

## COMPENSATION REPORT

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 In the interest of maintaining transparency, some elements of the superseded version of the GCGC of February 7, 2017, are applied to the report.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

## COMPENSATION OF THE BOARD OF MANAGEMENT

### Fundamentals of the Board of Management compensation system

The structure of the compensation system and the level of compensation for the members of the Board of Management are determined by the Supervisory Board, after preparation by the Presidial Committee. The appropriateness of the compensation is regularly reviewed by an external personnel consulting company. Such a review was last conducted in fiscal year 2019. In this review, the compensation of the Board of Management was compared with that of the companies listed in the MDAX and with that of selected chemical peer companies<sup>1)</sup>. These companies were selected by the Supervisory Board on the basis of their comparability with regard to business model, sales, market capitalization, total assets and headcount. The criteria for determining the appropriateness of the compensation for an individual Board of Management member include, in particular, his duties, his personal performance, the economic situation, and the success and sustainable growth of the LANXESS Group. In addition, consideration is also given to compensation at comparable companies and the company's overall compensation structure with regard to the ratio between the compensation of the Board of Management and that of LANXESS's senior executives and the rest of the workforce, both overall and in terms of time.

The aim of the compensation system is to support successful and sustainable corporate governance. LANXESS's compensation structure is therefore designed to provide the motivation to successfully work toward sustainable corporate development. Two of the three variable components are measured according to corporate performance over several years, and thus set long-term incentives. Because one of these multi-year compensation components measures stock price development compared with an index, the management's objectives are aligned with the direct interests of the shareholders.

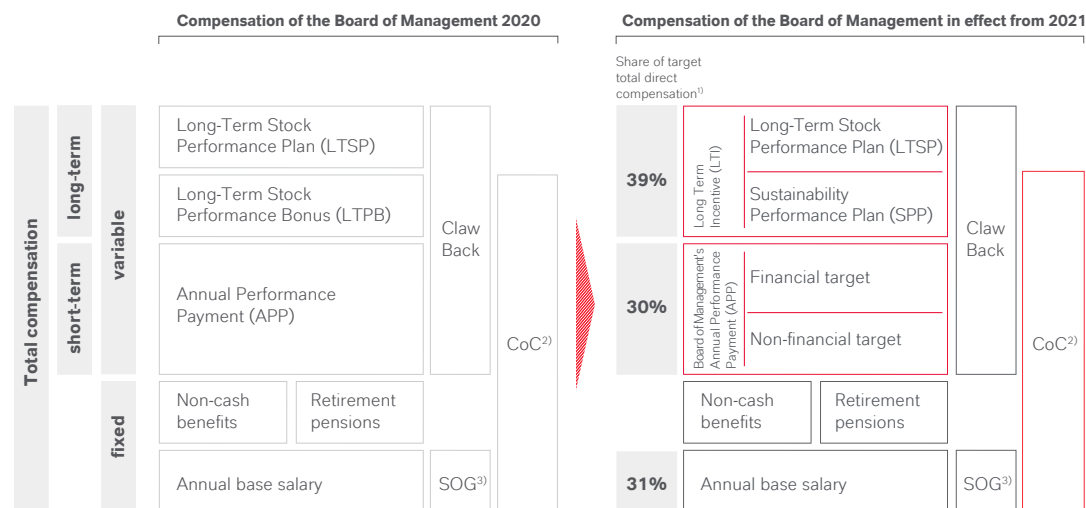
The compensation system that applied to the past fiscal year 2020 was approved by the Annual Stockholders' Meeting of LANXESS AG in 2010.

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

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

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

### Overview of Board of Management compensation



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

### 2020 compensation system

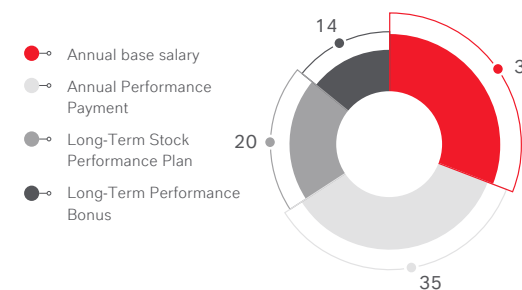
The components of the compensation for members of the Board of Management are the base salary; the short-term and long-term variable components, which are the Annual Performance Payment (APP), the Long-Term

Stock Performance Plan (LTSP) and the Long-Term Performance Bonus (LTPB); and a retirement pension. The three variable components APP, LTSP and LTPB are linked to LANXESS’s annual performance and performance over a number of years and thus reward the sustainable, value-oriented development of the company. The average compensation mix of 31% annual base salary and 69% variable compensation components, assuming 100% target attainment, is strongly aligned with the company’s performance and long-term value creation.

The individual compensation system components break down as follows:

### Compensation Mix for Members of the Board of Management

in %



### Fixed compensation

The fixed compensation comprises the annual base salary and compensation in kind, the latter consisting mainly of the tax value of perquisites, such as the use of a company car. The annual base salary of the members of the Board of Management is market-oriented, in line with the above-mentioned reference group, and also takes responsibilities and personal performance into account. It is paid each month pro rata as salary. In the Supervisory Board’s regular review of the compensation of the Board of Management, the annual base salary of Dr. Fink and Mr. Pontzen was increased as of January 1, 2020.

## Variable compensation

### **Annual Performance Payment (APP)**

The annual performance-related component of variable compensation is the Annual Performance Payment. It is based on the predefined target for the LANXESS Group's EBITDA pre exceptionals and applies in identical form for Board of Management members and for most non-managerial and managerial staff around the world. In the case of 100% target attainment, the APP for fiscal year 2020 for the Chairman of the Board of Management is 125% and for the other members of the Board of Management 100% of their respective annual base salaries. The target and threshold values applicable to the payment level are set each year by the Supervisory Board before the start of a new fiscal year. There is no payment of a minimum amount; if target attainment falls short of a threshold value, no APP payment is made. For fiscal year 2020, the maximum APP payout percentage is 200%. The Supervisory Board reserves the right to reduce the APP in the event of serious occupational safety and/or environmental problems.

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

### **Long-Term Stock Performance Plan (LTSP)**

The Long-Term Stock Performance Plan over several years is another element of variable compensation. This stock-based compensation component is based on the

performance of LANXESS stock against the MSCI World Chemicals reference index, which was first used as a basis for the LTSP 2014–2017 established in 2014.

The LTSP 2018–2021, in place since 2018, is divided into four tranches, whereby performance is determined annually and the payout rate is calculated on the basis of the annual individual values and the rights are immediately converted into any payment at the end of the respective four-year term of the tranche. Assuming 100% target attainment, the LTSP programs provide for a possible payment per tranche of 30% of the individual target income. The maximum payment is 60% of the individual target income if the average performance of the stock relative to the reference index is 115%. The payment can be canceled if the stock performance relative to the index is less than 100%, and must be canceled if it is less than 85%. The individual target income is the fixed annual base salary plus the APP on the basis of 100% target attainment.

The Share Ownership Guideline (SOG) in place since 2018 was adapted as of January 1, 2020, in order to guarantee a projectable investment in LANXESS AG shares. The Share Ownership Guideline defines only the size of the investment in LANXESS AG shares in terms of the proportion of the respective base salary. There is no longer a stipulation regarding the number of LANXESS AG shares to be acquired. Over a period of four years, the members of the Board of Management are obliged to verifiably make a defined investment in shares in LANXESS AG and hold the shares until the end of their service contract (SOG target). The acquisition and holding are reviewed annually. The SOG target, as is

standard for German companies, is 150% of annual base salary for the Chairman of the Board of Management and 100% of annual base salary for the other members of the Board of Management. Regardless of this, there are still share ownership obligations from earlier LTSP programs. The condition for participation in LTSP 2014–2017 was a prior personal investment each year in LANXESS shares of 5% of the annual base salary. These shares have a lock-up period of four years (LTSP 2014–2017). The rights granted by the LTSP may be exercised at the end of the four-year vesting period. The exercise period is three years in general, but five years for the 2012 and 2013 tranches, which are the only outstanding tranches from earlier programs (LTSP 2010–2013).

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

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

### **Long-Term Performance Bonus (LTPB)**

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

calculating the LTPB is the individual APP target attainment for the fiscal years in question. The exact amount of the LTPB results from the average individual APP target attainment for the three fiscal years. The LTPB for the Board of Management is set by the Supervisory Board and amounts to 45% of fixed annual compensation in the event of average APP target attainment of 100%.

### Total compensation

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

The aggregate compensation for the Board of Management was €8,840 thousand (previous year: €11,790 thousand), comprising €3,758 thousand (previous year: €3,618 thousand) in non-performance-related components, €2,881 thousand (previous year: €6,137 thousand) in performance-related components and €2,201 thousand (previous year: €2,035 thousand) in components with a long-term incentive effect. In fiscal year 2020, an EBITDA pre exceptionals of €862 million was achieved with a resulting payout percentage of 61%. Due to the uncertainties associated with the

coronavirus pandemic for the LANXESS Group, the Board of Management voluntarily waived a portion of the APP, so the APP payout percentage for the Board of Management is only 50%. Target attainment would have been 100% for fiscal year 2020 if EBITDA pre exceptionals had been €975 million. In the context of the LTSP, a total of 2,201,000 rights were granted to the members of the Board of Management (previous year: 2,035,000). Regarding the fair value per right of the individual tranches on the reporting date, please see [Note \[15\]](#) to the consolidated financial statements.

### Compensation of the Board of Management

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

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

### Retirement pensions

On termination of their service contracts, the members of the Board of Management receive benefits under the company pension plan. These benefits are paid when the beneficiary reaches the age of 60 or 62 or if the beneficiary is permanently unable to work. They are paid to surviving dependents in the event of the beneficiary's death.

The pension plan for the members of the Board of Management is a defined contribution plan stipulating a contribution to be made by the company equal to 50% or 56.25% of the annual base salary. Moreover, the members of the Board of Management must themselves pay an amount from deferred compensation amounting to 12.5% of the APP. The members of the Board of Management may increase their personal contribution to up to 25% of the APP. The calculation of the personal contribution is based on the APP to be paid, but is limited to a maximum of 100% target attainment. The sum of the contributions is capped. From the date of entitlement, up to 30% of the accumulated capital – including the interest thereon – may be converted to a pension benefit. There

are claims arising from provisions in place before 2006 that are granted as vested rights to individual members of the Board of Management. If the service contract ends before the beneficiary reaches the age of 60 or 62, the company pays certain additional benefits up to a defined ceiling.

LANXESS has established provisions for the future claims of Board of Management members. The service costs recognized under IFRS accounting rules for this purpose, the net expense recognized under HGB accounting rules for this purpose and the present value of the obligations under IFRS and HGB accounting rules can be found in the following table:

As of December 31, 2020, obligations to former members of the Board of Management totaled €39,520 thousand (previous year: €34,629 thousand) under IFRS accounting rules and €31,561 thousand (previous year: €27,904 thousand) under HGB accounting rules.

### Benefits associated with and following termination of service on the Board of Management

The members of the Board of Management have indemnification rights should their service contracts be terminated for defined reasons at the instigation of the company or in the event of a material change of control over the company. The terms depend on the respective

circumstances and include severance payments amounting to up to twice the annual base salary or, in the event of a change of control, three times the annual base salary, plus the APP and LTPB. In the event of departure, LTSP rights are compensated in accordance with the terms and conditions of the plan. No additional benefits have been pledged to any member of the Board of Management in the event of termination of their service.

Payments totaling €5,739 thousand (previous year: €7,070 thousand) were made to former members of the Board of Management in fiscal year 2020, of which €4,576 thousand (previous year: €6,459 thousand) related to capital payments.

#### Pension Claims

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

### Relative compensation in the case of 100% target attainment

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

### Other

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

The Supervisory Board still reserves the right to withhold or reclaim ("claw-back") the granted variable compensation in full or in part in the event of grave dereliction of duty.

In the past fiscal year, no member of the Board of Management received substantial benefits or assurances of benefits from third parties with respect to their duties as members of the Board of Management.

No loans were granted to members of the Board of Management in fiscal year 2020.

## Individual compensation

The following tables list the compensation, additional benefits and allocations (payments) for 2019 and 2020. The variable compensation components differ depending on the reference period. The amounts of compensation shown also include the maximum and minimum attainable compensation.

### Compensation Granted

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

## Compensation Granted

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

## Allocations

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

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

## Allocations

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

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



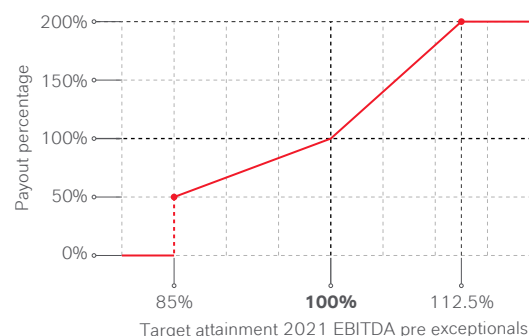
## OUTLOOK TO THE COMPENSATION SYSTEM IN EFFECT FROM 2021

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

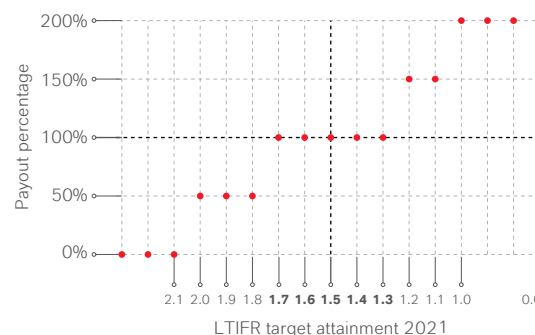
- › The Board of Management's APP now considers two instead of three measurable targets: a financial target constituting 80% of the individual APP and a non-financial target constituting 20% of the individual APP. In the case of 100% target attainment, the individual APP for ordinary Board of Management members is 100% and for the Chairman of the Board of Management 125% of the annual base salary. The financial target is currently the LANXESS Group's key controlling indicator, EBITDA pre exceptionals. The non-financial target is the lost time injury frequency rate (LTIFR: accidents per million hours worked) for accidents with days lost. This reflects the high importance of employee and site safety for LANXESS. The targets for the Board

of Management's APP are defined annually by the Supervisory Board before the start of the fiscal year. The Supervisory Board resolved upon the following payment curves for fiscal year 2021, which also apply to the level below the Board of Management:

**APP Payment Curve for the Financial Target**



**APP Payment Curve for the Non-financial Target**



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

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

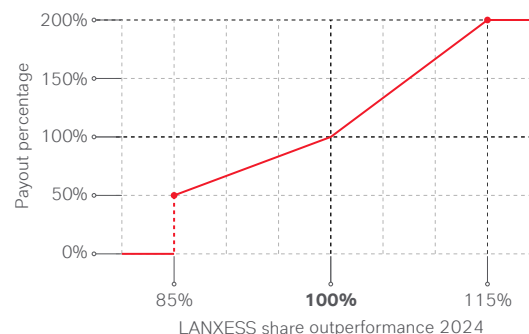
- › In the future, the existing ad hoc discretionary bonus to recognize special achievements or to create an additional incentive can be granted only as part the Board of Management's APP and is capped at 20% of the annual base salary. This requires a transparent justification from the Supervisory Board. The maximum payout percentage for the Board of Management's APP (including discretionary bonus) is 200%.
- › The Supervisory Board still reserves the right to reduce the APP in the event of serious occupational safety and/or environmental problems.
- › In the future, the long-term variable compensation (Long-Term Incentive – LTI) will likewise comprise two measurable targets: a component based on share price performance in the form of the LTSP, which is unchanged and measures price performance relative to a reference index, and a sustainability component in the form of the Sustainability Performance Plan (SPP). The SPP considers the long-term development of sustainability targets. On the basis of LANXESS's published interim goal for 2025, the Supervisory Board adopted a CO<sub>2</sub>e target for 2024, which is included in the SPP. In subsequent years, a different target criterion can be selected to reflect the company's current focus. In

the long-term, the share price component will constitute 60% and the sustainability component 40% of the LTI. The assessment period is four years for each of the two components. The reference value for the LTI programs is the annual base salary.

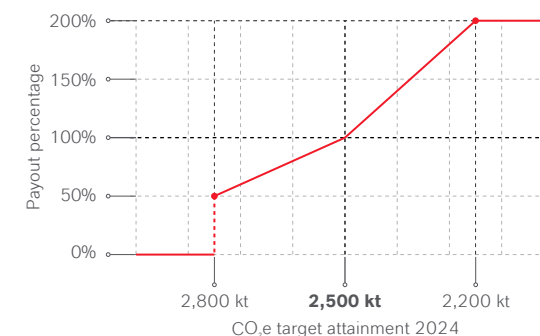
The assessment periods for the LTI are as follows:

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

#### LTSP Payment Curve for the LTSP



#### LTI Payment Curve for the SPP



- › Both payment curves plot a straight line between the target value and the upper or lower limit. Like in the APP, the steeper gradient of the payment curve if the 100% target is exceeded provides an additional financial incentive to exceed the target. On achievement of the minimum value, the payout percentage amounts to 50%. The maximum payout percentage is 200% for each target.
- › Target values and payment curves for the short- and long-term variable compensation components are defined by the Supervisory Board before the start of the fiscal year. Subsequent adjustments are permitted only in the case of the CO<sub>2</sub> targets to take M&A transactions into account. The long-term variable compensation component LTPB is expiring and will end on December 31, 2023. It will be paid for the last time in fiscal year 2024.

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

## COMPENSATION OF THE SUPERVISORY BOARD

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

The members of the Supervisory Board of LANXESS AG receive fixed compensation of €80 thousand per year. The Chairman of the Supervisory Board receives three times, and the Vice Chairman one and a half times, this amount. Serving as the chair or a member of Supervisory Board committees is compensated separately in accordance with the German Corporate Governance Code.

Supervisory Board members who belong to a committee other than the Nominations Committee receive one half of the fixed compensation amount in addition. Supervisory Board members who belong to the Nominations Committee receive one eighth of the fixed compensation amount in addition. The chair of the Audit Committee receives a further half. Supervisory Board members who chair a committee other than the Audit Committee receive a further quarter. No additional compensation is granted for membership in the Committee to be formed pursuant to Section 27 Paragraph 3 of the German Codetermination Act or for chairing the Nominations Committee. However, no member may receive in total more than three times the fixed compensation amount.

Supervisory Board members are reimbursed for their expenses in addition and also receive an attendance allowance of €1.5 thousand for each Supervisory Board meeting and each committee meeting they attend, with the exception of meetings of the Committee formed pursuant to Section 27, Paragraph 3 of the German Codetermination Act. With respect to their membership on the supervisory boards of LANXESS Group companies, the members of the Supervisory Board are remunerated only for their service on the Supervisory Board of LANXESS Deutschland GmbH in the amount of €5 thousand each.

LANXESS AG's Annual Stockholders' Meeting on May 23, 2019, resolved to change the Supervisory Board compensation to fixed compensation only. The former long-term, sustainability-focused variable compensation component was rescinded, without the fixed compensation being increased at the same time. The assessment period for calculating the variable compensation

provided for in the articles of association until the 2020 Annual Stockholders' Meeting ended at the end of the 2020 Annual Stockholders' Meeting. Payment of the variable compensation until the end of the assessment period depended on how LANXESS's stock performed relative to the Dow Jones STOXX 600 Chemicals<sup>SM</sup> during a member's five-year term. The average price of LANXESS stock and the average level of the index during the 90 trading days prior to the Annual Stockholders' Meeting at which the Supervisory Board members were elected were each compared with the respective average for the 90 trading days prior to the Annual Stockholders' Meeting at the conclusion of which the members' terms ended. The variable compensation was only payable if the stock had outperformed the benchmark index. No variable compensation was paid out in fiscal year 2020. The provision for the variable compensation component was reversed and was valued at €0 thousand (previous year: €1,670 thousand) as of December 31, 2020.

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

None of the members of the Supervisory Board received benefits for services provided personally during the reporting period. No loans or advances were granted to members of the Supervisory Board during the reporting year.

The following table breaks down the compensation received by each member of the Supervisory Board for their work on the Supervisory Board.

### Compensation of the Supervisory Board

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

1) Figures exclude value-added tax.