

# SUSTAINABILITY-LINKED FINANCING FRAMEWORK

MAY 2021

# LANXESS at a Glance

We are a leading specialty chemical company based in Cologne. With around 14,300 employees in 33 countries, we are an established company on the global market. Our primary expertise lies in producing, developing and marketing chemical intermediates, additives, specialty chemicals, and plastics, with annual sales of EUR 6.1 billion (2020).

We manage our operating business through four segments:

- › Advanced Intermediates
- › Specialty Additives
- › Consumer Protection
- › Engineering Materials

These include 10 Business Units, through which we work with a broad range of applications and markets. As a specialist and efficient partner, we offer solutions to the challenges faced by our customers.

We focus on our customers' requirements in order to drive progress and reliably provide innovative product, material, and service solutions. When developing new materials, we also work with artificial intelligence to reduce development times for our customers. Our manufacturing, administration, and logistics processes are designed efficiently and with a focus on performance.

Sustainability and responsibility are key factors behind our successful business operations. They help us become an even more efficient and competitive company while also supporting social goals such as protecting the environment. Our products also play a role in this, providing sustainable solutions in key areas such as electric mobility.



# Our Sustainability Strategy

We aim to contribute actively to the transformation of industry and global value chains and thus to foster the transition to a more sustainable world. We are continuously enhancing our organizational structures and management tools – always with the objective of making the best possible use of human intellect as well as natural and financial resources in the interests of sustainable development. Therefore, we create a measurable benefit for our company and for society.

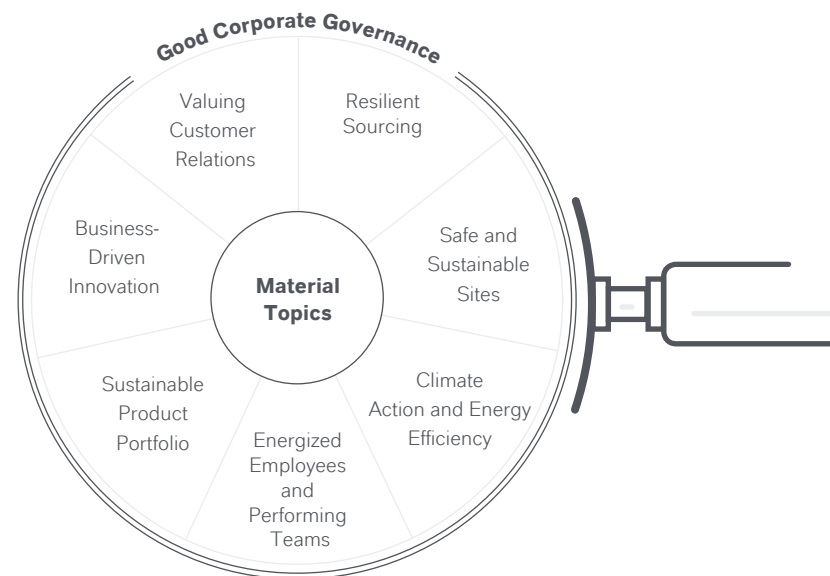
Thinking and acting sustainably and in an integrated manner supports our business goals in a variety of different ways – from higher resource efficiency to good relationships with our stakeholders, increased risk awareness, and consciousness of our cost structures. However, our company’s success is not expressed merely in business success. It 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. This principle is the starting point for our thought and action.

## Systematic Prioritization of Sustainability Topics

Identifying the main effects of our actions and incorporating our stakeholders’ concerns into our strategy forms the basis of our sustainability management. We performed a comprehensive

materiality analysis in 2017. As a result, we defined seven material sustainability topics that were again confirmed by the Board of Management and the Corporate Responsibility Committee in 2020 and thus formed the relevant management framework.

### Material Topics



For all key topics, we have formulated objectives to achieve an increase in value for our company, our stakeholders, and society:



#### **Resilient Sourcing**

Our value chains start from a diverse, sustainable raw material portfolio. We engage with our suppliers and relevant stakeholders to improve the working and environmental conditions in the global supply chains.



#### **Safe and Sustainable Sites**

We manufacture sustainable products at competitive and sustainable chemical sites. Continuous process improvements and investments are fundamental for our sustained success. We care about the communities of which our sites are a part.



#### **Climate Action and Energy Efficiency**

For LANXESS, 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.



#### **Energized Employees and Performing Teams**

We create a motivating, energetic and health-preserving working environment for all employees, striving for high engagement and impact. We nurture and promote a value-based, performance-orientated culture. We aim to be an attractive employer and to develop peoples' full potential throughout their professional life.



#### **Sustainable Product Portfolio**

Our products are manufactured and marketed so that they do not pose a risk to humans or the environment. We systematically evaluate the sustainability of our entire portfolio. Sustainability criteria are also applied in the development of products and applications.



#### **Business-Driven Innovation**

We drive process-, product-, application- and business model-oriented innovation for and together with our customers and suppliers. We help our customers to make their business sustainable.



#### **Valuing Customers Relationships**

We value long-term customer relationships, built on trust and knowing, understanding and solving the customers' challenges.



# Good Corporate Governance

LANXESS' identity is based on five central values: respect, ownership, trust, professionalism, and integrity. Our central values, supplemented by operational guidelines and our organizational setup, enable us to act responsibly in the everyday operation 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 management.

To ensure that our values as well as our rules and standards are observed and continuously developed, we have established the compliance organization and several specialized committees below the level of the Board of Management:

- › The global **Compliance Organization** develops measures to counter illegal or unethical conduct at an early stage and to prevent improprieties.
- › The **Corporate Risk Committee** examines and monitors the Group's risk profile and in this context regularly analyses the key opportunities, risks, and corresponding preventive measures – including in relation to sustainability.
- › In the **Sustainability Committee**, LANXESS has assigned the topic of sustainability directly to the members of its Board of Management in order to make joint decisions on major sustainability issues and projects.
- › The **Health, Safety, Environment and Quality (HSEQ) Committee** ensures worldwide compliance with high-quality management, safety, environmental, energy,

and climate protection standards. The committee is responsible for the global implementation of all necessary HSEQ guidelines, strategies, and programs.

## Internal Guidelines and Regulation

The principles of responsible business operations and sustainable development are expressed in our Corporate Policy, which defines our general corporate philosophy and the conduct expected of every single employee in relation to our stakeholders in a total of eleven guidelines.

Our Code of Conduct is applicable throughout the Group and requires all our employees – across all organizational units, regions, and hierarchy levels – to behave lawfully and with integrity.

## Human Rights

In line with our values and operational guidelines, we are committed in all our markets and supply chains to promoting respect for human rights at all times and systematically prevent child and forced labor, for example. At LANXESS, human rights and ethical principles apply without restriction, and our target is formulated with corresponding clarity: in all areas over which LANXESS has control, there should be no breaches of human rights.

## Anti-Corruption

Prevention of corruption is part of our general compliance management system. Organizational measures and regulations for setting up the compliance management system as well as responsibilities for implementation, support and continuous monitoring systems are defined in a guideline applicable throughout the Group.



# Our Commitment to Sustainable Management

Responsible entrepreneurial action is evidenced by our membership in major global initiatives to promote sustainability and our strict adherence to binding standards with regard to quality, environmental protection, and safety. Several internationally recognized standards and frameworks give us valuable guidance in this thought and action:



With the **“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 **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.



Since 2006, LANXESS has been committed to the ethics and vision provided in the **Responsible Care®** initiative and is a signatory to the Charter of the International Council of Chemical Associations (ICCA). Responsible Care® is the global initiative of the chemical industry to continuously improve its performance in environmental protection, health, and safety.



The **Together for Sustainability (TfS)** initiative was launched in 2011 by six leading chemical companies, including LANXESS. TfS has set global standards for assessing and auditing suppliers to promote sustainable procurement practices and to make suppliers’ awareness and actions.

Our commitment to sustainability is recognized by a number of sustainability indices, rankings, and awards:



Our efforts in tackling climate change have again been recognized by international climate protection initiative **CDP**. In the most recent evaluation, we are once more listed in the “Climate A List” as one of 270 companies worldwide, placing us among the top 5% out of c. 5,800 enterprises evaluated.



We rank at the top of the **Dow Jones Sustainability Index (DJSI) Europe** in the “Chemicals” category, as was the case last year, and improved to second place in the **DJSI World**.



We recently ranked in the top 5% of the industry, earning a Gold Recognition Level rating by the **EcoVadis** agency, one of the world’s leading ranking agencies for sustainability assessments.



**ISS-ESG** has upgraded us last year by two notches from C to B– and awarded us with the “prime” status for the first time, placing us among the top 8% of the 170 companies listed in the “Chemicals” sector.



**MSCI ESG** Research has also upgraded the rating for us from BBB to A. Our climate strategy, the well-formulated principles of corporate governance and the robust efforts in the area of chemical safety have led to the improvement.



In the 2021 edition of **“The Sustainability Yearbook”**, we received the Gold Class award for our outstanding sustainability performance, ranking us among the top 1% of within the industry.

# Sustainability-Linked Financing Framework

With investments in sustainability being an integrated part of LANXESS' strategy for future success, linking our newly established financing framework to our sustainability goals is a natural choice. We have already taken the first step to align our financing strategy to our sustainability commitments, by entering a Revolving Credit Facility linked to our sustainability performance. Now, we will open a new chapter and will enable the company to issue further Sustainability-Linked Financing Instruments.

For this purpose, LANXESS has established its Sustainability-Linked Financing Framework (the 'Framework') to have a single robust methodology in place. The Framework is developed to be aligned with the Sustainability-Linked Bond Principles (SLBP)<sup>1</sup>, as administered by the International Capital Market Association (ICMA), as well as the Sustainability-Linked Loan Principles (SLLP)<sup>2</sup> administered by the Loan Market Association (LMA). Both principles represent voluntary guidelines that outline best practices for financial instruments incorporating forward-looking, externally verified sustainability objectives and outcomes.

Sustainability-Linked Financing Instruments may include but are not restricted to covered/secured or unsecured bonds, convertible bonds, commercial papers and bi- and multi-lateral loans, including Schuldscheindarlehen. Instruments issued in accordance with this Framework can be of any seniority, including subordinated/hybrid instruments, but in any case

are expected to be issued ranking pari passu with any other conventional instrument of similar status and subordination ("Sustainability-Linked Financing Instruments").

The proceeds of LANXESS' Sustainability-Linked Financing Instruments will be used for general corporate purposes.

Our Sustainability-Linked Financing Framework is in alignment with the five core components of the SLBP, with are :

1. Selection of Key Performance Indicators (KPI)
2. Calibration of Sustainability Performance Targets (SPT)
3. Characteristics of Sustainability-Linked Financing Instruments
4. Reporting
5. Verification

In general, potential changes to any of the principles governing this Framework will either keep or improve the current level of disclosure.



High-performance polymers and battery chemicals from LANXESS promote the global transformation to climate-friendly mobility.

1 <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2020/Sustainability-Linked-Bond-Principles-June-2020-171120.pdf>

2 <https://www.lsta.org/content/sustainability-linked-loan-principles-sllp/>



# Selection of Key Performance Indicators

We are committed to selecting sustainability objectives that are relevant, core, and material to our business. The selected key performance indicators (KPIs) will measure our future sustainability improvements. LANXESS may choose to incorporate one or more KPIs in its Sustainability-Linked Financing Instruments.

## Reduce Greenhouse Gas Emissions

Climate protection is one of the biggest environmental challenges faced by mankind. At the 2015 World Climate Conference in Paris, 197 countries committed themselves to limiting global warming to well below two degrees compared with the pre-industrial age and to reducing greenhouse gas (GHG) emissions that contribute to climate change.

We at LANXESS recognize the effect of our corporate activity on the climate and understand the requirement to reduce our GHG emissions. Since its founding in 2004, LANXESS has already halved its emissions – from 6.5 million metric tons of CO<sub>2</sub> equivalents to 3.2 million metric tons<sup>1</sup> in 2018. Now we are taking the second step: LANXESS will become climate-neutral by 2040.

As part of our strategy, we are committed to reducing our GHG emissions at our operations (Scope 1+2) to under 2.4 million metric tons of CO<sub>2</sub> by 2025 and to under 1.6 million metric tons of CO<sub>2</sub>e by 2030, before becoming climate neutral by 2040<sup>2</sup>.

1 Calculation of GHG emissions is done in line with GHG Protocol Corporate Standards for carbon accounting as also disclosed in Corporate Responsibility Reports  
2 Less than 300,00 tons of CO<sub>2</sub> equivalents which will be reduced through compensation measures

## KPI: Reduce Greenhouse Gas Emissions (Scope 1+2)

GHG emissions include direct and indirect emissions (Scope 1+2) measured in tons of carbon dioxide equivalents (t CO<sub>2</sub>e) of all LANXESS-owned facilities<sup>3</sup>.

The GHG Emissions reduction KPI contributes to the EU environmental objective “Climate Change Mitigation” as well as United Nation Sustainable Development Goal 13:



### Climate Change Mitigation

Achieving the tightened 2030 Greenhouse Gas Emissions reduction target and climate neutrality by 2050



### UN SDG 13: Climate Action

Take urgent action to combat climate change and its impact

LANXESS recognizes the importance of addressing its Scope 3 emissions. Even though, LANXESS has not yet included a reduction target for its Scope 3 emissions, it is working on a roadmap to reduce its Scope 3 emissions.

3 Emissions from operations that are classified as “discontinued operations” in Annual Reports are not in Scope



With its second nitrous oxide reduction plant at the Krefeld-Uerdingen site, LANXESS is the only manufacturer of adipic acid that can almost completely neutralize the climate gas emitted during production.

# Calibration of Sustainability Performance Targets

## Reduce Greenhouse Gas Emissions (Scope 1+2)

### Sustainability Performance Targets:

- › By 2025, reduce GHG emissions (Scope 1+2) to 75% (equals 2.4 million tCO<sub>2</sub>e) or below of the KPI-SPT Reference Base.
- › By 2030, reduce GHG emissions (Scope 1+2) to 50% (equals 1.6 million tCO<sub>2</sub>e) or below of the KPI-SPT Reference Base.

The KPI-SPT Reference Base is defined as GHG emissions of 3.2 million tCO<sub>2</sub>e measured during the financial year ending on December 31, 2018.

### Rationale and Strategy:

To reduce our GHG emissions (Scope 1+2) is one of the key levers for LANXESS to contribute to the global effort to drive GHG emissions to zero by 2050. To underline our commitment, we have decided to include this KPI with SPT in our financing. The defined targets are considered as key milestones in our climate protection strategy. The GHG emissions (Scope 1+2) target was initially set in 2019 as part of our ambition to become climate neutral by 2040. We currently don't see external factors negatively impacting our ability to achieve the set targets. We have developed a three-pronged approach to reach our medium- and long-term targets:

### Major Impact Projects for Climate Protection:

We will continue to undertake several special projects to significantly lower GHG emissions over the next few years. In 2021, we inaugurated a nitrous oxide reduction plant at our site in Antwerp, Belgium. A second plant is scheduled to start up in 2023. In addition, we are also switching the entire energy supply at our Indian sites to renewable energy sources and phasing out coal-based energy use at our major production sites in Germany. We plan to invest up to €100m in our climate protection projects by 2025.

### Decouple Emissions and Growth:

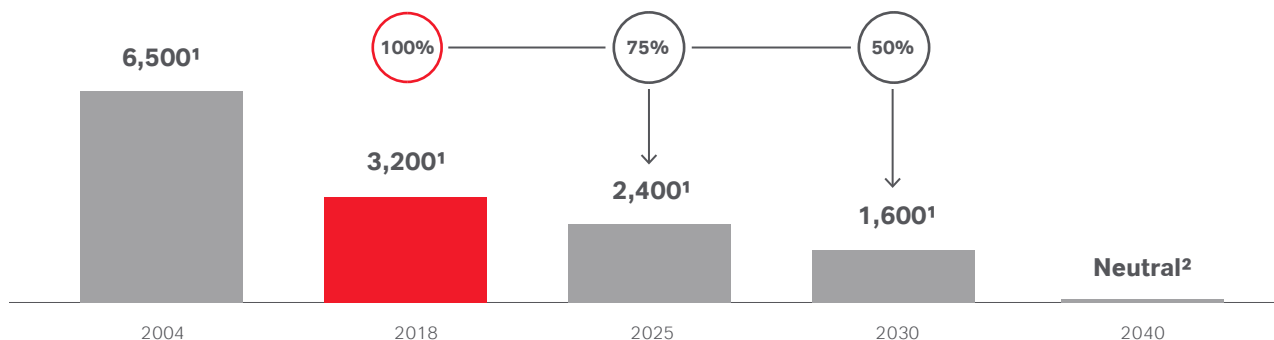
Following its climate-friendly strategy, LANXESS is increasing its production while shrinking its GHG emissions. In addition to technological efficiency, our governance framework makes our carbon footprint an investment criterion for organic growth and acquisitions.

### Strengthen Process and Technological Innovation:

In order to become climate-neutral by 2040, we are revising numerous existing production processes. For example, we will further improve our combination structures, such as in the area of heat exchange between plants or in exhaust air purification. Other processes are yet to be developed on an industrial scale. We are therefore focusing our research more strongly on climate-neutral process and technology innovations.

### Our Journey to Climate Neutrality

in thousands of metric tons of CO<sub>2</sub>e



<sup>1</sup> Emissions of CO<sub>2</sub> equivalents in 1,000 metric tons in terms of emissions from company-owned plants and processes as well as externally acquired, such as electricity, steam or long-distance heating.

<sup>2</sup> Less than 300,000 metric tons of CO<sub>2</sub> equivalents: These will be reduced through compensation measures.

# Characteristics of Sustainability-Linked Financing Instruments

Financial instruments issued under this Framework are linked to our sustainability performance. In case that the performance of one or more KPIs will not achieve the respective KPI-SPT, a KPI-SPT Event will occur impacting the financial characteristics of the financial instrument. A Sustainability-Linked Financing Instrument could experience one or more KPI-SPT Events.

KPI-SPT Event could trigger variation in the financial characteristics:

- › The KPI-SPT Step-Up Margin applicable to the rate of interest for the following interest payment dates
- › KPI-SPT Premium Payment to investors on the payment date

The relevant KPI, SPTs, Step-Up Margin amount, or the Premium Payment amount, as applicable, will be specified in the terms and conditions of the financial instruments.

LANXESS will notify the investors of any failure in achieving the SPT as soon as reasonably practicable but in no event later than the 10th business day after the determination of a KPI-SPT Event.

For the avoidance of doubt, if the respective KPI has achieved the respective KPI-SPTs, the financial characteristics of the financial instruments issued under this Framework will remain unchanged.

## Optional Recalculation for Acquisitions:

In the event of M&A activity that impacts the amount of greenhouse gases the company emits, LANXESS has the option to amend the SPT Reference Base accordingly. The adjustment mechanism allows for a revision of the SPT Reference Base by an amount up to the ratio of the relative tCO<sub>2</sub>e increase which LANXESS records as a consequence of the acquisition. This mechanism ensures that any newly acquired businesses are

immediately in scope of the ambitious reduction targets of the overall group.

The KPIs and SPTs set out in this framework will remain applicable throughout the tenor of any Sustainability-Linked Financing Instruments issued under the Framework, regardless of any changes to LANXESS' sustainability strategy or changes and future updates of the Framework.



At its Latina site in Italy LANXESS produces, among others, the lubricant additive Naugalube.

# Reporting

In our annual Corporate Responsibility Report, we will provide adequate information to investors and other market participants about the implementation of LANXESS' sustainability objectives in general, the progress made on the KPIs and the achievement of the KPI-SPT outlined in this Framework, and the legal documentation of the Sustainability-Linked Financing Instruments issued under the Framework:

- › Any information enabling investors to monitor and analyse the ambition and the performance of the selected KPI(s), including the reference baseline and the application of any recalculation procedure where relevant;
- › A limited assurance report covering all KPIs and LANXESS' performance against the committed target(s) featured in the Sustainability-Linked Financing Instrument;
- › Any information and sources thereof enabling investors to monitor the level of ambition in respect of the KPI-SPTs (e.g. any update in our sustainability strategy or governance considerations having an impact on the KPI) and more generally any information relevant to the analysis of the KPIs and SPTs.

The disclosure will be made available on our investor relations website (<https://lanxess.com/en/Investors>).

## Verification

We will have an external verification for the assessment of the KPI-SPTs relating to each Sustainability-Linked Financing Instrument following a referenced date at least on an annual basis and in any case for any period relevant for assessing if a KPI-SPT Event has occurred.

The External Verifier providing such verification will be an auditor or an environmental consultant or similar qualified expert depending on the chosen KPI. The verification of the actual KPI-SPT relative to the KPIs and KPI-SPTs will be published along with LANXESS' Sustainability-Linked Financing Report on our investor relations website (<https://lanxess.com/en/Investors>)

LANXESS has obtained an independent second-party opinion ('SPO') from ISS ESG with recognized ESG expertise which provides an opinion on our Sustainability-Linked Financing Framework and confirms the alignment with the Sustainability-Linked Bond Principles as well as the Sustainability-Linked Loan Principles prior to the issuance of our first instrument based upon the Framework. The independent SPO is published on our investor relations website (<https://lanxess.com/en/Investors>) and is also available on the website of the external reviewer.



Ion exchange resins for industrial water treatment from the Lewatit range play a key role in the treatment of drinking water.

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