

# Report of the Supervisory Board

## DEAR STOCKHOLDERS,

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

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

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

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

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

During the reporting year, the Supervisory Board duly and fully performed the tasks and duties incumbent upon

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

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

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

## PRINCIPAL TOPICS DISCUSSED BY THE SUPERVISORY BOARD

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

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

extensive requirements regarding the independence of Supervisory Board members.

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

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

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

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

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

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

At its meeting on December 10, 2020, the Supervisory Board reviewed in full and approved the corporate planning for 2021 proposed by the Board of Management. We also had a detailed discussion about the company's strategic alignment – including sustainability aspects – and capital expenditure policy. In addition, the Board of Management informed us of the status of ongoing M&A projects. As in previous years, current developments in corporate governance were a topic on the agenda of the

December meeting. After reviewing compliance with the recommendations and suggestions of the GCGC, we resolved to issue a declaration of compliance. Lastly, the Supervisory Board defined the conditions for the Board of Management's variable compensation components and target total compensation for fiscal year 2021.

All members of the Supervisory Board and its committees performed their duties diligently and conscientiously. The stockholder representatives and employee representatives to the Supervisory Board always worked together in a spirit of trust. They regularly held separate meetings at which they prepared the meetings of the

full Supervisory Board. The members of the Board of Management attended the Supervisory Board meetings unless the Chairman of the Supervisory Board determined otherwise and the Supervisory Board met without the attendance of the members of the Board of Management.

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

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

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

## WORK OF THE COMMITTEES

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

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

The Audit Committee met four times during the year. It dealt in particular with the annual financial statements of LANXESS AG, the consolidated financial statements and the combined management report for fiscal year 2019, the quarterly statements issued during fiscal year 2020, and the condensed consolidated financial statements and interim management report included in the 2020 half-year financial report. The Audit Committee was particularly concerned with the effects of the coronavirus pandemic on the company's financial position. It also reviewed the company's risk management and internal control systems. The Audit Committee also dealt with the concept for approving non-audit services and the non-financial Group report 2019. Other topics discussed were the significant findings by the internal

audit department, corporate planning and compliance, the perception of LANXESS on the capital market, and the determination of the principal areas of focus for the audit of the 2020 financial statements. The Committee also found out about the Group's liquidity management, strategies to hedge currency risks, the status of the FIT project, and the recent audit of OTC derivatives contracts pursuant to Section 32 of the German Securities Trading Act. The external auditor reported on the auditing activities at two of the four Audit Committee meetings.

The Nomination Committee met once in fiscal year 2020. It prepared the Supervisory Board's nomination of stockholder representatives for the Supervisory Board elections. The Committee formed pursuant to Section 27, Paragraph 3 of the German Codetermination Act did not need to convene.

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

## CORPORATE GOVERNANCE AND DECLARATION OF COMPLIANCE

The Supervisory Board dealt intensively with the amended GCGC in the past fiscal year. The joint declaration of compliance made by the Board of Management and Supervisory Board pursuant to Section 161 of the German Stock Corporation Act can be viewed by stockholders at any time on the company's website. As expressed in the declaration, LANXESS AG currently complies with all the GCGC's recommendations bar one exception. No conflicts of interest on the part of

Supervisory Board members became known last year. Further information about corporate governance can be found in the Board of Management's declaration pursuant to Sections 289f and 315d of the German Commercial Code.

## ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

## CHANGES IN THE SUPERVISORY BOARD AND BOARD OF MANAGEMENT

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

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

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

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

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

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

Cologne, March 10, 2021  
The Supervisory Board



Dr. Matthias L. Wolfgruber  
Chairman