or from €156 million to €381 million.

Equity fell by €76 million to €2,678 million, largely due to the dividend payment for 2022 of €91 million. The net income for 2023 of €15 million had the opposite effect. The equity ratio was 33.9%, after 28.8% at the end of 2022.

The provisions increased by €13 million to €160 million and related in particular to commitments to employees, statutory and contractual obligations, and income taxes. Liabilities decreased by €1,582 million to €5,071 million. This development is due among other things to the repayment of a bond of €500 million and the repayment of liabilities to banks of €700 million in the reporting year. In addition, payables to affiliated companies decreased by €364 million year-on-year to €2,254 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, 2023, 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 (AktG).

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 October 24, 2023, Capital Group Companies, Inc., based in Los Angeles, U.S., notified us that its participating interest had fallen below the threshold of 15% and that, at that time, it held a total of 14.89% 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 4 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 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 fiscal year 2020, LANXESS AG repurchased a total of 1,101,549 shares, or 1.26% of the company's capital stock of €87,447,852 at that time, 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 therefore also allows the purchase and utilization of up to 7,533,081 shares or 8.72% of the company's capital stock as of the end of fiscal year 2023 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.

Conditional capital

The Annual Stockholders' Meeting of LANXESS AG on May 24, 2023, authorized the Board of Management until May 23, 2026, with the approval of the Supervisory Board, to issue – in one or more installments – warrant bonds and/or convertible bonds 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 or income bonds with warrants, and/or to grant conversion rights to, or impose conversion obligations on, the holders or creditors of convertible bonds or convertible income bonds in respect of bearer shares of the company representing a total pro rata increase of up to €8,634,630 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 €8,634,630 (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 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 23, 2026, on the basis of the authorization granted to the Board of Management by the Annual Stockholders' Meeting on May 24, 2023, 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 and/or income bonds (or combinations of these instruments). The authorization to issue bonds has not yet been utilized.

Authorized Capital I

Pursuant to Section 4, Paragraph 3 of LANXESS AG's articles of association, the Annual Stockholders' Meeting on May 24, 2023, authorized the Board of Management until May 23, 2026, 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 €17,269,260 (Authorized Capital I). Stockholders are generally entitled to subscription rights when Authorized Capital I is utilized. However, pursuant to Section 4, Paragraph 3 of LANXESS AG's articles of association and with the approval of the Supervisory Board, the Board of Management can exclude these subscription rights when, for example, the company's capital stock is increased against contributions in kind, particularly for the acquisition of companies. Subscription rights can also be excluded if the issue price of the new shares is not significantly lower than the stock market price at the time the issue price is fixed and the issued shares do not exceed 10% of the company's capital stock.

Authorized Capital II

Furthermore, pursuant to Section 4, Paragraph 4 of LANXESS AG's articles of association, the Annual Stockholders' Meeting on May 24, 2023, authorized the Board of Management until May 23, 2025, 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 contributions up to a total amount of €8,634,630 (Authorized Capital II). Stockholders are generally entitled to subscription rights when Authorized Capital II is utilized. These rights can be excluded in certain cases which are defined in Section 4, Paragraph 4 of the articles of association of LANXESS AG.

Any shares issued with subscription rights disapplied on the basis of the aforementioned Authorized Capitals I and/or II may not, together with such shares issued or to be issued as part of conditional capital to service warrants or conversion rights or obligations, provided the warrants or conversion rights or obligations were granted or imposed during the term of the authorization with subscription rights disapplied, exceed 10% of the capital stock of LANXESS AG at the time the respective authorization becomes effective.

To date, neither Authorized Capital I nor Authorized Capital II has been utilized.

8. The service contracts between the company and the members of the Board of Management of LANXESS AG contain provisions regarding the potential departure of the members of the Board of Management in the context of a change of control 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 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 five bilateral agreements for credit lines of €50 million, €100 million, €150 million, €150 million and €200 million between LANXESS AG and five 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 Sections 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

Fiscal year 2023 was primarily characterized by uncertain conditions due to the ongoing war in Ukraine and the conflict in Israel/Palestine. Although the global supply chain situation generally improved, this was partly due to the weak growth of the global economy. Weak demand and customers' inventory reduction, which continued throughout large parts of fiscal year 2023 – also in businesses with otherwise stable consumer products – had noticeable negative effects on our business. There were also uncertainties arising from continuing populist or protectionist tendencies in some areas and ongoing trade tensions between the U.S. and China.

We expect the global economy to recover in 2024, albeit at a low level, driven chiefly by the Asia-Pacific region. However, the consequences of the loss of purchasing power due to price increases in recent years and the rise in interest rates over this period are likely to continue weighing on private consumption and curbing investment activity at first, before the economy picks up the pace again later in 2024. We therefore assume that the demand situation in Europe in particular will remain strained at least in the first half of the year and that the challenge of excessive energy costs in Germany – compared to the competition – will negatively impact the chemical industry.

While growth of 4.0% is forecast in the Asia-Pacific region, we anticipate much lower growth rates for Europe and the Americas. Overall, we therefore foresee a slight recovery of 2.0% for the ***global economy*** in 2024. We still see China and India as the two main drivers here.

We expect slight growth for the global ***chemical industry***, primarily driven by the development in the Asia-Pacific region. For Germany, Verband der Chemischen Industrie e.V. (VCI) forecasts a sales decline in the chemical industry (not including pharmaceuticals) of 5.0% in 2024. For ***agrochemicals***, we anticipate growth of 3.0% for 2024, while we expect continued inventory reduction among our customers especially. In terms of global sales in the ***construction industry***, we expect to see a further decline of 0.5% this year as a result of a 2.0% decline in Asia. A small increase of 0.5% – if at all – is expected for the ***automotive industry*** in 2024. For the ***food industry***, we expect a slight recovery versus 2023 with growth of 2.0%. We also expect an improvement on 2023 with growth of 5.5% in the ***electrical/electronics industry*** and 3.0% in consumer goods.

Expected Growth in 2024

Change vs. prior year in real terms (%)[1]	Gross domestic product	Chemical industry
Americas	1.5	0.0
EMEA (incl. Germany)	1.0	1.0
Asia-Pacific	4.0	4.5
World	**2.0**	**3.0**

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 2024

Change vs. prior year in real terms (%)[1]	Automotive	Agro-chemicals[2]	Construction	Food	Electrical/ electronics	Consumer staples
Americas	2.0	3.0	1.5	0.0	2.5	0.0
EMEA (incl. Germany)	0.0	2.5	1.0	1.0	3.5	1.5
Asia-Pacific	0.0	3.0	(2.0)	3.5	6.0	5.0
World	**0.5**	**3.0**	**(0.5)**	**2.0**	**5.5**	**3.0**

1) Rounded to the nearest 0.5%.
2) Pesticides and other organic agrochemical products.
Sources: S&P Global Market Intelligence, development in construction costs according to Oxford Economics.

FUTURE PERSPECTIVES

Expected Development of the LANXESS Group

For 2024, we expect earnings moderately above the level of the multi-crisis-hit previous year, but significantly below the average level of preceding years. This is essentially due to the following effects:

- We assume that the inventory reduction among our customers is complete, with the exception of the agrochemicals sector. Although we will continue to strictly control our current assets, the volume of inventory reduction that negatively affected our earnings in 2023 is not expected to repeat itself.
- In addition, we anticipate permanent cost savings from our FORWARD! action plan amounting to €90 million in 2024, of which around net €40 million will contribute to earnings, after the one-time savings in 2023. In total, FORWARD! is expected to reduce costs by €150 million by the end of 2025.
- We generally expect the environment to remain challenging. We assume that the demand situation will continue to be difficult in the first half of the year and expect a recovery no earlier than the second half.

For the most important raw materials and energy types, we anticipate a price level below that of the previous year. The effects of the war in Ukraine and the conflicts in the Middle East as well as continuing populist or protectionist tendencies in some regions and countries remain sources of uncertainty.

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

Earnings performance

We expect the Consumer Protection segment to perform at the previous year's level. The Consumer Protection segment remained relatively stable in the previous year, so the recovery is also expected to be less marked than in our other two segments. The end of the two production stoppages by suppliers will have a positive impact. On the other hand, we expect a slower recovery in demand in the agrochemicals industry due to the delayed inventory reduction among customers in this sector.

For our Specialty Additives segment, we expect business development in 2024 to slightly to moderately exceed the previous year's level. This improvement will be visible primarily in the second half of the year, because the first quarter of the previous year was still at a high level.

We anticipate earnings significantly above the previous year's level for our Advanced Intermediates segment in the 2024 reporting year. This development is likely to be supported in particular by the fact that the inventory reduction by us and our customers, which had a significant negative impact on the previous year, will not be repeated, thus enabling a significant earnings increase. We assume that Advanced Intermediates will record the most visible recovery of all our segments.

In "All other segments," we expect earnings at the previous year's level.

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 2024 will be moderately above the previous year's level but still significantly below the average level of preceding years. EBITDA pre exceptionals amounted to €512 million in fiscal year 2023.

Liquidity situation

LANXESS will continue to pursue a forward-looking and conservative financial policy in the current year. With around €2.3 billion in cash and undrawn credit lines as of the end of 2023, as described under "Financial position" in this management report, we have a very comfortable liquidity and financing position. This ensures our corporate flexibility to implement LANXESS's strategy.

Capital expenditures

As in fiscal year 2023, 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 €350 million in 2024. Up to the reporting date, orders totaling €130 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 2024. There is always the possibility of borrowing short-term bank loans, the necessity of which we decide upon 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 2024, we expect CO_2e emissions to be on a par with the previous year, in which emissions amounted to 1,722 thousand metric tons.

In fiscal year 2023, the lost time injury frequency rate (LTIFR: accidents per million hours worked) for accidents with days lost was 0.6. After prior-year figures of 0.5 in continuing operations and 0.6 including discontinued operations, this is another very good figure. Despite every effort, not all influencing factors can be controlled, and the LTIFR is difficult to forecast. For fiscal year 2024, we are again striving for an LTIFR less than 1.0.

Expected Earnings Position of LANXESS AG

In fiscal year 2024, we expect the annual financial statements of LANXESS AG to show a net result at the previous year's level. The net result in the reporting period was shaped primarily by negative income from investments and the expenses as part of the FORWARD! action plan. The negative income from investments in the reporting period is mainly due to the general economic development, but also includes positive earnings contributions from subsidiaries with the opposite effect. 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.

Dividend Policy

We aim to pay a stable or increased dividend each year. For each year's proposal, we will take certain factors, such as the economic situation and our financial leverage, into consideration. We will however always pay a dividend. Given the weak business performance and in order to further lower our net financial debt, we plan to reduce the dividend this year. At the Annual Stockholders' Meeting on May 24, 2024, the Board of Management and Supervisory Board will therefore propose a dividend of €0.10 per share for fiscal year 2023.

Summary of the Group's Projected Performance

Due to the factors described, we expect our business to perform moderately better than in 2023, which was affected by crises, but not yet return to the average level of preceding years. At the same time, we still anticipate a challenging environment and only slightly higher demand.

We will be continuing the strategic realignment of the Group in 2024 with the aim of achieving a more stable and less cyclical business profile. Our FORWARD! action plan will play a major role here. Another aspect will be harnessing synergies from the acquisitions made. LANXESS will also keep working continuously on optimizing its production platform and pursuing projects geared toward organic growth.

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

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

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.

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 he or she becomes aware of significant compliance issues requiring immediate reporting to the Board of Management.

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 it 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 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)]

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

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
Business environment
Finance
Legal environment and compliance

Subsequent reporting in respect of the main *categories* is generally based on a planning horizon of one year.

Procurement markets

On the procurement side, the principal opportunities and risks lie in the high volatility of raw material and energy prices. An increase or decrease in the price of the materials we use directly results in higher or lower production costs. If prices decrease, write-downs may have to be recognized on inventories. In addition, changes in raw material prices result in higher or lower selling prices – either immediately or after a delay. We mitigate situations like this by following a sensible inventory and procurement policy. In order to avoid supply bottlenecks, we have met large parts of the company's raw material needs by way of long-term supply contracts and contracts containing price escalation clauses. On the selling side, equivalent agreements are in place. We also have the option of hedging this risk via derivatives transactions if liquid futures markets are available for hedging raw material and energy price risks. Further information can be found in the "Finance" section of this opportunity and risk report. Additionally, we are constantly looking for ways to use our resources more efficiently so that we can offset higher costs by raising productivity. Unfulfilled acceptance obligations may result in unscheduled costs due to fines. To guard against possible supply bottlenecks due to factors such as the ***failure of a supplier*** or of an upstream operation at a networked site, we pursue an appropriate inventory strategy and line up alternative sources of supply. Failures can be caused by factors such as inadequate maintenance or insolvencies at the supplier end. We endeavor to avoid supply bottlenecks or reliance on individual suppliers using strategies like multiple sourcing. If we were to be forced to utilize alternative sources of supply in the context of contingency plans, this could result in, for example, higher procurement prices or additional transportation costs.

Logistics, both of the goods and services that we purchase and of those that we provide or render, is subject to increasing complexity. The growing pressure on global supply chains and the resulting logistical bottlenecks represent an increasing risk. We counter these challenges with the coordinated management of our supply processes and can thus minimize the risk of unplanned production downtime. Furthermore, the ***quality*** of the supplied raw materials constitutes a risk factor that may negatively affect the quality of our products. Detailed product specifications issued by us define the properties to be fulfilled by suppliers. They are checked via ongoing goods-in analyses.

Human resources

We see the increasing digitalization in HR as an 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.

The risk of walkouts in connection with negotiations concerning future collective pay agreements 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 introduced a knowledge transfer program in 2021. 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 has been introduced at four LANXESS plants. It is available to all employees of these plants as an intuitive reference work.

We are increasingly seeing the risk of a shortage of skilled workers in various fields. In this future, this risk could be exacerbated by the FORWARD! action plan, because we might appear less attractive as an employer to potential applicants. 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 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. The loss of expert knowledge could be exacerbated by the departure of experienced employees as part of the FORWARD! action plan. In order to counter the challenges of demographic change in a structured way, we set up an extensive demographic program. A whole host of initiatives have been initiated and implemented since this program was launched. In Germany, for example, additional training courses have been developed, workplace reintegration programs have been stepped up (reintegration after illness), workplace healthcare offerings have been continuously expanded, 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 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. We therefore also counter the above risks with our D&I strategy.

Production and technology

A lack of plant availability due to disruptions can make it impossible for us to meet production targets and adequately service demand, resulting in a loss of marginal income. We use a comprehensive range of measures to counter this scenario. These include proactive facility maintenance, systematic training of our employees and regular audits to analyze weak points. Systematic safety appraisals and risk assessments also contribute to improving plant and process safety. Implementation and application of the various measures are subject to global compliance checks. We also counter the risk of production stoppages by manufacturing certain products at various sites worldwide.

Unlocking and exploiting operational opportunities is an important aspect of our entrepreneurial activities. We are committed to using existing products and new solutions to advance our 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 by suppliers and customers to regions outside Europe. Additional requirements imposed by ***energy and environmental policy*** such as the new emissions trading regulations, new environmental taxes, the redistribution of costs associated with the transition to green energy, rising network charges 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.

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. If they occur, pandemic risks are comprehensively addressed via the activation of appropriate contingency plans and in accordance with the regulations and practices established in the last few years.

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.

Business environment

Our company is inherently exposed to general ***economic developments*** and to political and geopolitical changes in the countries and regions in which we operate. The existing geopolitical conflicts between the U.S. and China are the main source of uncertainty. We also 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.

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	Counterparty risks	Capital investments	Equity investments
Currencies	Availability of cash	Customers	Investments in pension assets	Earnings contributions from investments accounted for using the equity method
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 2024. 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 2024, 2025 and 2026 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. In the case of planned refinancing, LANXESS decides on the use of hedges to limit interest rate risks as needed.

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. In fiscal year 2023, LANXESS began in particular to hedge market price risks for gas as an energy source. As of the reporting date, LANXESS had hedges for a portion of the procurement portfolio in Germany up to 2028 as well as a small number of other forward commodity contracts. The Board of Management of LANXESS AG has also resolved to implement a structured hedging concept to reduce energy price volatility in fiscal year 2024, similar to the existing currency hedging concept.

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 €800 million. The Group also had short-term liquidity reserves of €146 million in the form of cash and cash equivalents. In addition to cash and cash equivalents, LANXESS holds near-cash assets of €350 million, which are invested in shares of money market funds that can be sold at any time. Accordingly, the LANXESS Group has a solid 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.

Equity investments
LANXESS holds shares in companies accounted for using the equity method. Earnings contributions from investments accounted for using the equity method can fluctuate. In addition, the shareholder loan issued to Envalior GmbH is subject to value fluctuations due the measurement at fair value. The resulting opportunities and risks are recorded and analyzed systematically.

Legal 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 details can be found under "Strategy" in 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 agreements with the sellers that minimize the residual risk. 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 categories raw material and energy prices from the procurement markets group, macroeconomic development and geopolitics from the business environment group, and cyber risks from the IT and information security group and the production and technology group were considered to be of medium to high significance. Based on the scenarios applied or the assumed probability of occurrence, these categories and this group could produce a positive or negative deviation of up to 11% 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 ongoing war in Ukraine, global economic performance in fiscal year 2023 was also characterized in the second half of the year by the conflicts in the Middle East. Although the global supply chain situation generally improved, this improvement was partly supported by the globally weak economic environment in the chemicals industry. Although we expect raw material and energy prices to keep falling, the economic situation continues to be strained. Ongoing trade tensions, especially between the U.S. and China, populist and 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. Our primary strategic objective is to be a profitable specialty chemicals company with stable growth. With our FORWARD! action plan, we have responded to the weak business performance of 2023 and intend to further refine our business model as a pure specialty chemicals company.

With our three segments Consumer Protection, Specialty Additives and Advanced Intermediates, we are building on a well-balanced portfolio that we believe provides the right mix of resilience and flexibility to prevail in turbulent times and volatile markets in the future. The extensive portfolio measures of recent years for the transformation into a specialty chemicals manufacturer are largely complete. We used the funds received from the contribution of our High Performance Materials business unit to Envalior, the company formed with Advent International as of April 1, 2023, to further reduce our net financial debt.

All planning is subject to a certain degree of forecasting risk, which could necessitate flexible adjustments to rapidly changing business conditions over the course of the year. This is particularly true in view of the fact that planning and forecasts in general are somewhat less reliable, for example due to the changes in our procurement and customer markets.

The development of the war in Ukraine and the conflict in Israel/Palestine with all of the knock-on effects on economic relations and the economy as a whole are major uncertainty factors for our business performance.

In light of our present financing structures, our sound liquidity position and the measures initiated as part of the FORWARD! action plan, we are confident of managing any risks that may arise in the future.

In summary, the potential effects of geopolitical conflicts and macroeconomic developments are the greatest sources of uncertainty for our business performance, and corresponding risks are rated higher than in the previous year. However, the opportunity and risk situation as a whole has not fundamentally changed.

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, 2022	Dec. 31, 2023
ASSETS			
Intangible assets[1]	(1)	3,331	2,721
Property, plant and equipment	(2)	2,750	2,620
Investments accounted for using the equity method	(3)	71	845
Investments in other affiliated companies	(4)	20	14
Non-current derivative assets	(5)	14	10
Other non-current financial assets	(6)	77	262
Non-current income tax receivables	(7)	57	60
Deferred taxes	(30)	54	165
Other non-current assets	(8)	63	59
Non-current assets		**6,437**	**6,756**
Inventories	(9)	1,861	1,360
Trade receivables[1]	(10)	858	613
Cash and cash equivalents		324	146
Near-cash assets	(11)	79	350
Current derivative assets	(5)	18	13
Other current financial assets	(6)	172	215
Current income tax receivables	(7)	35	41
Other current assets	(12)	228	171
Assets held for sale and discontinued operations	(13)	1,275	–
Current assets		**4,850**	**2,909**
Total assets		**11,287**	**9,665**

€ million	Note	Dec. 31, 2022	Dec. 31, 2023
EQUITY AND LIABILITIES			
Capital stock and capital reserves		1,317	1,317
Other reserves		2,955	3,027
Net income		250	443
Other equity components		(101)	(286)
Equity attributable to non-controlling interests		6	6
Equity	(14)	**4,427**	**4,507**
Provisions for pensions and other post-employment benefits	(15)	367	498
Other non-current provisions	(16)	296	299
Non-current derivative liabilities	(5)	1	0
Other non-current financial liabilities	(17)	3,417	2,938
Non-current income tax liabilities	(18)	28	17
Other non-current liabilities	(19)	41	38
Deferred taxes	(30)	284	194
Non-current liabilities		**4,434**	**3,984**
Other current provisions[1]	(16)	388	338
Trade payables	(20)	709	584
Current derivative liabilities	(5)	18	17
Other current financial liabilities	(17)	830	72
Current income tax liabilities	(18)	38	42
Other current liabilities	(19)	125	121
Liabilities directly related to assets held for sale and discontinued operations	(13)	318	–
Current liabilities		**2,426**	**1,174**
Total equity and liabilities		**11,287**	**9,665**

1) Prior-year figure restated.

Income Statement
LANXESS Group

€ million	Note	2022	2023
Sales	(22)	**8,088**	**6,714**
Cost of sales	(23)	(6,151)	(5,446)
Gross profit		**1,937**	**1,268**
Selling expenses	(24)	(1,064)	(933)
Research and development expenses	(25)	(102)	(99)
General administration expenses	(26)	(319)	(279)
Other operating income	(27)	38	78
Other operating expenses	(28)	(210)	(703)
Operating result (EBIT)		**280**	**(668)**
Income from investments accounted for using the equity method	(3)	3	(172)
Interest income		7	10
Interest expense		(75)	(70)
Other financial income and expense		42	(47)
Financial result	(29)	**(23)**	**(279)**
Income before income taxes		**257**	**(947)**
Income taxes	(30)	(72)	105
Income after income taxes from continuing operations		**185**	**(842)**
Income after income taxes from discontinued operations		**66**	**1,286**
Income after income taxes		**251**	**444**
of which attributable to non-controlling interests		1	1
of which attributable to LANXESS AG stockholders (net income)		250	443
Earnings per share (basic/diluted) (€)	(31)		
from continuing operations		2.13	(9.76)
from discontinued operations		0.77	14.89
from continuing and discontinued operations		**2.90**	**5.13**

Statement of Comprehensive Income
LANXESS Group

€ million	2022	2023
Income after income taxes	**251**	**444**
Items that will not be reclassified subsequently to profit or loss		
Remeasurements of the net defined benefit liability for post-employment benefit plans	528	(118)
Financial instruments fair value measurement	(38)	(5)
Other comprehensive income (net of income tax) attributable to investments accounted for using the equity method	–	(3)
Income taxes	(141)	35
	349	**(91)**
Items that may be reclassified subsequently to profit or loss if specific conditions are met		
Exchange differences on translation of operations outside the eurozone	153	(173)
Financial instruments fair value measurement	6	(1)
Financial instruments cost of hedging	(1)	1
Other comprehensive income (net of income tax) attributable to investments accounted for using the equity method	–	(39)
Income taxes	(2)	0
	156	**(212)**
Other comprehensive income, net of income tax	**505**	**(303)**
Total comprehensive income	**756**	**141**
of which attributable to non-controlling interests	0	0
of which attributable to LANXESS AG stockholders	756	141
from continuing operations	700	(1,152)
from discontinued operations	56	1,293

Statement of Changes in Equity
LANXESS Group

€ million	Capital stock	Capital reserves	Other reserves	Net income (loss)	Other equity components: Currency translation adjustment	Other equity components: Financial instruments: Fair value measurement	Other equity components: Financial instruments: Cost of hedging	Equity attributable to LANXESS AG stockholders	Equity attributable to non-controlling interests	Equity
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*
Other changes			0					0		0
Dec. 31, 2022	**86**	**1,231**	**2,955**	**250**	**(103)**	**3**	**(1)**	**4,421**	**6**	**4,427**
Allocations to retained earnings			250	(250)				0		0
Dividend payments			(91)					(91)	0	(91)
Total comprehensive income			(87)	443	(211)	(5)	1	141	0	141
Income after income taxes				*443*				*443*	*1*	*444*
Other comprehensive income, net of income tax			*(87)*		*(211)*	*(5)*	*1*	*(302)*	*(1)*	*(303)*
Other changes			0		27	3		30		30
Dec. 31, 2023	**86**	**1,231**	**3,027**	**443**	**(287)**	**1**	**0**	**4,501**	**6**	**4,507**

Statement of Cash Flows
LANXESS Group

€ million	Note	2022	2023
Income before income taxes		**257**	**(947)**
Amortization, depreciation and write-downs of intangible assets and property, plant and equipment		546	996
Losses/gains on disposals of intangible assets and property, plant and equipment		3	(2)
Income from investments accounted for using the equity method		(3)	172
Financial losses (gains)		11	92
Income taxes refunded/paid		4	(53)
Changes in inventories		(403)	465
Changes in trade receivables		62	230
Changes in trade payables		(130)	(118)
Changes in other assets and liabilities		(160)	17
Net cash provided by operating activities – continuing operations	(39)	**187**	**852**
Net cash used in operating activities – discontinued operations		**(28)**	**(14)**
Net cash provided by operating activities – total		**159**	**838**
Cash outflows for purchases of intangible assets and property, plant and equipment		(407)	(326)
Cash inflows from sales of intangible assets and property, plant and equipment		5	3
Cash outflows for financial and other assets held for investment purposes		(910)	(1,823)
Cash inflows from financial and other assets held for investment purposes		1,420	1,358
Cash outflows for the acquisition of subsidiaries and other businesses, less acquired cash and cash equivalents		(1,124)	0
Cash inflows from the sale of subsidiaries and other businesses, less divested cash and cash equivalents		8	1,194
Interest and dividends received		12	23
Net cash used in (provided by) investing activities – continuing operations	(39)	**(996)**	**429**
Net cash used in investing activities – discontinued operations		**(55)**	**(6)**
Net cash used in (provided by) investing activities – total		**(1,051)**	**423**
Proceeds from borrowings		1,379	383
Repayments of borrowings		(689)	(1,686)
Interest paid and other financial disbursements		(65)	(71)
Proceeds from interest rate hedges		83	–
Dividend payments		(91)	(91)
Net cash provided by (used in) financing activities – continuing operations	(39)	**617**	**(1,465)**
Net cash used in financing activities – discontinued operations		**(4)**	**(1)**
Net cash provided by (used in) financing activities – total		**613**	**(1,466)**
Change in cash and cash equivalents – continuing operations		**(192)**	**(184)**
Change in cash and cash equivalents – discontinued operations		**(87)**	**(21)**
Change in cash and cash equivalents – total		**(279)**	**(205)**
Cash and cash equivalents as of Jan. 1		643	360
Exchange differences and other changes in cash and cash equivalents – total		(4)	(9)
Cash and cash equivalents as of Dec. 31	(39)	**360**	**146**
of which continuing operations		324	146
of which discontinued operations		36	–

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 2023 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 8, 2024. 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, 2023, 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 2023 currently has no impact, or no material impact, on the LANXESS Group:

Standard	
IAS 12	Amendments to IAS 12 – International Tax Reform – Pillar Two Model Rules
IFRS 17	Amendments to IFRS 17 – Initial Application of IFRS 17 and IFRS 9
IAS 12	Amendments to IAS 12 – Deferred Tax related to Assets and Liabilities arising from a Single Transaction
IAS 1	Amendments to IAS 1 – Disclosure of Accounting Policies
IAS 8	Amendments to IAS 8 – Definition of Accounting Estimates
IFRS 17	Insurance Contracts – including Amendments to IFRS 17

The LANXESS Group is within the scope of the OECD model rules (Pillar Two model rules). In Germany, the jurisdiction in which the parent company LANXESS AG is registered, the Pillar Two legislation entered into force on December 28, 2023, and applies from fiscal year 2024. For this reason, an analysis was carried out to determine the fundamental impact and the jurisdictions from which LANXESS is exposed to possible effects in connection with a Pillar Two top-up tax. The first step was to check whether the safe harbor regulations were applicable. If a country was not excluded from the Pillar Two calculation after checking the safe harbor regulations, the effective tax rate was calculated on a simplified basis. In this context, no countries were identified with possible effects from the payment of a Pillar Two top-up tax. The amounts calculated are immaterial for the LANXESS Group. LANXESS applies the exception in IAS 12 according to which an entity does not recognize or disclose deferred tax assets and liabilities related to the OECD Pillar Two income taxes.

FINANCIAL REPORTING STANDARDS ISSUED BUT NOT YET MANDATORY

In fiscal year 2023, 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 – Classification of Liabilities as Current or Non-Current	Jan. 23, 2020 Jul. 15, 2020 Oct. 31, 2022	2024	Yes
IFRS 16	Amendments to IFRS 16 – Lease Liability in a Sale and Leaseback	Sep. 22, 2022	2024	Yes
IAS 7, IFRS 7	Amendments to IAS 7 and IFRS 7 – Supplier Finance Arrangements	May 25, 2023	2024	No
IAS 21	Amendments to IAS 21 – The Effects of Changes in Foreign Exchange Rates	Aug. 15, 2023	2025	No

CONSOLIDATION

The financial statements of the consolidated companies were prepared using uniform accounting policies and valuation principles.

If the reporting year of a consolidated company does not end on December 31, interim financial statements are prepared for the purpose of consolidation.

Intra-Group profits or losses, sales, income and expenses as well as receivables and payables between consolidated companies are eliminated.

Scope of consolidation

The consolidated financial statements of the LANXESS Group include LANXESS AG and all subsidiaries under the control of LANXESS AG. Control exists if LANXESS AG is exposed to variable returns from the relationship with a company and has power over the company. Power means that LANXESS AG has existing rights that give it the current ability to direct the relevant activities of the company and thus exert a significant influence over the variable returns. The ability to control another company generally derives from direct or indirect ownership of a majority of the voting rights. 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 joint ventures and interests in associates in which the LANXESS Group exerts a significant influence, generally through an ownership interest between 20% and 50%, 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.

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. The measurement period provided by IFRS 3 for the finalization of the first-time measurement or purchase price adjustment of business combinations applies analogously.

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). For the vast majority of affiliated companies, the functional currency is the respective local currency. 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 published 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 1,134.59 points at the start of the fiscal year and 3,533.19 points at the end of the fiscal year.

For accounting purposes, the Republic of Türkiye has been classified as a hyperinflationary economy since fiscal year 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. This will be reassessed at the next reporting date.

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

Exchange Rates

		Closing rate		Average rate	
1 euro		Dec. 31, 2022	Dec. 31, 2023	2022	2023
Argentina	ARS	188.92	893.39	137.12	319.94
Brazil	BRL	5.57	5.35	5.44	5.40
China	CNY	7.36	7.85	7.08	7.66
Great Britain	GBP	0.89	0.87	0.85	0.87
India	INR	88.25	91.90	82.72	89.35
Japan	JPY	140.66	156.33	138.03	151.95
U.S.	USD	1.07	1.11	1.05	1.08

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 2023 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 is not amortized, but tested annually for impairment – or more frequently if events or changes in circumstances otherwise 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. 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 comprises the direct costs, as well as an appropriate share of the necessary material and manufacturing overheads. It also includes the shares of depreciation as well as of expenses for company pension plans and discretionary employee benefits that are attributable to production.

Where an obligation exists to 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.

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.

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.

Leases

Lessees generally 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 generally depreciated on a straight-line basis over the shorter of the asset’s useful life and the term of the lease. If the exercise of a purchase option is deemed to be reasonably certain, the right-of-use asset is depreciated on a straight-line basis over the asset’s useful life. Right-of-use assets 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 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 expert 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 flows relating to the financing of pension obligations where future pension payments will be made directly out of external plan assets are allocated to cash flows for operating activities.

Cash 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. Resulting reimbursements of pension payments made by LANXESS are reported in the cash flow statement as cash flows 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, impairment in the amount of the difference must be 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% is accounted for in the perpetual annuity in fiscal year 2023, as in the previous 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 the amount of impairment charges recognized in profit or loss is determined as part of the impairment test, 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 2022 and 2023 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, contingent liabilities, and other financial commitments.

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 current international crises, such as the war in Ukraine and the conflict in the Middle East. Because the further course of the current geopolitical conflicts remains difficult to predict, the future societal and economic effects are associated with a high level of uncertainty. Another business uncertainty factor is the challenging macroeconomic environment. This is characterized among other things by high interest and inflation rates, persistent volatility in energy, logistics, raw material and selling prices in particular, supply chains impacted by geopolitical conflicts, and a generally gloomy economic outlook. Global climate change and the transition to a low-carbon economy can also entail potential uncertainties for LANXESS. For example, national, international and independent measures to combat climate change can affect the nature and scope of the intended use as well as the intrinsic value of non-current assets. Moreover, such measures can also 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. The challenging geopolitical and macroeconomic environment and the impact of climate change are 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 tests conducted on assets*** in fiscal year 2023 and for the ***goodwill impairment tests*** 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 in global demand and the end of the Ukraine war in the planning period and subsequently expects a decline in inflation, 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 goodwill impairment test as of September 30 is based on a discount rate after taxes of 8.4% (previous year: 7.5%). This annual goodwill impairment test did not indicate any need for the recognition of impairment charges.

As a result of the adjusted earnings forecast in the fourth quarter of 2023 and the persistently weak demand situation in 2024, the assets of all cash-generating units were tested for impairment again as of December 31, 2023. At the end of the reporting period, the discount rate after taxes was 7.6% (previous year: 8.1%). Because the market environment remains challenging in 2024 and due to management's adjusted estimates regarding the expected market recovery in the business areas affected, this repeated impairment test resulted in the need to recognize an impairment charge of €259 million in the Flavors & Fragrances cash-generating unit in the Consumer Protection segment and an impairment charge of €147 million in the Polymer Additives cash-generating unit in the Specialty Additives segment.

As in the previous year, the goodwill impairment test in the other cash-generating units did not indicate any need for recognition of impairment charges.

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. As a result, ten-year planning was used to derive the fair value less costs of disposal of the Flavors & Fragrances business unit.

Induced by a market environment that remains challenging in 2024 and is characterized by high inflation and lower-than-expected demand, changes in the market and competitive environment are forecast for the business of the Flavors & Fragrances cash-generating unit. Consequently, the value arising on the basis of the ten-year planning was examined over the entire assessment period in order to derive the recoverable amount, and the knowledge obtained was taken into consideration in the measurement. The recoverable amount of the Flavors & Fragrances cash-generating unit is the fair value less costs of disposal and amounts to €776 million.

The resulting impairment charge was recognized in the income statement under other operating expenses. The full impairment charge relates to the goodwill of the Flavors & Fragrances business unit. As of the end of the reporting period, this amounted to €182 million (previous year: €456 million). In addition, changes also result from currency effects.

The business activities of the Polymer Additives cash-generating unit comprise the production and sale of bromine, bromine derivatives and phosphorous chemicals for the construction, electrical/electronics, primary metal and food-processing industries.

The still challenging market environment in 2024 and the weaker-than-expected recovery of demand and selling prices in the markets relevant for the Polymer Additives business unit resulted in an adjusted estimate of expected growth. Consequently, the value arising on the basis of the five-year planning was examined over the entire assessment period in order to derive the recoverable amount, and the knowledge obtained was taken into consideration in the measurement. The recoverable amount of the Polymer Additives cash-generating unit is the fair value less costs of disposal and amounts to €963 million.

The resulting impairment charge was recognized in the income statement under other operating expenses. The full impairment charge relates to goodwill. Goodwill in the Polymer Additives business unit amounted to €184 million (previous year: €343 million) as of the end of the reporting period. In addition to the impairment, changes compared with the previous year also result from currency effects.

In the previous year, goodwill of €468 million was acquired through the acquisition of the Microbial Control business from U.S. corporation International Flavors & Fragrances Inc. The acquired business was allocated to the Material Protection Products business unit in the Consumer Protection segment. In total, goodwill in the Material Protection Products business unit amounted to €638 million as of the end of the reporting period (previous year: €655 million). The changes compared to the previous year are due to currency effects.

Additional material goodwill of €212 million (previous year: €220 million) relates to the Lubricant Additives business unit and €154 million (previous year: €160 million) to the Urethane Systems business unit. Other business units account for goodwill of €15 million (previous year: €15 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 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 unit essentially manufactures additives for the construction, electrical/electronics, 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 8% (previous year: 5%), and the Flavors & Fragrances business unit planned annual sales growth of 5% (previous year: 2%). Annual sales growth of 5% (previous year: 4%) was assumed for the Urethane Systems business unit. Annual sales growth of 6% (previous year: 4%) was assumed for the Lubricant Additives business unit and 5% (previous year: 3%) for the Polymer Additives business unit.

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. The scenarios would not have resulted in impairment on goodwill in any other cash-generating unit.

The impact of the ongoing trade conflict between China and the U.S. on LANXESS was 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 therefore 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 2023 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. Further information on the assumptions regarding the valuation parameters on which the actuarial calculations and estimates were based can be found under "Provisions for Pensions and Other Post-Employment Benefits." 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 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. Please see Note [16] for further information.

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 expert opinion. This could result in deviations from the current estimates in the future.

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.

Within financial instruments, there are also estimation uncertainties regarding the accounting valuation of LANXESS's possibility to sell its shares in Envalior GmbH, Cologne, Germany, to Advent for the first time three years after the formation of Envalior under certain conditions. A value can already be attributed to this possibility on the valuation date if LANXESS is better off under the contractual agreement than it would be in a comparable arm's length transaction at customary conditions based on fair value. The main factor affecting the valuation is the further business performance of the associate in the coming years. The fair value of the right to offer is determined using an appropriate measurement model. The result of the valuation is materially determined by basic parameters underlying the model, such as business plan, capital costs, volatility, and composition of the peer group. There are therefore uncertainties resulting in particular from the assumptions made as of the reporting date and the management's expectations in the determination of the basic parameters. Corresponding changes to these assumptions result in a future fair value adjustment.

However, the final selling price will depend on Envalior's EBITDA of the last twelve months when LANXESS utilizes its possibility to offer its shares in Envalior for Advent to purchase after three years. Therefore, neither the accounting measurement of the investment accounted for using the equity method nor that of LANXESS's possibility to offer the shares for sale is decisive for the amount of the selling price actually achievable.

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 smaller 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.

The investment in Envalior GmbH, Cologne, Germany, is initially recognized at fair value in accordance with the equity method. The measurement is primarily derived from future cash inflows and outflows based on assumptions and estimates. These 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. Deviations between the actual cash inflows and outflows and those assumed at the acquisition date can significantly influence future net income. Both the initial recognition and the subsequent measurement of the investment in Envalior GmbH are based on financial information that as of the date of preparation of the LANXESS consolidated financial statements represents preliminary information that is still being audited by the auditor of the consolidated financial statements of Envalior GmbH. There are therefore uncertainties over the carrying amounts recognized and the subsequent measurement during the year. As a result, it cannot be ruled out that the underlying financial information of Envalior GmbH will be adjusted in the future due to new information and findings, and that these adjustments may have an impact on the financial position or results of operations of the LANXESS Group.

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.

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	Americas	Asia-Pacific	**Total**
Fully consolidated companies (incl. parent company)					
Jan. 1, 2023	51	14	25	36	126
Retirements	(9)	(2)	(4)	(6)	(21)
Mergers	(1)	(1)	(4)	(2)	(8)
Changes to companies consolidated	(1)	(1)	(1)	–	(3)
Dec. 31, 2023	**40**	**10**	**16**	**28**	**94**
Associates and joint operations					
Jan. 1, 2023	0	1	2	0	3
Retirements	–	(1)	–	–	(1)
Changes to companies consolidated	–	1	–	–	1
Dec. 31, 2023	**0**	**1**	**2**	**0**	**3**
Non-consolidated companies					
Jan. 1, 2023	2	3	2	3	10
Mergers	–	(1)	–	–	(1)
Changes to companies consolidated	1	–	1	–	2
Dec. 31, 2023	**3**	**2**	**3**	**3**	**11**
Total					
Jan. 1, 2023	53	18	29	39	139
Retirements	(9)	(3)	(4)	(6)	(22)
Mergers	(1)	(2)	(4)	(2)	(9)
Changes to companies consolidated	0	0	0	–	0
Dec. 31, 2023	**43**	**13**	**21**	**31**	**108**

LANXESS and the private equity investor Advent International ("Advent") completed the formation of Envalior as of April 1, 2023. Envalior GmbH, Cologne, Germany, is included in the LANXESS consolidated financial statements as an associate accounted for using the equity method (see Note [3]). LANXESS's share in its capital is 40.94%. In connection with the formation of Envalior and the associated contribution of the High Performance Materials business unit, a total of 16 domestic and foreign investee companies were deconsolidated.

The other decline in fully consolidated companies in the reporting year resulted primarily from the integration of companies acquired in previous years in the acquisitions of the Microbial Control business and of the company Emerald Kalama Chemical.

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%. The company provides wood treatment technologies and services to the wood preservation industry.

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.

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 in the previous year

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 expanded 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 2021. The purchase price amounted to around €21 million and is mainly attributable to acquired distribution rights and customer relationships. The acquisition resulted 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 business was integrated into the Material Protection Products business unit of the Consumer Protection segment. The purchase price amounted to €1,161 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. The intangible assets are mainly customer relationships, product registrations, and other intangible assets. The purchase price allocation was completed within its measurement period and is considered final. On the basis of new information and findings, other non-current liabilities have increased by €14 million and the purchase price has decreased by €8 million. Finally, goodwill increased by €6 million.

The goodwill of €468 million resulting from the acquisition mainly reflects additional sales opportunities. This goodwill is to be regarded as non-tax-deductible.

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	57
Trade payables	49
Other current financial liabilities	2
Other current liabilities	13
Total liabilities (excl. equity)	**122**
Net acquired assets (excl. goodwill)	**693**
Cost of acquisition	**1,161**
Goodwill	**468**

Divestments
In fiscal year 2023, LANXESS terminated its activities in Russia with the sale of the companies OOO LANXESS, Moscow, Russia, and OOO LANXESS Lipetsk, Lipetsk, Russia, to Nortex LLC, Moscow, Russia. The impaired assets and liabilities to be disposed of had a net asset value of €1.9 million. After offsetting against a loan receivable due from LANXESS, the final purchase price amounted to €1.6 million. The loss on the disposal of the business in Russia amounted to €0.3 million.

Discontinued operation and transition to investment accounted for using the equity method

High Performance Materials business unit

On May 31, 2022, LANXESS and Advent agreed on a strategic alliance. In addition to signing an agreement to acquire the engineering materials business of the Dutch group Royal DSM, LANXESS agreed to contribute its High Performance Materials business unit to the strategic alliance with Advent.

From June 1, 2022, the High Performance Materials business unit was reported as a discontinued operation in accordance with IFRS 5. Under IFRS 5, intangible assets and property, plant and equipment of the High Performance Materials business unit were not subject to further depreciation or amortization and were recognized at the lower of carrying amount as of June 1, 2022, and fair value less costs to sell. Intra-Group receivables and liabilities between LANXESS companies and the discontinued operation were eliminated in full.

Due to the formation of Envalior as of April 1, 2023, and the associated contribution of the High Performance Materials business unit, the business unit was deconsolidated at the same time.

The carrying amounts of the assets and liabilities of the High Performance Materials business unit disposed of are shown in the following table:

Carrying Amounts of Assets and Liabilities Disposed Of

€ million	Apr. 1, 2023
Property, plant and equipment and intangible assets	556
Inventories and trade receivables	610
Other assets	159
Total assets	**1,325**
Provisions	98
Trade payables	173
Other liabilities	128
Total liabilities	**399**

In detail, earnings from discontinued operations are as follows:

Income Statement from Discontinued Operations

€ million	2022	2023
Sales	**1,924**	**396**
Other income and expenses	(1,813)	987
Income before income taxes	**111**	**1,383**
Income taxes	(38)	(89)
Income after income taxes	**73**	**1,294**

As a result of the deconsolidation of the High Performance Materials business unit as of April 1, 2023, the sales recognized in the income statement from discontinued operations for fiscal year 2023 relate exclusively to the first quarter of fiscal year 2023. The gain on the deconsolidation of the High Performance Materials business unit is included under “Other income and expenses.”

As part of the transaction, LANXESS received a payment of €1,267 million on March 31, 2023. The cash and cash equivalents disposed of in this context amounted to €74 million. The expense from income taxes to be considered at the time of the transition to an investment accounted for using the equity method amounted to €7 million. In total, an income tax expense of €98 million was incurred in connection with the transaction. Further information on the shareholder loan issued in connection with the formation of Envalior and the possibility to sell the shares in Envalior GmbH, Cologne, Germany, to Advent can be found in Note [38].

Gain on the Disposal

€ million	2023
Total consideration received	1,267
Net assets disposed	(926)
Other effects	32
Fair value of the minority interest in Envalior	999
Gain on the disposal before income taxes	**1,372**
Income taxes	(7)
Gain on the disposal	**1,365**

The transaction resulted in a gain of €1,365 million. It is reported in the LANXESS Group income statement under "Income after income taxes from discontinued operations." The gain on the disposal is recognized in "income from discontinued operations" in the statement of comprehensive income.

As of December 31, 2023, LANXESS held a minority interest of 40.94% in Envalior GmbH, Cologne, Germany. The investment is included in the LANXESS consolidated financial statements using the equity method (see Note [3]). On the basis of new information and findings within the one-year measurement period, the initial measurement of the minority interest as of April 1, 2023, was adjusted. The carrying amount of the investment decreased by €227 million to €999 million and equals the fair value.

The amount of the investment is subject to the final valuation of the business contributed by LANXESS or the determination of the final purchase price. Any future adjustments resulting from this are to be recognized in "income from discontinued operations" in line with the initial recognition.

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	–
CheMondis GmbH, Cologne	100
IAB Ionenaustauscher GmbH Bitterfeld, Bitterfeld-Wolfen	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 Trademark GmbH & Co. KG, Leverkusen	100
Saltigo GmbH, Leverkusen	100
THESEO Deutschland GmbH, Wietmarschen	100
EMEA (excluding Germany)	
Anderol B.V., Venlo, Netherlands	100
Antec International Ltd., Sudbury, Suffolk, Great Britain	100
BIOLINK LIMITED, Hull, Great Britain	100
Chemtura France S.A.S., Fitz James, France	100
DDP Specialty Products Poland Sp.z.o.o., Warsaw, Poland	100
LANXESS Chemical B.V., KH Botlek, Rotterdam, Netherlands	100
Emerald Kalama Chemical Holdings Ltd., St. Helier, Jersey	100
LANXESS Chemical Ltd., Widnes, Great Britain	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, Türkiye	100
LANXESS Limited, Manchester, Great Britain	100
LANXESS Manufacturing Netherlands B.V., Venlo, Netherlands	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

Company Name and Domicile	Interest held in %
LANXESS Switzerland GmbH, Frauenfeld, Switzerland	100
LANXESS Urethanes UK Ltd., Baxenden NR Accrington, Great Britain	100
MC (Netherlands) 1 B.V., Oegstgeest, Netherlands	100
MC Turkey Teknoloji Ltd. Şirketi, Istanbul, Türkiye	100
Microbial Control (Switzerland) GmbH, Frauenfeld, Switzerland	100
Microbial Control France SAS, Courbevoie, 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 South Africa (Pty.) Ltd., Gauteng, South Africa	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
Americas	
Chemtura Corporation Mexico, S. de R.L. de C.V., Mexico City, Mexico	100
IPEL-Itibanyl Produtos Especiais Ltda., Jarinu, Brazil	100
LANXESS Canada Co./Cie, Halifax, Canada	100
LANXESS Corporation, Wilmington, U.S.	100
LANXESS Indústria de Produtos Quimicos e Plásticos Ltda., São Paulo, Brazil	100
LANXESS S.A. de C.V., Mexico City, Mexico	100
LANXESS S.A., Buenos Aires, Argentina	100
LANXESS Services US LLC, Wilmington, U.S.	100
MC (US) 3 LLC, Wilmington, U.S.	100

Company Name and Domicile	Interest held in %
MC BRAZIL IMPORTAÇÃO E EXPORTAÇÃO DE MICROBIÓTICOS LTDA., Bairro Cristais, Brazil	100
Nutrition & Biosciences Canada Company, Halifax, Canada	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
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
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, Kaohsiung, Taiwan	100
EPM Emerald Performance Hong Kong Ltd., Hong Kong, Hong Kong	100
LANXESS (Liyang) Polyols Co., Ltd., Liyang, China	100
LANXESS (Ningbo) Pigments Co., Ltd., Ningbo City, China	100
LANXESS Additives Taiwan Ltd., Kaohsiung, Taiwan	100
LANXESS Advanced Materials (Nantong) Co., Ltd., Nantong, China	100
LANXESS Chemical (China) Co., Ltd., Shanghai, China	100
LANXESS Hong Kong Limited, Hong Kong, Hong Kong	100
LANXESS India Private Ltd., Thane, India	100
LANXESS K.K., Tokyo, Japan	100
LANXESS Korea Limited, Seoul, Republic of Korea	100

Company Name and Domicile	Interest held in %
LANXESS Pte. Ltd., Singapore, Singapore	100
LANXESS Pty. Ltd., Granville, Australia	100
LANXESS Solutions Australia Pty. Ltd., West Gosford, Australia	100
LANXESS Solutions India Private Ltd., Thane, India	100
LANXESS Solutions Japan Ltd., Tokyo, Japan	100
LANXESS Solutions Korea Inc., Seoul, Republic of Korea	100
LANXESS Specialty Chemicals Co., Ltd., Shanghai, China	100
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., Thane, India	100
Microbial Control (Thailand) Co., Ltd., Bangkok, Thailand	100
Microbial Control Technologies (Shanghai) Co., Ltd., Shanghai, China	100
PT Blue Cube Indonesia, Jakarta, Indonesia	100
Rhein Chemie (Qingdao), Ltd., Qingdao, China	90
Joint operations	
Americas	
Rubicon LLC, Salt Lake City, U.S.	50
Associates accounted for using the equity method	
Germany	
Envalior GmbH, Cologne	40.94
Americas	
Viance LLC, Wilmington, U.S.	49.99

Company Name and Domicile

	Interest held in %
Immaterial non-consolidated subsidiaries	
Germany	
LANXESS Trademark Management GmbH, Leverkusen	100
Neunte LXS GmbH, Cologne	100
EMEA (excluding Germany)	
Gulf Stabilizers Industries Sales FZCO, Dubai, UAE	52
Nutrition & Biosciences (UK) Ltd., Manchester, Great Britain	100
W. Hawley & Son Ltd., Manchester, Great Britain	100
Americas	
Comercial Andinas Ltda., Santiago de Chile, Chile	100
Nutrition & Biosciences Chile SpA, 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 2022

€ million	Acquired goodwill	Other intangible assets	Advance payments	Total
Cost of acquisition or generation, Dec. 31, 2021	1,339	1,642	132	3,113
Adjustments according to IFRS 5	(18)	(35)	(1)	(54)
Acquisitions[1]	468	365	–	833
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 generation, Dec. 31, 2022	**1,857**	**2,071**	**88**	**4,016**
Accumulated amortization and write-downs, Dec. 31, 2021	(8)	(570)	1	(577)
Adjustments according to IFRS 5	–	25	–	25
Amortization 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 amortization and write-downs, Dec. 31, 2022	**(8)**	**(679)**	**2**	**(685)**
Carrying amounts, Dec. 31, 2022	**1,849**	**1,392**	**90**	**3,331**

1) Prior-year figures restated

Changes in Intangible Assets in 2023

€ million	Acquired goodwill	Other intangible assets	Advance payments	Total
Cost of acquisition or generation, Dec. 31, 2022	1,857	2,071	88	4,016
Adjustments according to IFRS 5	–	(1)	0	(1)
Capital expenditures	–	22	26	48
Disposals	–	(2)	0	(2)
Reclassifications	–	19	(19)	0
Adjustments in accordance with IAS 29	–	1	–	1
Exchange differences	(58)	(39)	(1)	(98)
Cost of acquisition or generation, Dec. 31, 2023	**1,799**	**2,071**	**94**	**3,964**
Accumulated amortization and write-downs, Dec. 31, 2022	(8)	(679)	2	(685)
Adjustments according to IFRS 5	–	1	–	1
Amortization in 2023	(406)	(168)	–	(574)
of which write-downs	(406)	–	–	(406)
Disposals	–	2	–	2
Adjustments in accordance with IAS 29	–	(1)	–	(1)
Exchange differences	0	14	–	14
Accumulated amortization and write-downs, Dec. 31, 2023	**(414)**	**(831)**	**2**	**(1,243)**
Carrying amounts, Dec. 31, 2023	**1,385**	**1,240**	**96**	**2,721**

The adjustments in accordance with IFRS 5 relate to the contribution of the High Performance Materials business unit to Envalior.

In the previous year, the changes from acquisitions related to the acquisition of the Microbial Control business from the U.S. corporation International Flavors & Fragrances Inc.

The write-downs on goodwill result from the impairment test of the cash-generating units as of December 31, 2023, and are attributable to the Flavors & Fragrances and Polymer Additives business units. Further information on impairment testing can be found in the "Estimation Uncertainties and the Exercise of Discretion" section.

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 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**

Changes in Property, Plant and Equipment in 2023

€ 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, 2022	1,459	5,642	355	436	7,892
Adjustments according to IFRS 5	(4)	(4)	(6)	0	(14)
Changes in companies consolidated	(2)	(1)	0	0	(3)
Capital expenditures	35	109	21	187	352
Disposals	(16)	(83)	(20)	0	(119)
Reclassifications	34	231	13	(278)	0
Adjustments in accordance with IAS 29	8	6	2	0	16
Exchange differences	(36)	(61)	(9)	(3)	(109)
Cost of acquisition or construction, Dec. 31, 2023	**1,478**	**5,839**	**356**	**342**	**8,015**
Accumulated depreciation and write-downs, Dec. 31, 2022	(819)	(4,049)	(272)	(2)	(5,142)
Adjustments according to IFRS 5	2	3	5	–	10
Changes in companies consolidated	2	1	0	0	3
Depreciation in 2023	(70)	(315)	(33)	(4)	(422)
of which write-downs	(3)	(20)	(1)	(4)	(28)
Disposals	13	74	20	–	107
Adjustments in accordance with IAS 29	(5)	(3)	(2)	–	(10)
Exchange differences	18	34	7	0	59
Accumulated depreciation and write-downs, Dec. 31, 2023	**(859)**	**(4,255)**	**(275)**	**(6)**	**(5,395)**
Carrying amounts, Dec. 31, 2023	**619**	**1,584**	**81**	**336**	**2,620**

The adjustments in accordance with IFRS 5 relate to the contribution of the High Performance Materials business unit to Envalior.

In the previous year, the changes from acquisitions related to the acquisition of the Microbial Control business from the U.S. corporation International Flavors & Fragrances Inc.

In fiscal year 2023, write-downs were recognized due among other things to measures in connection with the FORWARD! action plan, which particularly relate to the decommissioning and closure of operating facilities.

In the previous year, write-downs were primarily attributable to other value-decreasing events.

Directly attributable borrowing costs of €1 million (previous year: €2 million) were capitalized. An annual average cost of debt for the LANXESS Group of 1.4% (previous year: 1.7%) was used for capitalization.

3 | Investments Accounted for Using the Equity Method

LANXESS accounts for associates using the equity method. These include the investment in Viance LLC, Wilmington, U.S., acquired in the previous year and the investment in Envalior GmbH, Cologne, Germany, recognized for the first time as of April 1, 2023.

The following tables show the main items of the consolidated income statement, consolidated statement of comprehensive income and consolidated statement of financial position of Envalior:

Data from the Consolidated Income Statement and Consolidated Statement of Comprehensive Income of Envalior

€ million	Apr.–Dec. 2023
Sales	2,007
Operating result (EBIT)	(132)
Income after income taxes	(442)
Other comprehensive income, net of income tax	(103)
Total comprehensive income	**(545)**

Data from the Consolidated Statement of Financial Position of Envalior

€ million	Dec. 31, 2023
Non-current assets	5,611
Current assets	1,405
Total assets	**7,016**
Non-current liabilities	4,352
Current liabilities	769
Total liabilities	**5,121**
Net assets	**1,895**

The table below shows the reconciliation to the recognized carrying amount of the investment in Envalior GmbH, Cologne, Germany:

Reconciliation to the Carrying Amount of the Investment in Envalior GmbH

€ million	Dec. 31, 2023
Net assets as of Apr. 1, 2023	2,440
Total comprehensive income	(545)
Net assets as of Dec. 31	**1,895**
LANXESS share in %	40.94
LANXESS share	776
Carrying amount as of Dec. 31	**776**

Both the initial recognition and the subsequent measurement of the investment in Envalior GmbH, Cologne, Germany, are based on financial information that as of the date of preparation of the LANXESS consolidated financial statements represents preliminary information that is still being audited by the auditor of the consolidated financial statements of Envalior GmbH. There are therefore uncertainties over the carrying amounts recognized and the subsequent measurement during the year. As a result, it cannot be ruled out that the underlying financial information of Envalior GmbH will be adjusted in the future due to new information and findings, and that these adjustments may have an impact on the financial position or results of operations of the LANXESS Group.

The following tables show the main items of the income statement, statement of comprehensive income and statement of financial position Viance LLC, Wilmington, U.S., adjusted for effects from the purchase price allocation and subsequent measurement:

Data from the Income Statement and Statement of Comprehensive Income of Viance LLC

€ million	Jul.–Dec. 2022	2023
Sales	66	128
Operating result (EBIT)	7	16
Income after income taxes	7	17
Other comprehensive income, net of income tax	–	–
Total comprehensive income	**7**	**17**

Data from the Statement of Financial Position of Viance LLC

€ million	Dec. 31, 2022	Dec. 31, 2023
Non-current assets	63	55
Current assets	15	22
Total assets	**78**	**77**
Non-current liabilities	1	15
Current liabilities	32	17
Total liabilities	**33**	**32**
Net assets	**45**	**45**

The table below shows the reconciliation to the recognized carrying amount of the investment in Viance LLC, Wilmington, U.S.:

Reconciliation to the Carrying Amount of the Investment in Viance LLC

€ million	Dec. 31, 2022	Dec. 31, 2023
Net assets as of Jan. 1 (previous year: Jul. 1)	47	45
Total comprehensive income	7	17
Dividend payments	(9)	(17)
Net assets as of Dec. 31	**45**	**45**
LANXESS share in %	49.99	49.99
LANXESS share	22	22
Goodwill	49	47
Carrying amount as of Dec. 31	**71**	**69**

4 | Investments in Other Affiliated Companies

Investments in other affiliated companies of €14 million (previous year: €20 million) include shares in the listed company Standard Lithium Ltd., Vancouver, Canada, of €11 million (previous year: €17 million). In addition, this item contains interests in additional affiliated companies totaling €3 million (previous year: €3 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. 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 2023 at a total fair value of €23 million (previous year: €32 million). Instruments with a negative fair value totaling €17 million (previous year: €19 million) are recognized as derivative liabilities.

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 derivatives not designated as hedging instruments	–	6	–
	2,367	**32**	**(19)**

Derivative Financial Instruments

€ million	Dec. 31, 2023 Nominal amount	Dec. 31, 2023 Positive fair values	Dec. 31, 2023 Negative fair values
Current forward exchange contracts	1,471	10	(10)
Current forward commodity contracts	36	–	(7)
Current derivatives not designated as hedging instruments	–	3	–
Non-current forward exchange contracts	115	5	0
Non-current forward commodity contracts	4	–	0
Non-current derivatives not designated as hedging instruments	–	5	–
	1,626	**23**	**(17)**

Current derivatives not designated as hedging instruments in the amount of €3 million (previous year: non-current derivatives not designated as hedging instruments of €6 million) include options for shares in the company Standard Lithium Ltd., Vancouver, Canada.

The non-current derivatives not designated as hedging instruments of €5 million recognized as of December 31, 2023, relate to a right to offer in connection with the minority interest in Envalior GmbH, Cologne, Germany. Further information on the right to offer can be found under "Financial Instruments" in the "Fair value measurement" section.

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 and energy 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. The forward interest rate contracts from fiscal year 2021 were recognized in other comprehensive income on the issue of a new bond in December 2021. The amounts recognized in other comprehensive income will be reclassified to profit or loss until December 2029. 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 corresponding derecognition from other comprehensive income resulted in income in the financial result of €83 million in fiscal year 2022.

Forward Exchange and Forward Commodity 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/USD	486	13	(9)	Current and non-current derivative assets/liabilities	(7)	7
Forward commodity contracts	8	0	0	Current derivative assets/liabilities	0	0
	494	**13**	**(9)**		**(7)**	**7**

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

Forward Exchange and Forward Commodity Contracts in 2023

€ 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/USD	296	8	0	Current and non-current derivative assets/liabilities	(9)	9
Forward commodity contracts						
Kerosene	6	–	0	Current derivative liabilities	0	0
Gas	17	–	(7)	Current and non-current derivative liabilities	7	(7)
	319	**8**	**(7)**		**(2)**	**2**

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

Maturities and Average Prices 2022

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

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

Maturities and Average Prices 2023

	2024		> 2024	
	Nominal amount € million	Average rate[1] €	Nominal amount € million	Average rate[1] €
Forward exchange contracts				
EUR/USD	181	1.09	115	1.09
Forward commodity contracts				
Kerosene	6	735.35	–	–
Gas	13	55.13	4	34.40
	200		**119**	

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

The hedged cash flows will be realized within the next three fiscal years for the forward exchange contracts and within the next five fiscal years for the forward commodity contracts.

Hedge Accounting Reconciliation Other Comprehensive Income (Before Taxes) 2022

€ million	Cash flow hedges: Currency hedging contracts	Cash flow hedges: Forward commodity contracts	Cash flow hedges: Forward interest rate contracts	Cash flow hedges: Total	Cost of hedging: Forward-to-Forward	Cost of hedging: Spot-to-Spot	Cost of hedging: Total	Sum other compre-hensive income
Jan. 1	(6)	0	4	**(2)**	0	0	**0**	**(2)**
Changes other comprehensive income	10	0	(4)	**6**	(1)	0	**(1)**	**5**
of which reclassifi-cation to profit or loss	37	–	(83)	**(46)**	–	–	**–**	**(46)**
Dec. 31	**4**	**0**	**0**	**4**	**(1)**	**0**	**(1)**	**3**

Hedge Accounting Reconciliation Other Comprehensive Income (Before Taxes) 2023

€ million	Cash flow hedges: Currency hedging contracts	Cash flow hedges: Forward commodity contracts	Cash flow hedges: Forward interest rate contracts	Cash flow hedges: Total	Cost of hedging: Forward-to-Forward	Cost of hedging: Spot-to-Spot	Cost of hedging: Total	Sum other compre-hensive income
Jan. 1	4	0	0	**4**	(1)	0	**(1)**	**3**
Changes other comprehensive income	9	(11)	1	**(1)**	1	0	**1**	**0**
of which reclassifi-cation to profit or loss	3	–	0	**3**	–	–	**–**	**3**
Dec. 31	**13**	**(11)**	**1**	**3**	**0**	**–**	**0**	**3**

The adjustments to the carrying amounts of the hedged item (basis adjustment) necessary in connection with hedges on the prices of raw material purchases increase equity by €5 million and are included in other changes in equity outside other comprehensive income.

The LANXESS Group expects that, of the unrealized gains on currency hedges recognized in other comprehensive income up to the reporting date, €4 million in fiscal year 2024, €5 million in fiscal year 2025 and €0 million in fiscal year 2026 will be reclassified from equity to profit or loss (previous year: reclassification of unrealized gains of minus €4 million in fiscal year 2023, €5 million in fiscal year 2024 and €3 million in fiscal year 2025).

In fiscal year 2023, some hedges for planned sales were settled. The income from the settlement of €4 million remains in other comprehensive income until the hedged item is recognized. The reclassification to profit or loss will occur in financial year 2024.

The unrealized gains of €1 million recognized on interest rate hedges as of the reporting date will be reclassified to profit or loss by fiscal year 2029.

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 non-current and current financial assets break down as follows:

Other Financial Assets

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

Other Financial Assets

€ million	Dec. 31, 2023 Non-current	Current	Total
Contract assets	46	201	247
Shareholder loan Envalior GmbH	207	–	207
Other financial receivables	9	14	23
	262	**215**	**477**

Other non-current financial assets include €207 million for a shareholder loan granted to Envalior GmbH, Cologne, Germany, in connection with the formation of Envalior.

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 and other financial receivables. Other current and non-current financial assets are reduced by expected credit losses in the amount of €0 million (previous year: €5 million).

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 development in comparison to the previous year is due on the one hand to selling price adjustments as a result of volatile 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.

Change in Contract Assets

€ million	2022	2023
Jan. 1	143	223
Adjustments according to IFRS 5	(11)	–
Cumulative catch-up adjustments to revenues	58	(5)
Additions	132	187
Reclassifications to trade receivables	(98)	(158)
Exchange differences	(1)	0
Dec. 31	**223**	**247**

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

€6 million (previous year: €88 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. They comprise revenue already recognized in the reporting year as of the production date. When the manufactured customer-specific products are delivered, the amounts recognized as 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 €60 million (previous year: €57 million) essentially comprise uncertain tax positions where reimbursement is considered probable.

The current income tax receivables of €41 million (previous year: €35 million) essentially include tax prepayments.

8 | Other Non-Current Assets

Other non-current assets of €59 million (previous year: €63 million) essentially include receivables in connection with pension obligations, periodic accruals and other reimbursement claims.

Other non-current assets are generally carried at amortized cost less any write-downs. In contrast, receivables in connection with pension obligations are measured at fair value through other comprehensive income. As in the previous year, no write-downs were made in fiscal year 2023.

9 | Inventories

The inventories of the LANXESS Group comprise:

Inventories

€ million	Dec. 31, 2022	Dec. 31, 2023
Raw materials and supplies	418	279
Work in progress, finished goods and merchandise	1,443	1,081
	1,861	**1,360**

Inventories of €168 million (previous year: €260 million) are recognized at net realizable value. The year-on-year decline in inventories is primarily due to active inventory management and a reduction in production volumes in response to lower demand. Inventories also decreased as a result of lower prices for raw materials and energy.

Due to inflation adjustments in accordance with IAS 29, inventories increased by €2 million (previous year: less than €1 million).

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

Write-Downs of Inventories

€ million	2022	2023
Jan. 1	(67)	(102)
Adjustments according to IFRS 5	10	–
Additions charged as expenses	(68)	(22)
Reversals/utilization	22	25
Exchange differences	1	2
Dec. 31	**(102)**	**(97)**

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

10 | Trade Receivables

All trade receivables – totaling €613 million (previous year: €858 million) – are due within one year. The decrease resulted primarily from the demand-driven decline in sales.

Since 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 €150 million. The agreement has a minimum term until June 2024 and is renewed for a further year unless terminated. 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, 2023, this allocation of opportunities and risks resulted in a recognized continuing involvement of €3 million (previous year: €2 million). In connection with the factoring agreement, LANXESS recognized expenses of €3 million (previous year: €1 million) in fiscal year 2023. As of December 31, 2023, receivables of €125 million (previous year: €130 million) had been sold under the factoring agreement.

Loss allowances of €12 million were recognized as of the end of the reporting period (previous year: €13 million). Further information on the loss allowance for trade receivables and the maturity structure classes for the loss allowance in fiscal years 2022 and 2023 can be found 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 €350 million (previous year: €79 million).

12 | Other Current Assets

Other current assets totaling €171 million (previous year: €228 million) are carried at amortized cost less any write-downs. The other current assets essentially comprise miscellaneous claims for tax refunds, mainly for VAT, of €115 million (previous year: €141 million). €92 million (previous year: €123 million) of this amount is expected to be refunded within one year and €23 million (previous year: €18 million) at a later date. Furthermore, there are other reimbursement claims from goods and service transactions of €40 million (previous year: €48 million). This item included write-downs of €2 million (previous year: €3 million) as of December 31, 2023.

13 | Assets and Liabilities Held for Sale and Discontinued Operations

In the previous year, the High Performance Materials business unit was reported as a discontinued operation. Further information 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, 2023, 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 I

Pursuant to Section 4, Paragraph 3 of LANXESS AG’s articles of association, the Annual Stockholders’ Meeting on May 24, 2023, authorized the Board of Management until May 23, 2026, 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 €17,269,260 (Authorized Capital I). Stockholders are generally entitled to subscription rights when Authorized Capital I is utilized. 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.

Authorized Capital II

Furthermore, pursuant to Section 4, Paragraph 4 of LANXESS AG’s articles of association, the Annual Stockholders’ Meeting on May 24, 2023, authorized the Board of Management until May 23, 2025, 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 contributions up to a total amount of €8,634,630 (Authorized Capital II). Stockholders are generally entitled to subscription rights when Authorized Capital II is utilized. These rights can be excluded in certain cases which are defined in Section 4, Paragraph 4 of the articles of association of LANXESS AG. Authorized Capital II has likewise not yet been utilized.

Conditional capital

Conditional capital was composed as follows as of December 31, 2023:

The Annual Stockholders’ Meeting of LANXESS AG on May 24, 2023, authorized the Board of Management until May 23, 2026, with the approval of the Supervisory Board, to issue – in one or more installments – warrant bonds and/or convertible bonds 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 or income bonds with warrants, and/or to grant conversion rights to, or impose conversion obligations on, the holders or creditors of convertible bonds or convertible income bonds in respect of bearer shares of the company representing a total pro rata increase of up to €8,634,630 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 €8,634,630 (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 and/or income bonds (or combinations of these instruments). The authorization to issue bonds has not yet been utilized.

Any shares issued with subscription rights disapplied on the basis of the aforementioned Authorized Capitals I and/or II may not, together with such shares issued or to be issued as part of conditional capital to service warrants or conversion rights or obligations, provided the warrants or conversion rights or obligations were granted or imposed during the term of the authorization with subscription rights disapplied, exceed 10% of the capital stock of LANXESS AG at the time the respective authorization becomes effective.

Treasury shares and their purchase and utilization

As of December 31, 2023, 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 of the company's shares were repurchased. All 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 2023 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 €72 million increase in other reserves to €3,027 million is mainly due to the increase in retained earnings from €2,797 million to €2,869 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.

The effects of the remeasurement of the net defined benefit liability amounted to minus €118 million in fiscal year 2023 (previous year: €528 million). The tax effects to be taken into account amounted to €34 million (previous year: €151 million), resulting in a net effect of minus €84 million for the reporting year. Net effects from the remeasurement of the net defined benefit liability at investments accounted for using the equity method of minus €3 million were also taken into account. With the contribution of the High Performance Materials business unit to Envalior, effects of the remeasurement of the net defined benefit liability amounting to €2 million and resulting tax effects of minus €1 million were disposed of.

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. The disposal of the High Performance Materials business unit increases the reserves from exchange differences by €27 million.

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. Further information can be found under "Value Management and Control System" in the combined management report for fiscal year 2023. 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 2023 totaled €42 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 €18 million (previous year: €19 million) to Bayer-Pensionskasse. Contributions of about the same amount are expected for fiscal year 2024.

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

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

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

LANXESS's share of the total contributions to Bayer-Pensionskasse is 15% (previous year: 14%). 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 employees. 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 2023, total expenses of €51 million (previous year: €61 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	**2022**	**2023**	**2022**	**2023**
Operating result				
Current service cost	41	30	1	1
Past service cost	5	3	0	–
Administration expenses/taxes	3	2	0	0
Actuarial gains and losses	–	–	(2)	0
Financial result				
Net interest	9	10	4	5
Amounts recognized in profit or loss	**58**	**45**	**3**	**6**

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	**2022**	**2023**	**2022**	**2023**
Return on plan assets excluding amounts included in interest	(139)	87	(7)	4
Actuarial gains/losses from changes in demographic assumptions	(2)	7	0	(1)
Actuarial gains/losses from changes in financial assumptions	642	(184)	18	(2)
Actuarial gains/losses from experience adjustments	(36)	(24)	3	0
Changes in effects of the asset ceiling	16	1	6	(5)
Amounts recognized in other comprehensive income	**481**	**(113)**	**20**	**(4)**

The change in the net defined benefit liability for post-employment benefit plans is shown in the following table:

Changes in Net Defined Benefit Liability

	Pension plans		Other post-employment benefit plans	
€ million	**2022**	**2023**	**2022**	**2023**
Net defined benefit liability, Jan. 1	753	257	112	86
Adjustments according to IFRS 5	(56)	–	(4)	–
Amounts recognized in profit or loss	58	45	3	6
Amounts recognized in other comprehensive income	(481)	113	(20)	4
Employer contributions	(18)	(16)	(1)	0
Benefits paid	(6)	(6)	(11)	(10)
Acquisitions	2	–	0	–
Other addition	2	0	–	0
Exchange differences	3	(2)	7	(2)
Net defined benefit liability, Dec. 31	**257**	**391**	**86**	**84**
Amounts recognized in the statement of financial position				
Receivables from pension obligations and other post-employment benefits	(24)	(23)	0	0
Provisions for pensions and other post-employment benefits	281	414	86	84
Net defined benefit liability, Dec. 31	**257**	**391**	**86**	**84**

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

The acquisitions in the previous year related 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 2024 are €15 million and €17 million, respectively, based on year-end 2023 exchange rates. In the previous year, the expected cash outflows for employer contributions and benefit payments in fiscal year 2023 were €15 million and €22 million, respectively, based on exchange rates at the end of fiscal year 2022.

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	**2022**	**2023**	**2022**	**2023**
Defined benefit obligation for pension commitments				
Defined benefit obligation, Jan. 1	2,490	1,812	126	96
Adjustments according to IFRS 5	(88)	–	(6)	–
Current service cost	41	30	1	1
Interest expense	37	72	4	6
Actuarial gains/losses from changes in demographic assumptions	2	(7)	0	1
Actuarial gains/losses from changes in financial assumptions	(642)	184	(20)	2
Actuarial gains/losses from experience adjustments	36	24	(3)	0
Past service cost	5	3	0	–
Settlements paid	–	(16)	–	–
Employee contributions	1	0	0	0
Benefits paid	(82)	(75)	(13)	(11)
Acquisitions	5	–	0	–
Other additions/disposals	2	(4)	–	0
Administration expenses/taxes	(1)	0	0	0
Exchange differences	6	(4)	7	(2)
Defined benefit obligation, Dec. 31	**1,812**	**2,019**	**96**	**93**

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

Of the defined benefit obligation for pensions, Germany accounts for 79% (previous year: 75%), Great Britain for 9% (previous year: 11%) and the U.S. for 10% (previous year: 11%).

The other post-employment benefit obligations comprise €75 million (previous year: €76 million) for the reimbursement of health care costs and €18 million (previous year: €20 million) for miscellaneous other benefit commitments.

In the past fiscal year, actuarial gains and losses from changes in demographic assumptions for pension obligations resulted from the updated demographic assumptions due to the application of the adopted CMI 2022 (previous year: CMI 2021) mortality improvement tables in Great Britain.

In fiscal year 2023, actuarial gains from changes in demographic assumptions for other post-employment benefits resulted primarily from the updated demographic assumptions in Brazil.

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 primarily include losses from the adjustments of the pension trend for inflation that has already occurred in excess of the assumed pension increase rate and from the update of capitalization factors between annuity and single payments in Germany. In contrast, actuarial gains resulted from experience adjustments in Great Britain. In the previous year, the actuarial gains/losses from experience adjustments in the defined benefit plans included effects of the adjustments of the pension trend in Germany.

In fiscal year 2023, the past service cost for pension obligations results from the defined benefit plans in Germany. In the previous year, the past service cost for pension obligations resulted from the defined benefit plans in Great Britain.

The settlements paid for defined benefit pension obligations in fiscal year 2023 relate to two Canadian plans.

The acquisitions in the previous year related 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	**2022**	**2023**	**2022**	**2023**
Plan assets at fair value				
Plan assets, Jan. 1	1,763	1,564	43	36
Adjustments according to IFRS 5	(32)	–	(2)	–
Interest income	28	62	1	2
Return on plan assets excluding amounts included in interest	(139)	87	(7)	4
Settlements paid	–	(16)	–	–
Employer contributions	18	16	1	0
Employee contributions	1	0	0	0
Benefits paid	(76)	(69)	(2)	(1)
Acquisitions	3	–	–	–
Other disposals	–	(4)	–	0
Administration expenses/taxes	(4)	(2)	0	0
Exchange differences	2	(2)	2	(1)
Plan assets, Dec. 31	**1,564**	**1,636**	**36**	**40**

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

Of the plan assets, Germany accounts for 76% (previous year: 72%), Great Britain for 12% (previous year: 13%) and the U.S. for 10% (previous year: 11%).

The settlements paid for defined benefit pension plans in fiscal year 2023 relate to two Canadian plans.

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 €16 million (previous year: €18 million). External funding where LANXESS can assert reimbursement claims mainly pertains to LANXESS Pension Trust e.V.

The acquisitions in the previous year related 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	**2022**	**2023**	**2022**	**2023**
Jan. 1	**26**	**9**	**29**	**26**
Interest expense	0	0	1	1
Additions (+)/ reversals (–)	(16)	(1)	(6)	5
Exchange differences	(1)	0	2	(1)
Dec. 31	**9**	**8**	**26**	**31**

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 2023, 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	2022	2023
Cash and cash equivalents	21	25
of which quoted in an active market	21	25
Equity instruments	407	466
of which quoted in an active market	407	466
Government bonds	120	164
of which quoted in an active market	120	164
Corporate bonds	584	592
of which quoted in an active market	584	592
Investment funds	159	186
of which quoted in an active market	57	47
Real estate	20	14
of which quoted in an active market	20	14
Insurance contracts	229	216
of which quoted in an active market	152	130
Other	60	13
of which quoted in an active market	59	13
	1,600	**1,676**

The plan assets do not include any real estate used by the company. No share (previous year: 2%) of the plan assets is attributable to financial instruments owned by the company. 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	
%	**2022**	**2023**	**2022**	**2023**
Discount rate	4.07	3.55	5.93	5.83
Germany	3.70	3.20	3.70	3.20
U.S.	5.50	5.20	5.51	5.13
Great Britain	4.80	4.50	–	–

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

Valuation Assumptions as of December 31

	Pension plans		Other post-employment benefit plans	
%	**2022**	**2023**	**2022**	**2023**
Expected salary increases	2.6	2.6	5.1	5.4
Expected benefit increases	2.2	2.3	–	–
Expected increases in medical costs	–	–	6.9	6.7
Expected long-term increases in medical costs	–	–	5.2	5.3

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.

The long-term cost increase for medical care is expected to take place within five years (previous year: six years).

The 2018 G Heubeck mortality tables form the biometric basis for the computation of pension obligations in Germany. Current national biometric assumptions are used to compute benefit obligations at other Group companies.

A change in the principal valuation parameters would result in the following percentage changes in the defined benefit obligation:

Sensitivities of Defined Benefit Obligations as of December 31

	Pension plans		Other post-employment benefit plans	
in %	**2022**	**2023**	**2022**	**2023**
Discount rate				
+0.5% pt	(6.3)	(6.7)	(3.8)	(4.0)
–0.5% pt	7.1	7.5	4.1	4.3
Expected salary increases				
+0.25% pt	0.0	0.1	0.3	0.4
–0.25% pt	0.0	(0.1)	(0.3)	(0.3)
Expected benefit increases				
+0.25% pt	3.7	3.9	–	–
–0.25% pt	(3.6)	(3.8)	–	–
Mortality				
–10%	3.2	3.4	2.6	2.9
Expected increases in medical costs				
+1% pt	–	–	4.2	4.9
–1% pt	–	–	(3.6)	(4.1)

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 beneficiaries. 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: 15 years). This figure was based on weighted average durations of 16 years (previous year: 16 years) for Germany, 7 years (previous year: 9 years) for the U.S. and 13 years (previous year: 14 years) for Great Britain. The weighted average duration of the defined benefit obligations for other post-employment benefits was 9 years (previous year: 9 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	**2022**	**2023**	**2022**	**2023**
Funded status				
Defined benefit obligation for funded plans	1,714	1,911	13	12
External plan assets	(1,564)	(1,636)	(36)	(40)
Underfunding/overfunding of funded plans	**150**	**275**	**(23)**	**(28)**
Defined benefit obligation for unfunded plans	98	108	83	81
Funded status, Dec. 31	**248**	**383**	**60**	**53**

16 | Other Non-Current and Current Provisions

On December 31, 2023, the LANXESS Group had other current provisions of €338 million (previous year: €388 million) and other non-current provisions of €299 million (previous year: €296 million). The maturity structure of other provisions is shown in the following table:

Other Provisions

	Dec. 31, 2022				Dec. 31, 2023			
€ 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	142	26	16	184	66	19	18	103
Environmental protection	32	43	99	174	28	40	101	169
Trade-related commitments[1]	117	1	–	118	125	1	-	126
Asset retirement obligations	8	12	61	81	9	11	54	74
Restructuring	9	16	1	26	44	23	1	68
Miscellaneous	80	12	9	101	66	18	13	97
	388	**110**	**186**	**684**	**338**	**112**	**187**	**637**

1) Prior-year figures restated.

In total, other provisions decreased from €684 million to €637 million in fiscal year 2023. The changes in other provisions were as follows:

Changes in Other Provisions in 2023

€ million	Jan. 1, 2023	Adjustments according to IFRS 5	Addition	Interest effect	Utilization	Release	Exchange differences, reclassifications	Dec. 31, 2023
Personnel	184	(6)	67	1	(128)	(12)	(3)	103
Environmental protection	174	0	17	7	(14)	(7)	(8)	169
Trade-related commitments[1]	118	–	108	1	(87)	(15)	1	126
Asset retirement obligations	81	0	2	1	(2)	(7)	(1)	74
Restructuring	26	–	50	0	(5)	0	(3)	68
Miscellaneous	101	0	33	1	(23)	(13)	(2)	97
	684	**(6)**	**277**	**11**	**(259)**	**(54)**	**(16)**	**637**

1) Prior-year figures restated.

The adjustments in accordance with IFRS 5 relate to the contribution of the High Performance Materials business unit to Envalior.

Personnel-related provisions

As of the reporting date, personnel-related provisions relate to measures in connection with the FORWARD! action plan, multi-year compensation programs and other personnel costs.

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 2014, 2018 and 2022.

Under the LTSP 2014–2017 program introduced in fiscal year 2014, rights were granted for the years 2014–2017. Awards are based on the performance of LANXESS stock relative to the MSCI World Chemicals Index. The total term of all tranches is generally seven 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. 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

in %	2022	2023
Expected share price volatility	40.0	42.0
Expected dividend payment	2.0	2.0
Expected volatility of MSCI World Chemicals Index	20.0	20.0
Correlation between LANXESS stock and MSCI World Chemicals Index	69.0	64.0
Expected volatility of FTSEurofirst 300 Eurozone Chemicals Index	22.0	22.0
Correlation between LANXESS stock and FTSEurofirst 300 Eurozone Chemicals Index	76.0	73.0

The relevant risk-free interest rate in the reporting year was 1.91% (previous year: 2.50%).

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 2014–2017	LTSP 2018–2021			LTSP 2022–2025	
	2017 tranche	2019 tranche	2020 tranche	2021 tranche	2022 tranche	2023 tranche
Duration	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
Lock-up period for personal investment shares	31.01.2020	–	–	–	–	–
Initial LANXESS share price	€64.84	€42.57	€59.39	€63.01	€55.30	€40.10
Initial MSCI World Chemicals Index price	276.04 points	280.46 points	326.83 points	376.38 points	–	–
Initial FTSEurofirst 300 Eurozone Chemicals Index price	–	–	–	–	4,907.86 points	4,152.40 points
Fair value per right as of Dec. 31, 2022	€0.00	€0.74[1]	€0.35[1]	€0.47[1]	€0.77[1]	–
Fair value per right as of Dec. 31, 2023	€0.00	–	€0.00[1]	€0.15[1]	€0.36[1]	€0.48[1]
Change in number of outstanding rights						
Outstanding rights as of Dec. 31, 2022	7,360,819	10,929,051	11,668,928	12,689,565	14,145,822	–
Adjustments according to IFRS 5	11,718	–	72,142	84,275	112,253	–
Rights granted	–	–	–	–	–	15,739,275
Rights exercised	–	(10,785,741)	–	–	–	–
Rights compensated	–	(73,500)	(330,080)	(337,914)	(1,290,577)	(1,239,035)
Rights forfeited	(548,435)	(69,810)	(940,273)	(988,843)	(189,487)	(59,755)
Outstanding rights as of Dec. 31, 2023	**6,824,102**	**0**	**10,470,717**	**11,447,083**	**12,778,011**	**14,440,485**

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

The adjustments in accordance with IFRS 5 relate to the contribution of the High Performance Materials business unit to Envalior.

LANXESS shares were trading at €28.37 (previous year: €37.70) as of the end of 2023. The MSCI World Chemicals benchmark index stood at 415.26 points (previous year: 370.08) while FTSEurofirst 300 Eurozone Chemicals was at 4,795.58 points (previous year: 4,002.54).

Due to the performance of the LANXESS share relative to the benchmark and to the granting, settlement or forfeiture of rights, the net income in fiscal year 2023 was €3 million (previous year: net expense of €4 million). A provision of €5 million existed as of December 31, 2023 (previous year: €16 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, recultivation of landfills, and redevelopment and water protection measures. The provisions for environmental remediation costs are stated at the present value of the expected commitments where environmental assessments or clean-ups are probable, the costs can be reasonably estimated and no future economic benefit is expected to arise from these measures. Costs are estimated based on significant factors such as previous experience in similar cases, environmental assessments, current cost levels and new circumstances affecting costs, 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, LANXESS believes the 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 €68 million (previous year: €26 million) as of December 31, 2023, comprising €51 million (previous year: €5 million) for human resources measures, €16 million (previous year: €20 million) for environmental protection measures, €1 million (previous year: €0 million) for other restructuring provisions, and €0 million (previous year: €1 million) for demolition work required to fulfill environmental obligations and other expenses. The increase in provisions for restructuring for human resources measures is attributable to the measures of the FORWARD! action plan.

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, 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**

Other Financial Liabilities as of December 31, 2023

	Current	Non-current					
€ million	2024	2025	2026	2027	2028	> 2028	Total non-current
Bonds	16	498	498	596	597	594	2,783
Liabilities to banks	2	–	–	–	–	–	–
Lease liabilities	50	41	34	25	11	43	154
Other primary financial liabilities	4	0	0	–	–	1	1
	72	**539**	**532**	**621**	**608**	**638**	**2,938**

Liabilities to banks decreased to €2 million (previous year: €741 million), primarily due to the repayment of various bilateral bank loans.

Lease installments of €227 million (previous year: €213 million) are payable to the respective lessors in subsequent years. The interest component included amounts to €23 million (previous year: €21 million).

In the LANXESS Group, the following bonds were outstanding on December 31, 2023:

Bonds

Issuance	Nominal amount € million	Carrying amount € million	Interest rate %	Maturity
April 2012	100	102	3.950	April 2027
October 2016	500	499	1.000	October 2026
May 2018	500	502	1.125	May 2025
September 2021	500	497	0.000	September 2027
December 2021	600	594	0.625	December 2029
March 2022	600	605	1.750	March 2028

The hybrid bond of €500 million included in the previous year was repaid in fully utilizing the first redemption option on June 6, 2023.

Accrued interest amounts to €16 million (previous year: €30 million), of which €16 million (previous year: €29 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 €17 million (previous year: €28 million) essentially comprise uncertain tax positions for ongoing tax proceedings. The decrease resulted primarily from completed audits.

Current income tax liabilities of €42 million (previous year: €38 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, 2022	Dec. 31, 2023
Asset subsidies granted by third parties	15	12
Contract liabilities	12	12
Social security liabilities	7	7
Miscellaneous liabilities	7	7
	41	**38**

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, 2022	Dec. 31, 2023
Other tax liabilities	50	41
Payroll liabilities	11	25
Contract liabilities	10	18
Social security liabilities	16	15
Miscellaneous liabilities	38	22
	125	**121**

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. Payroll liabilities relate to obligations to employees. The increase in fiscal year 2023 resulted primarily from measures in connection with the FORWARD! action plan. 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	2022	2023
Jan. 1	25	22
Adjustments according to IFRS 5	(1)	–
Cumulative catch-up adjustments to revenues	(9)	2
Additions	31	23
Revenue recognized that was included in the beginning balance	(24)	(16)
Changes to companies consolidated	–	(1)
Exchange differences	0	0
Dec. 31	**22**	**30**

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

Minus €8 million (previous year: minus €9 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 2023, trade payables amounted to €584 million (previous year: €709 million) and were due within one year, as in the previous year. The year-on-year decline resulted primarily from reduced procurement prices and purchase volumes for raw materials and energy.

21 | Further Information on Liabilities

€647 million of total liabilities (previous year: €1,732 million) have maturities of more than five years. The year-on-year decline resulted primarily from a bond with a nominal volume of €600 million switching maturity band to less than five years and from the early repayment of the hybrid bond with a nominal volume of €500 million, which in the previous year was recognized as maturing in December 2076.

NOTES TO THE INCOME STATEMENT

22 | Sales

Sales, which amount to €6,714 million (previous year: €8,088 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. The decline in sales from the sale of products resulted primarily from lower demand and lower selling prices driven by raw material prices. 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	2022	2023
Sales of goods	7,919	6,603
Services	169	111
	8,088	6,714

Revenue Recognition

€ million	2022	2023
Point in time	7,430	6,075
Over time	658	639
	8,088	6,714

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 €528 million (previous year: €489 million) and to services rendered over time of €111 million (previous year: €169 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 €2,064 million as of December 31, 2023 (previous year: €2,235 million). The associated sales are expected to be as follows:

Maturity Structure of Revenues

€ million	2022	2023
Up to 1 year	652	620
1 to 2 years	404	419
2 to 3 years	284	329
3 to 4 years	243	248
4 to 5 years	205	156
Over 5 years	447	292
	2,235	2,064

23 | Cost of Sales

The cost of sales breaks down as follows:

Cost of Sales

€ million	2022	2023
Expenses for raw materials and merchandise	3,535	2,993
Direct manufacturing and other production costs	2,616	2,453
	6,151	5,446

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.

The decrease resulted primarily from lower sales volumes and lower procurement prices for raw materials and energy. As in the previous year, emissions rights were also sold to compensate for high energy costs. Shifts in exchange rates also led to lower manufacturing costs. A portfolio-driven increase due to the Microbial Control business acquired at the beginning of July 2022 had an opposite effect.

24 | Selling Expenses

The breakdown of selling expenses is as follows:

Selling Expenses

€ million	2022	2023
Marketing costs	593	583
Outward freight charges and other selling expenses	471	350
	1,064	**933**

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 €99 million (previous year: €102 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 €279 million (previous year: €319 million), comprise costs not directly related to operational business processes and the costs for the country organizations.

27 | Other Operating Income

Other operating income breaks down as follows:

Other Operating Income

€ million	2022	2023
Income from non-core business	7	35
Income from the reversal of provisions	4	3
Exceptional items	0	1
Miscellaneous operating income	27	39
	38	**78**

Income from non-core business primarily includes income in connection with administrative services performed for Envalior.

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

28 | Other Operating Expenses

Other operating expenses break down as follows:

Other Operating Expenses

€ million	2022	2023
Exceptional items	109	616
Expenses for non-core business	8	35
Expenses for hedging with derivative financial instruments	37	3
Loss allowance on trade receivables and other current assets	3	0
Miscellaneous operating expenses	53	49
	210	**703**

In fiscal year 2023, the exceptional items include the write-downs on the goodwill of the Flavors & Fragrances and Polymer Additives business units of €406 million resulting from the impairment testing of cash-generating units as of December 31, 2023. Further information on the background and scope of the impairment can be found in the "Estimation Uncertainties and the Exercise of Discretion" section. In addition, exceptional items included expenses of €111 million in connection with the FORWARD! action plan. Furthermore, there were exceptional items of €25 million for strategic IT projects and of €14 million for the strategic realignment. There were also exceptional items of €8 million for restructuring measures to adapt the production network and of €52 million for M&A activities, digitalization and other measures.

Of the exceptional items of €616 million in fiscal year 2023 (previous year: €109 million), based on economic relevance €406 million (previous year: €0 million) related to other operating expenses, €33 million (previous year: €6 million) related to the cost of sales, and €177 million (previous year: €103 million) related to general administration expenses.

In the previous year, exceptional items included 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.

Expenses for non-core business primarily include expenses in connection with administrative services performed for Envalior.

29 | Financial Result

The financial result breaks down as follows:

Financial Result

€ million	2022	2023
Income from investments accounted for using the equity method	**3**	**(172)**
Interest income	7	10
Interest expense	(75)	(70)
Net interest expense	**(68)**	**(60)**
Interest expense from compounding interest-bearing provisions	(15)	(26)
Net exchange gain/loss	5	11
Miscellaneous financial expense and income	55	(32)
Dividends and income from other affiliated companies	(3)	0
Other financial income and expense	**42**	**(47)**
Financial result	**(23)**	**(279)**

Of the income from investments accounted for using the equity method of minus €172 million (previous year: income of €3 million), an expense of €181 million is attributable to the subsequent measurement of the investment in Envalior GmbH, Cologne, Germany, and income of €9 million (previous year: €3 million) is attributable to the subsequent measurement of the investment in Viance LLC, Wilmington, U.S.

Interest expense includes in particular payments of bond interest adjusted for capitalized borrowing costs of €1 million (previous year: €1 million). Interest expense also includes the interest portion of the lease payments under leases, amounting to €5 million (previous year: €3 million).

Other financial expenses and income include income of €33 million resulting from the measurement of a shareholder loan to Envalior GmbH at fair value. The shareholder loan with a nominal amount of €200 million was granted in connection with the formation of Envalior. The measurement of a right to offer in connection with the minority interest in Envalior resulted in expenses of €68 million. Further information on the right to offer can be found under "Financial Instruments" in the "Fair value measurement" section. Other financial expenses and income also include expenses of €3 million (previous year: €20 million) from the measurement of financial instruments in connection with the company Standard Lithium Ltd., Vancouver, Canada. In addition, this item includes income of €6 million (previous year: expenses of €2 million) from the measurement of near-cash financial assets at fair value and the monetary loss of €1 million (previous year: €6 million) from restating the price level in the context of financial reporting in hyperinflationary economies.

In the previous year, the other financial result included income from the settlement of interest rate hedges of €83 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	2022	2023
Current taxes	(20)	(18)
Deferred taxes		
temporary differences	(42)	83
statutory changes in tax rates	(2)	0
loss carryforwards	(8)	40
Income taxes	**(72)**	**105**

The actual tax income for fiscal year 2023 was €105 million (previous year: tax expense of €72 million). This was €170 million (previous year: €3 million) less than the expected tax income of €275 million (previous year: tax expense of €75 million).

In calculating the expected tax expense for the LANXESS Group, the aggregated tax rate of 29.0% (previous year: 29.3%) for the income tax group of LANXESS AG 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	2022	2023
Income before income taxes	257	(947)
Aggregated income tax rate of LANXESS AG (tax group)	29.3%	29.0%
Expected tax result	(75)	275
Tax difference due to differences between local tax rates and the hypothetical tax rate	23	(7)
Reduction in taxes due to tax-free income and reduction of tax bases	3	13
Increase in taxes due to		
non-tax-deductible expenses	(7)	(125)
unrecognized deferred taxes on tax losses and temporary differences	(7)	(19)
Other tax effects	(9)	(32)
Actual tax result	**(72)**	**105**
Effective tax rate	28.0%	11.1%

The non-tax-deductible expenses primarily relate to impairment on the goodwill of the Flavors & Fragrances and Polymer Additives cash-generating units. Further information on impairment testing can be found in the "Estimation Uncertainties and the Exercise of Discretion" section.

The other tax effects of minus €32 million (previous year: minus €9 million) essentially result from taxes for previous years. In the previous year, these primarily included 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

€ million	Dec. 31, 2022 Less deferred tax assets	Dec. 31, 2022 Deferred tax liabilities	Dec. 31, 2023 Less deferred tax assets	Dec. 31, 2023 Deferred tax liabilities
Intangible assets	19	245	6	209
Property, plant and equipment	4	258	4	211
Inventories	32	10	52	6
Receivables and other assets	70	90	49	91
Pension provisions	65	0	145	0
Other provisions	64	0	75	2
Liabilities	32	1	35	0
Loss carryforwards	88	–	124	–
	374	**604**	**490**	**519**
of which non-current	176	508	279	425
Set-off	(320)	(320)	(325)	(325)
	54	**284**	**165**	**194**

The change in deferred taxes is calculated as follows:

Changes in Deferred Taxes

€ million	2022	2023
Deferred taxes, Jan. 1	**(31)**	**(230)**
Adjustments according to IFRS 5	3	–
Tax income/expense recognized in the income statement	(52)	123
Changes in companies consolidated	(6)	40
Deferred taxes recognized in other comprehensive income	(142)	36
Exchange differences	(2)	2
Deferred taxes, Dec. 31	**(230)**	**(29)**

The adjustments in accordance with IFRS 5 in the previous year resulted 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 recognized in other comprehensive income comprised €35 million (previous year: minus €149 million) relating to remeasurements of the net defined benefit liability for post-employment benefit plans and €1 million (previous year: €7 million) relating to financial instruments. In addition, other comprehensive income contains current taxes of minus €1 million (previous year: minus €1 million).

Deferred tax assets of €140 million (previous year: €11 million), which exceed the reversal of taxable temporary differences, relate to tax jurisdictions in which losses were incurred in fiscal year 2023 or the previous year. Deferred taxes assets of €134 million (previous year: €0 million) are attributable to the German tax group, which primarily result from the different tax valuation of pension provisions. In addition, deferred tax assets exceeding the earnings effects from the reversal of taxable temporary differences include €81 million (previous year: €3 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 €124 million (previous year: €88 million) were recognized on the €396 million (previous year: €274 million) in tax loss carryforwards that represent income likely to be realized in the future. This amount included deferred taxes of €87 million (previous year: €54 million) on loss carryforwards with an unlimited carryforward period.

Deferred taxes were not recognized for €249 million (previous year: €871 million) of tax loss carryforwards. Of this amount, €107 million (previous year: €124 million) can theoretically be used over more than five years. No deferred tax assets were recognized in fiscal year 2023 for tax-deductible temporary differences of €82 million (previous year: €80 million). Accordingly, deferred taxes on loss carryforwards of €67 million (previous year: €220 million) and deferred tax assets on tax-deductible temporary differences of €21 million (previous year: €21 million) were not recognized.

31 | Earnings and Dividend per Share

Earnings per share for fiscal year 2023 amount to €5.13, consisting of minus €9.76 from continuing operations and €14.89 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, 2023, 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

	2022	2023
Net income (€ million)	250	443
from continuing operations	184	(843)
from discontinued operations	66	1,286
Weighted average number of shares outstanding	86,346,303	86,346,303
Earnings per share (basic/diluted) (€)	**2.90**	**5.13**
from continuing operations	2.13	(9.76)
from discontinued operations	0.77	14.89

LANXESS AG reported a distributable profit of €442 million for fiscal year 2023 (previous year: €518 million). The dividend payment made to stockholders of LANXESS AG for fiscal year 2022 amounted to €1.05 per share (previous year: €1.05 per share).

32 | Personnel Expenses

The breakdown of personnel expenses is as follows:

Personnel Expenses

€ million	2022	2023
Wages and salaries	1,080	1,121
Social security contributions	185	191
Retirement benefit expenses	91	79
Social assistance benefits	13	13
	1,369	1,404

The increase in personnel expenses in fiscal year 2023 is primarily attributable to measures in connection with FORWARD! and pay adjustments. Lower 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 2023 was 13,030 (previous year: 13,023). The breakdown of employees is as follows:

Employees by Function

	2022	2023
Production	9,182	9,155
Administration	1,953	1,925
Marketing and sales	1,420	1,470
Research and development	468	480
	13,023	13,030

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, 2023, contingent liabilities to third parties totaled €0 million (previous year: €13 million). The decline is primarily attributable to the recovery of the guarantees relating to the chrome ore business in South Africa, which was sold in fiscal year 2021.

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 €130 million (previous year: €140 million). All of these payments are due in fiscal year 2024.

Description of the master agreement

Under the master agreement 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.

The LANXESS Group generated sales of €56 million and other operating income of €36 million from transactions with affiliated companies, of which sales of €25 million and other operating income of €36 million are attributable to relationships with Envalior GmbH and its affiliated companies. The services purchased by LANXESS in 2023 in the amount of €8 million are based on trade relationships with Envalior GmbH and its affiliated companies.

As of December 31, 2023, these trade relationships as well as leasing, financing, and other transactions resulted in receivables of €235 million and liabilities of €4 million. These comprise receivables of €224 million and liabilities of €4 million from transactions with Envalior GmbH and its affiliated companies.

Since Envalior was founded as of April 1, 2023, Envalior GmbH, Cologne, Germany, has been included in the LANXESS consolidated financial statements using the equity method. In connection with the formation of Envalior, Envalior GmbH received a shareholder loan at a nominal amount of €200 million from LANXESS.

LANXESS also has the possibility to sell its shares in Envalior GmbH to Advent for the first time three years after the formation under certain conditions. Further information can be found under “Financial Instruments” in the “Fair value measurement” section.

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 2023.

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 ended on December 31, 2023, and was 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, 2022–2025 and 2023–2026 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.

The composition of the Board of Management changed as follows in fiscal year 2023: Frederique van Baarle was appointed as a member of the Board of Management of LANXESS AG and Labor Director for a period of three years with effect from April 1, 2023. In addition, Oliver Stratmann was appointed as a member of the Board of Management for a period of three years with effect from September 1, 2023. As the new Chief Financial Officer, he succeeded Michael Pontzen, who stepped down as of August 31, 2023. Dr. Anno Borkowsky left the Board of Management as planned and retired on December 31, 2023. There are currently no plans to appoint a successor.

For fiscal year 2023, total compensation in accordance with Section 314 Paragraph 1 No. 6a) HGB of €6,778 thousand (previous year: €10,763 thousand) was paid to the members of the Board of Management of LANXESS AG, comprising €4,442 thousand (previous year: €7,279 thousand) in short-term compensation (fixed annual salary, APP, benefits in kind and other) and other long-term compensation components of €160 thousand (previous year: €1,130 thousand) as part of the LTPB. The total also includes compensation paid under the LTSP. A total of 2,501,042 (previous year: 2,354,022) compensation rights were granted to the members of the Board of Management in fiscal year 2023. The fair value of these rights at the grant date was €2,176 thousand (previous year: €2,354 thousand). In fiscal year 2023, the LTSP resulted in income of €437 thousand (previous year: expense of €761 thousand).

In addition, service costs of €1,593 thousand (previous year: €1,828 thousand) relating to defined benefit pension plans were incurred in fiscal year 2023 for members of the Board of Management in office as of

December 31, 2023, as part of their compensation package. The present value of the defined benefit obligation was €19,847 thousand as of December 31, 2023 (previous year: €20,208 thousand). The service costs in accordance with IFRS for Michael Pontzen, who left the Board of Management, amount to €291 thousand.

In accordance with IAS 24, the total net expense for the compensation of the members of the Board of Management in fiscal year 2023 was €6,392 thousand (previous year: €13,152 thousand). The balances outstanding to members of the Board of Management as of December 31, 2023, totaled €4,919 thousand (previous year: €10,572 thousand), comprising provisions of €1,117 thousand (previous year: €3,680 thousand) for the APP, €1,468 thousand (previous year: €3,214 thousand) for the LTPB, €1,441 thousand (previous year: €1,099 thousand) for the SPP and €893 thousand (previous year: €2,579 thousand) for the LTSP.

Payments in accordance with Section 314 Paragraph 1 No. 6b) HGB totaling €1,560 thousand (previous year: €1,505 thousand) and relating to pension benefits were made to former members of the Board of Management in fiscal year 2023, €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, 2023, was €37,949 thousand (previous year: €28,466 thousand).

The total compensation of the Supervisory Board members in fiscal year 2023 included fixed annual compensation and compensation for work on committees and totaled €1,905 thousand (previous year: €1,903 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.

In accordance with the contractual agreements, parts of Frederique van Baarle's compensation were paid by the U.S. subsidiary LANXESS Corporation. In the past fiscal year, no other member of the Board of Management received benefits or assurances of benefits from third parties with respect to their duties as members of the Board of Management.

No loans were granted to members of the Board of Management or the Supervisory Board in fiscal year 2023 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 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**

Change in Right-of-Use Assets from Leases 2023

€ million	Land and buildings	Technical equipment and machinery	Other fixtures, fittings and equipment	Total
Cost of acquisition or construction, Dec. 31, 2022	249	76	75	400
Adjustments according to IFRS 5	1	(1)	0	0
Additions	24	35	15	74
Retirements	(8)	(8)	(8)	(24)
Exchange differences	(4)	0	(2)	(6)
Cost of acquisition or construction, Dec. 31, 2023	**262**	**102**	**80**	**444**
Accumulated depreciation and write-downs, Dec. 31, 2022	(94)	(48)	(45)	(187)
Adjustments according to IFRS 5	(1)	1	0	0
Depreciation in 2023	(30)	(17)	(14)	(61)
Retirements	7	8	8	23
Exchange differences	1	0	1	2
Accumulated depreciation and write-downs, Dec. 31, 2023	**(117)**	**(56)**	**(50)**	**(223)**
Carrying amounts, Dec. 31, 2023	**145**	**46**	**30**	**221**

The adjustments in accordance with IFRS 5 relate to the contribution of the High Performance Materials business unit to Envalior.

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

In fiscal year 2023, interest expenses for lease liabilities of €5 million (previous year: €3 million) were recognized in the income statement. The expected future payments for lease liabilities amount to €227 million (previous year: €213 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 2023, expenses for short-term leases amounted to €6 million (previous year: €6 million) and expenses for leases for low-value assets amounted to €5 million (previous year: €4 million). This essentially equals the payments made for these leases. Disbursements made under leases totaled €72 million in the reporting year (previous year: €69 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 €185 million (previous year: €209 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.

In fiscal year 2023, leases with a volume of €7 million were concluded that will commence in later fiscal years. As in the previous year, there were no sale and leaseback transactions.

The LANXESS Group is the lessor in financial leases to a limited extent. Income of €8 million from operating leases in which LANXESS is the lessor was recognized in the reporting year (previous year: €7 million). Lease payments of €6 million are expected in the following year (previous year: €6 million), of €5 million from 2025 to 2028 (previous year: €5 million from 2024 to 2027) and €13 million after 2028 (previous year: €5 million after 2027).

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 €13 million (previous year: €23 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. Further information can be found under "Report on Future Perspectives, Risks and Opportunities" in the combined management report for fiscal year 2023.

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, 2023, would have altered the financial result by €4 million (previous year: €3 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 €1 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, 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	–	–	–	–	–

As of December 31, 2023

€ million	2024	2025	2026	2027	2028	> 2028
Bonds	**(29)**	**(529)**	**(523)**	**(618)**	**(614)**	**(604)**
of which interest	(29)	(29)	(23)	(18)	(14)	(4)
Liabilities to banks	**(2)**	**–**	**–**	**–**	**–**	**–**
of which interest	0	–	–	–	–	–
Trade payables	**(584)**	**–**	**–**	**–**	**–**	**–**
of which interest	–	–	–	–	–	–
Lease liabilities	**(55)**	**(45)**	**(36)**	**(27)**	**(12)**	**(52)**
of which interest	(5)	(4)	(2)	(2)	(1)	(9)
Other primary financial liabilities	**(4)**	**0**	**–**	**–**	**–**	**(1)**
of which interest	–	–	–	–	–	–
Derivative liabilities						
Hedging instruments that qualify for hedge accounting						
Disbursements	(24)	–	0	0	0	–
Receipts	17	–	–	–	–	–
Other hedging instruments						
Disbursements	(832)	–	–	–	–	–
Receipts	822	–	–	–	–	–
Derivative assets						
Hedging instruments that qualify for hedge accounting						
Disbursements	(162)	(94)	(19)	–	–	–
Receipts	164	97	19	–	–	–
Other hedging instruments						
Disbursements	(433)	–	–	–	–	–
Receipts	439	–	–	–	–	–

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, 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[1)]	AC	829	829	–	–	–	829
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)

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, 2023

€ million	IFRS 9 measurement category	Carrying amount Dec. 31, 2023	Measurement according to IFRS 9			Measurement according to IFRS 16	Fair value Dec. 31, 2023
			Amortized cost	Fair value (other comprehensive income)	Fair value (profit or loss)		
Financial assets							
Trade receivables	AC	593	593	–	–	–	593
Trade receivables	FV OCI	20	–	20	–	–	20
Other financial receivables							
Other financial receivables	AC	15	15	–	–	–	15
Other financial receivables	FV P&L	212	–	–	212	–	212
Lease receivables	–	3	–	–	–	3	–
Contract assets	AC	247	247	–	–	–	247
Near-cash assets	FV P&L	350	–	–	350	–	350
Cash and cash equivalents	AC	146	146	–	–	–	146
Equity instruments measured at fair value through other comprehensive income	FV OCI	11	–	11	–	–	11
Derivative assets							
Hedging instruments that qualify for hedge accounting	–	8	–	8	–	–	8
Other hedging instruments	FV P&L	7	–	–	7	–	7
Derivatives not designated as hedging instruments	FV P&L	8	–	–	8	–	8
Financial liabilities							
Bonds	AC	(2,799)	(2,799)	–	–	–	2,553
Liabilities to banks	AC	(2)	(2)	–	–	–	(2)
Trade payables	AC	(584)	(584)	–	–	–	(584)
Lease liabilities	–	(204)	–	–	–	(204)	–
Other primary financial liabilities	AC	(5)	(5)	–	–	–	(5)
Derivative liabilities							
Hedging instruments that qualify for hedge accounting	–	(7)	–	(7)	–	–	(7)
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 with a fair value of €108 million (previous year: €102 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, 2022	Dec. 31, 2023
Financial assets measured at amortized cost[1]	1,385	1,001
Financial assets measured at fair value through other comprehensive income (debt instruments)	29	20
Equity instruments measured at fair value through other comprehensive income	17	11
Financial assets required to be measured at fair value through profit or loss	115	577
Financial assets	**1,546**	**1,609**
Financial liabilities measured at amortized cost	(4,764)	(3,390)
Financial liabilities required to be measured at fair value through profit or loss	(10)	(10)
Financial liabilities	**(4,774)**	**(3,400)**

1) Prior-year figures restated.

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. As in the previous year, there were no reclassifications in fiscal year 2023. Assets and liabilities measured at fair value break down as follows:

Assets and Liabilities Measured at Fair Value

	Dec. 31, 2022		
€ million	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	–

Assets and Liabilities Measured at Fair Value

€ million	Dec. 31, 2023 Level 1	Level 2	Level 3
Non-current assets			
Investments in other affiliated companies	11	–	–
Non-current derivative assets	–	5	5
Other non-current financial assets	–	208	4
Current assets			
Current derivative assets	–	13	–
Other current financial assets	–	–	–
Trade receivables	–	–	20
Near-cash assets	350	–	–
Non-current liabilities			
Non-current derivative liabilities	–	0	–
Current liabilities			
Current derivative liabilities	–	17	–

Level 1 of the fair value hierarchy includes near-cash assets of €350 million (previous year: €79 million). These relate to shares of money market funds that can be sold at any time.

Investments in other affiliated companies of €11 million (previous year: €17 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 €5 million (previous year: €38 million).

Warrants for shares in Standard Lithium Ltd., Vancouver, Canada, were recognized in addition to the shares mentioned. In the amount of €3 million (previous year: €6 million), these form part of the 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.

Other non-current financial assets at Level 2 of the measurement hierarchy include €207 million for a shareholder loan granted to Envalior GmbH, Cologne, Germany, in fiscal year 2023 in connection with the formation of Envalior. The nominal amount of the loan is €200 million. The fair value is calculated using discounted cash flows, taking observed market interest rates into account. The earnings effect from the difference between the issue amount of €200 million and the initial carrying amount of €174 million comes to €26 million (expense) and is recognized in income from discontinued operations. The subsequent measurement as of December 31, 2023, resulted in income of €33 million, which is part of the other financial result.

In addition to the purchase price payment, LANXESS also received a minority interest of 40.94% in Envalior GmbH, Cologne, Germany, in connection with the formation of the joint company. LANXESS has the possibility to sell the minority interest to Advent for the first time three years after the formation of Envalior under certain conditions. The right to offer, which is recognized in non-current derivative assets, is measured at fair value and assigned to Level 3 of the fair value hierarchy.

A value can be attributed to the right to offer if LANXESS is better off under the contractual agreement than it would be in a comparable arm's length transaction at customary conditions based on fair value. The main factor affecting the valuation is the further business performance of Envalior in the coming years. The fair value of the right to offer is determined with a measurement model using a Monte Carlo simulation. The result of the valuation is materially determined by basic parameters underlying the model, such as business plan, capital costs, volatility, and composition of the peer group. Envalior's enterprise value is calculated using the discounted cash flow (DCF) method and is based on estimated future cash flows, which are discounted using the weighted average cost of capital (WACC). The fair value determined as of initial recognition on April 1, 2023, amounts to €73 million and is included in the "other effects" of the gain on disposal resulting from the deconsolidation of the High Performance Materials business unit (see "Discontinued operations"). As of December 31, 2023, the fair value amounted to €5 million. The change of €68 million is exclusively due to valuation adjustments and is recognized under "Other financial result."

A sensitivity analysis for the fair value of the right to offer simulated a reduction in EBITDA, the relevant factor for the future cash flows, by 10% per year. A 10% increase in Envalior's annual EBITDA figures would have resulted in a fair value of €2 million as of December 31, 2023. A corresponding decrease would have resulted in a fair value of €21 million.

A further sensitivity analysis for the fair value of the right to offer simulated a 10% change in the annual growth rate of the EBITDA figures. A 10% increase in the annual EBITDA growth rate would have resulted in a fair value of €1 million as of December 31, 2023. A corresponding decrease would have resulted in a fair value of €21 million.

As of December 31, 2022, other current financial assets of €12 million were assigned to Level 3 of the measurement hierarchy. This figure related to outstanding conditional purchase price payments in connection with the sale of the organic leather chemicals business and was 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 reassessment of the planned performance indicators results in a measurement of €0 million in the statement of financial position as of December 31, 2023. The expense from the reduction of €12 million is recognized in income from discontinued operations. Simulated 10% higher performance indicators would result in no further change, nor would 10% lower performance indicators.

The trade receivables of €20 million (previous year: €29 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: €4 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.

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 loss allowance recognized in previous years in connection with outstanding purchase price receivables of €5 million was utilized in the current fiscal year and derecognized accordingly.

Carrying Amounts and Loss Allowances

€ million	Dec. 31, 2022 Gross carrying amount	Dec. 31, 2022 Loss allowances	Dec. 31, 2022 Net carrying amount	Dec. 31, 2023 Gross carrying amount	Dec. 31, 2023 Loss allowances	Dec. 31, 2023 Net carrying amount
Cash and cash equivalents	324	0	324	146	0	146
Other financial assets	14	(5)	9	18	0	18

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) December 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[1]	699	113	22	11	13	**858**
Default rates calculated	**0.0%**	**0.3%**	**1.5%**	**5.2%**	**10.5%**	

1) Prior-year figures restated.

Aging Structure and Loss Allowances (Simplified Model) December 31, 2023

€ 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	499	87	18	4	5	**613**
Default rates calculated	**0.0%**	**0.2%**	**1.6%**	**4.9%**	**9.6%**	

The total carrying amounts and loss allowances for trade receivables and contract assets are as follows:

Carrying Amounts and Loss Allowances

€ million	Dec. 31, 2022 Gross carrying amount	Dec. 31, 2022 Loss allowances	Dec. 31, 2022 Net carrying amount	Dec. 31, 2023 Gross carrying amount	Dec. 31, 2023 Loss allowances	Dec. 31, 2023 Net carrying amount
Trade receivables[1]	871	(13)	858	625	(12)	613
Contract assets	224	(1)	223	248	(1)	247

1) Prior-year figures restated.

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 2022 and 2023:

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
Jan. 1	5	10	1	**16**
Adjustments according to IFRS 5	–	(2)	–	**(2)**
Newly acquired financial assets[2]	0	6	3	**9**
Release	0	(2)	0	**(2)**
Financial assets derecognized in the period – sale, repayment, modification	0	(1)	(1)	**(2)**
Currency or other differences	0	0	0	**0**
Dec. 31	**5**	**11**	**3**	**19**

1) Cash and cash equivalents and other financial receivables are not presented separately for reasons of materiality.
2) Prior-year figures restated.

Reconciliation Loss Allowance 2023

€ 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
Jan. 1	5	11	3	**19**
Newly acquired financial assets	0	4	–	**4**
Release	0	(3)	(1)	**(4)**
Financial assets derecognized in the period – sale, repayment, modification	(5)	(1)	0	**(6)**
Currency or other differences	0	0	0	**0**
Dec. 31	**0**	**11**	**2**	**13**

1) Cash and cash equivalents and other financial receivables are not presented separately for reasons of materiality.

The adjustments in accordance with IFRS 5 in the previous year resulted from the presentation of the High Performance Materials business unit as a discontinued operation. The acquired, impaired financial assets as of December 31, 2023, relate to trade receivables acquired in the acquisition of the Microbial Control business from U.S. corporation International Flavors & Fragrances Inc. in the previous year. 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, 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[1]	858	–	–	858
Derivative assets	32	(7)	–	25
Financial liabilities				
Trade payables	(709)	–	–	(709)
Derivative liabilities	(19)	7	–	(12)

1) Prior-year figure restated.

Offsetting of Financial Assets and Financial Liabilities as of December 31, 2023

€ 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	613	–	–	613
Derivative assets	23	(5)	–	18
Financial liabilities				
Trade payables	(584)	–	–	(584)
Derivative liabilities	(17)	5	–	(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	2022	2023
Financial assets measured at amortized cost	(3)	10
Financial assets and liabilities required to be measured at fair value through profit or loss	(10)	(23)
Equity instruments measured at fair value through other comprehensive income	0	0
Financial liabilities measured at amortized cost	(73)	(62)
	(86)	**(75)**

Net gains and losses essentially comprise interest income and expense, results from fair value measurement, and realized and unrealized exchange gains and losses. Total interest revenue for financial assets that are measured at amortized cost amounts to €8 million (previous year: €4 million); the total interest expense for financial liabilities that are not measured at fair value through profit or loss is €66 million (previous year: €71 million).

In fiscal year 2022, there was also income from the settlement of interest rate hedges of €83 million in addition to the net results shown. This was recognized in the "other financial result" and not assigned to a measurement category.

Fees of €15 million (previous year: €9 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 2023 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 minus €947 million in the reporting year (previous year: €257 million). Income before income taxes includes depreciation, amortization and write-downs of €996 million (previous year: €546 million), of which €406 million is attributable to write-downs on goodwill in the current fiscal year. It also includes expenses from investments accounted for using the equity method of €172 million (previous year: income of €3 million), which in fiscal year 2023 primarily related to the investment in Envalior GmbH, Cologne, Germany. Income taxes of €53 million were paid (previous year: €4 million reimbursed). The change in net working capital resulted in cash inflows of €577 million (previous year: outflows of €471 million). The sale of trade receivables under a factoring agreement was at the previous year's level and therefore had no significant influence on the change in the current fiscal year (previous year: €130 million). Taking into account the change in other assets and liabilities of €17 million (previous year: minus €160 million), cash inflows provided by operating activities from continuing operations amounted to €852 million in the reporting year (previous year: €187 million). Cash used in the operating activities of discontinued operations amounted to €14 million (previous year: €28 million).

Net cash provided by investing activities

Purchases of property, plant and equipment and intangible assets led to cash outflows of €326 million in fiscal year 2023 (previous year: €407 million). Cash inflows from the sale of subsidiaries and other businesses of €1,194 million primarily resulted from the transaction for the formation of Envalior. In the reporting year, cash outflows for and cash inflows from financial and other assets held for investment purposes particularly related to cash flows in connection with the formation of Envalior. The net cash inflow from the investing activities of continuing operations amounted to €429 million (previous year: outflow of €996 million). Discontinued operations resulted in cash outflows from investing activities of €6 million (previous year: €55 million).

Net cash used in financing activities

Net repayment of €1,303 million (previous year: net borrowing of €690 million) was attributable to financial liabilities as follows:

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	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	4	–	13	–	–	0	0	17
	3,504	**(22)**	**690**	**30**	**36**	**0**	**9**	**4,247**

Reconciliation of Borrowings 2023

€ million	Dec. 31, 2022	Cash changes	Non-cash changes			Dec. 31, 2023
			Lease liabilities new additions	Exchange differences	Interest effect from compounding, accrued interest and other changes	
Bonds	3,297	(500)	–	–	2	2,799
Liabilities to banks	741	(736)	–	(3)	0	2
Lease liabilities	192	(56)	71	(2)	(1)	204
Other primary financial liabilities	17	(11)	–	0	(1)	5
	4,247	**(1,303)**	**71**	**(5)**	**0**	**3,010**

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

Borrowings in the reporting year mainly related to the borrowing of various short-term money market loans totaling €350 million. Repayments of borrowings particularly included the repayment of various short-term money market loans of €1,050 million and the repayment of the hybrid bond of €500 million.

Interest payments and other financial disbursements led to cash outflows of €71 million (previous year: €65 million). Dividend payments in fiscal year 2023 totaled €91 million (previous year: €91 million). There was therefore a total cash outflow of €1,465 million (previous year: inflow of €617 million) from financing activities in continuing operations. Discontinued operations resulted in a net cash outflow of €1 million (previous year: €4 million).

Cash and cash equivalents

Cash and cash equivalents, which comprise cash, checks and bank balances, amounted to €146 million (previous year: €360 million). In accordance with IAS 7, this item also includes securities with maturities of up to three months from the date of acquisition. Cash and cash equivalents are not subject to any material restrictions.

In addition to cash and cash equivalents, LANXESS holds near-cash assets of €350 million (previous year: €79 million), which comprise shares of money market funds that can be sold at any time. As of December 31, 2023, there were also other liquidity reserves in the form of undrawn credit lines without financial covenants of €1.8 billion.

40 | Segment Reporting

The tables below contain the key data by segment and region:

Key Data by Segment

	Consumer Protection		Specialty Additives		Advanced Intermediates		All other segments		LANXESS	
€ million	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**
External sales	2,366	2,340	2,970	2,325	2,413	1,775	339	274	8,088	6,714
Inter-segment sales	69	75	18	18	30	42	(117)	(135)	–	–
Segment/Group sales	2,435	2,415	2,988	2,343	2,443	1,817	222	139	8,088	6,714
Segment result/EBITDA pre exceptionals	363	310	479	209	291	121	(203)	(128)	930	512
Exceptional items affecting EBITDA	(25)	(14)	(5)	(20)	–	(33)	(74)	(117)	(104)	(184)
Segment assets[1]	3,782	3,129	3,177	2,615	1,471	1,182	752	1,477	9,182	8,403
Segment acquisitions	1,171	–	–	–	–	–	–	–	1,171	–
Segment capital expenditures	141	112	137	133	106	94	63	61	447	400
Depreciation and amortization	168	197	182	182	117	109	69	74	536	562
Write-downs	0	262	8	149	2	21	0	2	10	434
Segment liabilities[1]	451	429	453	380	474	404	548	665	1,926	1,878
Employees – as of Dec. 31	3,566	3,555	2,985	2,945	3,010	2,941	3,565	3,408	13,126	12,849
Employees – average for the year	3,437	3,579	3,023	2,973	3,007	3,006	3,556	3,472	13,023	13,030

1) Prior-year figures restated.

Key Data by Region

	EMEA (excluding Germany)		Germany		Americas		Asia-Pacific		LANXESS	
€ million	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**
External sales by market	2,364	1,972	1,366	1,098	2,694	2,362	1,664	1,282	8,088	6,714
Non-current segment assets[1]	934	892	1,445	1,395	3,459	2,834	281	257	6,119	5,378
Segment acquisitions	267	–	3	–	795	–	106	–	1,171	–
Segment capital expenditures	74	62	220	204	131	110	22	24	447	400
Employees – as of Dec. 31	1,306	1,242	7,099	7,069	2,975	2,862	1,746	1,676	13,126	12,849

1) 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. The “All other segments” category primarily comprises the Urethane Systems business unit, the business activities of the corporate functions and the effects of consolidation.

On December 31, 2023, 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/electronics 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.

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, the Americas and Asia-Pacific. Regional sales are calculated according to the recipient’s place of business. In fiscal year 2023, no individual customer of the LANXESS Group accounted for 10% or more of Group sales.

The earnings indicator used for internal management purposes in the LANXESS Group is the operating result before depreciation and amortization (EBITDA) pre exceptionals (see “Value management and control system” in the combined management report for fiscal year 2023). 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 €639 million (previous year: €658 million) of sales recognized over time. Of these, €537 million (previous year: €500 million) relate to the Consumer Protection segment, €6 million (previous year: €9 million) to the Specialty Additives segment, €70 million (previous year: €122 million) to the Advanced Intermediates segment and €26 million (previous year: €27 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.

The write-downs recognized in fiscal year 2023 in the Consumer Protection and Specialty Additives segments result primarily from the impairment test of the cash-generating units as of December 31, 2023, and are attributable to the Flavors & Fragrances and Polymer Additives business units. Further information can be found in the "Estimation Uncertainties and the Exercise of Discretion" section.

The negative exceptional items within EBITDA of €186 million (previous year: €104 million) in fiscal year 2023 primarily related to the FORWARD! action plan. As in the previous year, there were also exceptional items for strategic IT projects, the strategic realignment of the LANXESS Group, restructuring measures to adapt the production network, M&A activities, digitalization, and other measures. They are offset by positive exceptional items of €1 million (previous year: €0 million), which relate to income from the reversal of provisions recognized as exceptional items in previous years.

The segment acquisitions in the previous year included 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.

The reconciliation of segment sales is as follows:

Reconciliation of Segment Sales

€ million	2022	2023
Total segment sales	**7,866**	**6,575**
Other	339	274
Consolidation	(117)	(135)
Group sales	**8,088**	**6,714**

The reconciliation of segment results is as follows:

Reconciliation of Segment Results

€ million	2022	2023
Total segment results	**1,133**	**640**
Depreciation and amortization	(546)	(996)
Exceptional items affecting EBITDA	(104)	(184)
Other financial income and expense	42	(47)
Net interest expense	(68)	(60)
Income from investments accounted for using the equity method	3	(172)
Other	(203)	(128)
Income before income taxes	**257**	**(947)**

The reconciliation of segment results to income before income taxes contains total exceptional items comprising net charges of €615 million (previous year: €109 million) (see Notes [27] and [28]). These include exceptional items within EBITDA of minus €185 million (previous year: minus €104 million) and write-downs of minus €430 million (previous year: minus €5 million).

The reconciliation of segment assets is as follows:

Reconciliation of Segment Assets

€ million	Dec. 31, 2022	Dec. 31, 2023
Total segment assets[1]	**8,430**	**6,926**
Adjustments to discontinued operations	1,275	–
Cash and cash equivalents	324	146
Deferred taxes	54	165
Near-cash assets	79	350
Income tax receivables	92	101
Derivative assets	32	23
Other financial assets	249	477
Other	752	1,477
Group assets[1]	**11,287**	**9,665**

1) 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.

The reconciliation of segment liabilities is as follows:

Reconciliation of Segment Liabilities

€ million	Dec. 31, 2022	Dec. 31, 2023
Total segment liabilities[1]	**1,378**	**1,213**
Adjustments to discontinued operations	318	–
Other financial liabilities	4,247	3,010
Derivative liabilities	19	17
Income tax liabilities	66	59
Deferred taxes	284	194
Other	548	665
Group liabilities[1]	**6,860**	**5,158**

1) 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 2023, total audit fees of €2,645 thousand (previous year: €2,853 thousand) for the auditor of the consolidated financial statements of the LANXESS Group were recognized as expenses. The total amount includes €2,309 thousand (previous year: €2,544 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. €313 thousand (previous year: €309 thousand) relates to other assurance services. These essentially include services in connection with sustainability reporting and audit certification services. Other services comprise €23 thousand (previous year: €0 thousand) for regulatory 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 2023, 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 2023:

- LANXESS Trademark GmbH & Co. KG, Leverkusen

44 | Events after the Reporting Period

No events of particular significance took place after December 31, 2023, 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 8, 2024
LANXESS Aktiengesellschaft

The Board of Management

Matthias Zachert	Frederique van Baarle
Dr. Hubert Fink	Oliver Stratmann

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 8, 2024
LANXESS Aktiengesellschaft

The Board of Management

Matthias Zachert	Frederique van Baarle
Dr. Hubert Fink	Oliver Stratmann

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, Köln, and its subsidiaries (the Group), which comprise the Statement of Financial Position as at 31 December 2023, the Income Statement, and the Statement of Comprehensive Income, the Statement of Changes in equity and the Statement of Cash Flows for the financial year from 1 January to 31 December 2023, and the Notes to the Statement of Financial Position, including material accounting policy information. 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 2023. 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 group 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 2023, and of its financial performance for the financial year from 1 January to 31 December 2023, and
- the accompanying group management report as a whole provides an appropriate view of the Group’s position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of the disclosure in section “Monitoring the opportunity and risk management system” of the group 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). We performed the audit of the consolidated financial statements in supplementary compliance with the International Standards on Auditing (ISAs). Our responsibilities under those requirements, principles and standards 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 2023. 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 € 1,385 million (14% of consolidated total assets or 31% 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. As a result of the impairment test, impairments totalling € 406 million were recognised for the groups of cash-generating units, even after taking the value in use into account.

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 multi-year plan approved by management, and reconciling it against general and sector-specific market expectations. We also assessed whether the basis for including the costs of Group functions was accurate. With the knowledge that even relatively small changes in the discount rate applied can have material effects on the value of the entity calculated in this way, we also included in our review the parameters used to determine the discount rate applied, including the weighted average cost of capital, and evaluated the measurement model. Furthermore, we reviewed the sensitivity analysis carried out by the Company and additionally performed our own sensitivity analysis for the cash-generating units and, taking into account the information available, determined that the carrying amounts of the cash-generating units, including the allocated goodwill, were adequately covered by the discounted future cash flows. Overall, the measurement inputs and assumptions used by management are in line with our expectations and are also within the ranges considered by us to be reasonable.

③ The Company's disclosures on goodwill are contained in the sections entitled "Intangible assets," "Method and impact of the global impairment tests," and "Judgments and estimates" in the notes to the consolidated financial statements.

❷ Pension provisions

① Pension provisions amounting to € 498 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 group management report as an unaudited part of the group management report.

The other information comprises further

› 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.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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) and supplementary compliance with the ISAs 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-2023-12-31.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 2023 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: Requirements for Quality Management in the Audit Firm (IDW QMS 1 (09.2022)).

Responsibilities of the Executive Directors and the Supervisory Board f or the ESEF Documents

The executive directors of the Company are responsible for the preparation of the ESEF documents including the electronic rendering 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 24 May 2023. We were engaged by the supervisory board on 19 October 2023. We have been the group auditor of the LANXESS Aktiengesellschaft, Köln, 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 11, 2024

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Folker Trepte	ppa. Daniel Deing
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 263, 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 2022 was published in March 2023.

LANXESS also follows the recommendations for effective climate-related reporting of the Task Force on Climate-related Financial Disclosures (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 2024.

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 2021 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2020/2088, with the Climate Delegated Act (2022/2139), and with the Article 8 Delegated Act (2022/2178). 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 252. The reporting year is 2023. 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) 2022 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 €169 million for potential future costs of environmental protection and remediation measures can be found in Note [16] of the consolidated financial statements.

Index to the Non-Financial Report

NFR issues	Topic (section)	Pages
Environmental issues	Circular and Sustainable Sourcing	Identified content on pages 19-21
	Safe and Sustainable Sites	Identified content on pages 22-29
	Climate Action and Energy Efficiency	Identified content on pages 32-36
Employee issues	Good Governance and Energized Employees	Identified content on pages 37-55
Social issues	Safe and Sustainable Sites	Identified content on pages 27-28
Respect for human rights	Good Governance and Energized Employees	Identified content on pages 37-39
	Circular and Sustainable Sourcing	Identified content on pages 19-21
Combating corruption and bribery	Good Governance and Energized Employees	Identified content on pages 37-40

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.

In 2022, LANXESS and the private equity investor Advent International announced the agreement of a strategic alliance. In addition to signing an agreement to acquire the engineering materials business of the Dutch group Royal DSM, LANXESS agreed to contribute its High Performance Materials business unit to the newly established company for high-performance engineering polymers. From June 1, 2022, the High Performance Materials business unit was reported as a discontinued operation. The establishment of Envalior was completed as of April 1, 2023. As of December 31, 2023, LANXESS held a minority interest of 40.94% in Envalior GmbH, Cologne, Germany. The investment is included in the LANXESS consolidated financial statements using the equity method. At the end of 2023, we also announced the process to sell our Urethane Systems business unit, the final polymer business remaining at LANXESS.

KEY REPORT CONTENT

The content of the report is based on a materiality analysis performed in fiscal year 2023. 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 01 January 2023 to 31 December 2023 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 control 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.

Audit Firm's Independence and Quality Management

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 Management 1 published by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany; IDW): Requirements to quality management for audit firms (IDW Qualitätsmanagementstandard 1: Anforderungen an das Qualitätsmanagement in der Wirtschaftsprüferpraxis - IDW QMS 1 (09.2022)), which requires the audit firm to design, implement and operate a system of quality management that complies with the applicable legal requirements and professional standards.

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, issued by the IAASB. This Standard requires that we plan

[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.

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, 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.

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 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
- Evaluation of the presentation of the Separate Non-financial Group Report

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 01 January 2023 to 31 December 2023 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.

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, 11 March 2024

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 2023 of LANXESS AG, Cologne (hereinafter: "the Company"), for the period from 1 January to 31 December 2023 (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 2023 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 Management 1 published by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany; IDW): Requirements to quality management for audit firms (IDW Qualitätsmanagementstandard 1: Anforderungen an das Qualitätsmanagement in der Wirtschaftsprüferpraxis – IDW QMS 1 (09.2022)), which requires the audit firm to design, implement and operate a system of quality management that complies with the applicable legal requirements and professional standards.

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 2023 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
- Inspection of the processes for the collection, controls, analysis and aggregation of selected data at specific sites of the company
- Analytical procedures on the disclosures in the Environmental and Safety Performance Data table
- Assessment of the presentation of the disclosures in the Environmental and Safety Performance Data table

Assurance Conclusion

Based on the assurance procedures performed and assurance evidence obtained, nothing has come to our attention that causes us to believe that the disclosures in the Environmental and Safety Performance Data table for the period from 1 January to 31 December 2023 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, 11 March 2024

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, 2023, to December 31, 2023.	Location	Comments and online annexes	UNGC
GRI 1: Foundation 2021				
Applicable GRI industry standards	No GRI sector standard available.			
GRI 2: General Disclosures 2021				
THE ORGANIZATION AND ITS REPORTING PRACTICES				
2-1	Organizational details	pp. 1–3, 73–75	Legal name of the organization: LANXESS AG	
2-2	Entities included in the organization's sustainability reporting	pp. 179–183		
2-3	Reporting period, frequency and contact point	pp. 250, 268		
2-4	Restatements of information		No sustainability-related information was corrected or restated in the reporting period.	
2-5	External assurance	pp. 252–255		
ACTIVITIES AND WORKERS				
2-6	Activities, value chain and other business relationships	pp. 1, 6–9, 19–21, 97–99, 104–108, 116–119, 147, 217–218	Products and Solutions	
2-7	Employees	pp. 40–51, 106–107, 217		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, 2023, to December 31, 2023.	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. 250		
2-15	Conflicts of interest	pp. 84–85, 94		
2-16	Communication of critical concerns	pp. 79–80		
2-17	Collective knowledge of the highest governance body	pp. 82–86		
2-18	Evaluation of the performance of the highest governance body	pp. 79–80	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	pp. 37–40		

Statement of use	LANXESS AG has reported in compliance with the GRI standards for the period from January 1, 2023, to December 31, 2023.	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. 22, 38–40, 63, 78		
2-27	Compliance with laws and regulations	pp. 37–40, 77–78, 138–140, 150–151		
2-28	Membership associations	pp. 11, 14, 20, 266		
STAKEHOLDER ENGAGEMENT				
2-29	Approach to stakeholder engagement	pp. 14–15, 52–56, 80	Stakeholder dialog	
2-30	Collective bargaining agreements	pp. 46, 56		3
MATERIAL TOPICS				
3-1	Process to determine material topics	pp. 14–15	Material Topics	
3-2	List of material topics	pp. 15, 251		
CIRCULAR AND SUSTAINABLE SOURCING				
GRI 3: Material Topics 2021				
GRI 3-3	Management of material topics	pp. 14–15, 19–21		
GRI 2: General Disclosures 2021				
2-6	Activities, value chain and other business relationships	pp. 6–9, 19–21, 97–99, 104–108, 116–119, 147–148, 217–218	Products and Solutions	

Statement of use	LANXESS AG has reported in compliance with the GRI standards for the period from January 1, 2023, to December 31, 2023.	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. 20–21		
308-2	Negative environmental impacts in the supply chain and actions taken	pp. 20–21		
GRI 414: Supplier Social Assessment 2016				
414-1	New suppliers that were screened using social criteria	pp. 20–21, 38–39		
414-2	Negative social impacts in the supply chain and actions taken	pp. 20–21, 38–39		
SAFE AND SUSTAINABLE SITES				
GRI 3: Material Topics 2021				
GRI 3-3	Management of material topics	pp. 14–15, 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. 25–26	Safe and Sustainable Sites Business-Driven Innovation	7, 8
303-2	Management of water discharge-related impacts	pp. 25–26		7, 8
303-3	Water withdrawal	pp. 25–26, 29		7, 8
303-4	Water discharge	pp. 25–26, 29		7, 8
303-5	Water consumption	pp. 25–26, 29		7, 8

Statement of use	LANXESS AG has reported in compliance with the GRI standards for the period from January 1, 2023, to December 31, 2023.	Location	Comments and online annexes	UNGC
GRI 306: Waste 2020				
306-1	Waste generation and significant waste-related impacts	pp. 23, 27–29		7, 8
306-2	Management of significant waste-related impacts	p. 23		7, 8
306-3	Waste generated	pp. 23, 27–29		7, 8
GRI 413: Local Communities 2016				
413-1	Operations with local community engagement, impact assessments, and development programs	pp. 22, 24–28, 30–31, 39–40, 50	Societal Added Value	
413-2	Operations with significant actual and potential negative impacts on local communities	pp. 23, 24–28	Impact Assessment	
CLIMATE ACTION AND ENERGY EFFICIENCY				
GRI 3: Material Topics 2021				
GRI 3-3	Management of material topics	pp. 14–15, 32–36		
GRI 302: Energy 2016				
302-1	Energy consumption within the organization	p. 29		7, 8
302-2	Energy consumption outside of the organization	p. 29		7, 8
302-3	Energy intensity	pp. 35–36		8
302-4	Reduction of energy consumption	pp. 35–36		7, 8, 9
302-5	Reductions in energy requirements of products and services	pp. 35–36, 57–62	New mobility solutions	

Statement of use	LANXESS AG has reported in compliance with the GRI standards for the period from January 1, 2023, to December 31, 2023.	Location	Comments and online annexes	UNGC
GRI 305: Emissions 2016				
305-1	Direct (Scope 1) GHG emissions	pp. 29, 32–35		7, 8
305-2	Energy indirect (Scope 2) GHG emissions	pp. 29, 32–35		7, 8
305-3	Other indirect (Scope 3) GHG emissions	pp. 29, 32–35		7, 8
305-4	GHG emissions intensity	pp. 29, 32–35		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. 14–15, 37–56		
GRI 2: General Disclosures 2021				
2-7	Employees	pp. 40–51, 106–107, 183, 185, 217		6
2-8	Workers who are not employees	p. 48		
2-27	Compliance with laws and regulations	pp. 37–40, 77–78, 138–140, 150–151		
GRI 201: Economic Performance 2016				
201-3	Defined benefit plan obligations and other retirement plans	pp. 197–205		

Statement of use	LANXESS AG has reported in compliance with the GRI standards for the period from January 1, 2023, to December 31, 2023.	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	pp. 39–40		10
205-2	Communication and training about anti-corruption policies and procedures	pp. 39–40		10
205-3	Confirmed incidents of corruption and actions taken	pp. 39–40		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 2023.	

Statement of use	LANXESS AG has reported in compliance with the GRI standards for the period from January 1, 2023, to December 31, 2023.	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. 47–49		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, 2023, to December 31, 2023.	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		

Statement of use	LANXESS AG has reported in compliance with the GRI standards for the period from January 1, 2023, to December 31, 2023.	Location	Comments and online annexes	UNGC
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, 2023, to December 31, 2023.	Location	Comments and online annexes	UNGC
GRI 405: Diversity and Equal Opportunity 2016				
405-1	Diversity of governance bodies and employees	pp. 17, 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. 38		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. 19–21, 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. 19–21, 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

Statement of use	LANXESS AG has reported in compliance with the GRI standards for the period from January 1, 2023, to December 31, 2023.	Location	Comments and online annexes	UNGC
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 2023, we received no reports or other indications of cases involving the violation of indigenous rights.	1, 2
GRI 415: Public Policy 2016				
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. 18, 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 2023.	
GRI 417: Marketing and Labeling 2016				
417-1	Requirements for product and service information and labeling	pp. 58–60		

Statement of use	LANXESS AG has reported in compliance with the GRI standards for the period from January 1, 2023, to December 31, 2023.	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 2023.	
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 2023, 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. 14–15, 18, 57–68		
GRI 2: General Disclosures 2021				
2-6	Activities, value chain and other business relationships	pp. 6–9, 19–21, 97–99, 104–108, 116–119, 147–148, 217–218	Products and Solutions	

Statement of use	LANXESS AG has reported in compliance with the GRI standards for the period from January 1, 2023, to December 31, 2023.	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. 23–25		7, 8
GRI 416: Customer Health and Safety 2016				
416-1	Assessment of the health and safety impacts of product and service categories	pp. 18, 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 2023.	
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 2023.	

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 2023, 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 32 onwards	› CDP questionnaire – Climate Change 2023, 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 2023, 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 2023, 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 › Sparing use of water, see page 26	› CDP questionnaire – Water Security 2023, see sections W1.2b, W1.2d, W1.2h
	Number of incidents of non-compliance associated with water quality permits, standards, and regulations	RT-CH-140a.2	› GRI Content Index, see page 257 (GRI 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 25 onwards	› Investors – ESG – Water Background Paper › CDP questionnaire – Water Security 2023, 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 2023, 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 260 (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 22 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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Financial Calendar 2024

JAN. | FEB. | MARCH | APRIL | MAY | JUNE | JULY | AUG. | SEP. | OCT. | NOV. | DEC.

MAY

MAY 8
Quarterly Statement
Q1 2024
Conference Call

MAY 24
Annual Stockholders' Meeting

AUG.

AUGUST 9
Half-Year Financial Report
H1 2024
Conference Call

NOV.

NOVEMBER 7
Quarterly Statement
Q3 2024
Conference Call

Contacts and Masthead

MASTHEAD

LANXESS AG
Kennedyplatz 1
50569 Cologne, Germany
Tel. +49 (0) 221 8885 0
www.lanxess.com

Consultancy:
Kirchhoff Consult AG, Hamburg, Germany

Design and production:
Kirchhoff Consult AG, Hamburg, Germany

CONTACTS

Corporate Communications
Christiane Minderjahn
Tel. +49 (0) 221 8885 2674
mediarelations@lanxess.com

Investor Relations
André Simon
Tel. +49 (0) 221 8885 3494
ir@lanxess.com

Date of publication:
March 14, 2024

This Annual Report contains forward-looking statements based on current assumptions and forecasts made by LANXESS AG management. Various known and unknown risks, uncertainties and other factors could lead to material differences between the actual future results, financial situation, development or performance of the company and the estimates given here. The company assumes no liability whatsoever to update these forward-looking statements or to conform them to future events or developments.

PUBLISHER

LANXESS AG
50569 Cologne, Germany
www.lanxess.com