

## SECOND PARTY OPINION (SPO)

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Sustainability Quality of the Issuer and Sustainability-Linked Instruments

LANXESS AG  
07 May 2021

### VERIFICATION PARAMETERS

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<b>Type(s) of instruments contemplated</b>	Sustainability-Linked Instruments
<b>Relevant standard(s)</b>	Sustainability-Linked Bond Principles, as administered by ICMA and Sustainability-Linked Loan Principles, as administered by the LMA
<b>Lifecycle</b>	Pre-issuance verification
<b>Validity</b>	As long as LANXESS' Sustainability-Linked Financing Framework and benchmarks for the Sustainability Performance target remain unchanged

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## SCOPE OF WORK

LANXESS AG (“LANXESS” or “the issuer” or “the company”) commissioned ISS ESG to assist with its Sustainability-Linked Instruments by assessing three core elements to determine the sustainability quality of the instrument:

1. The sustainability credibility of the KPI selected and Sustainability Performance Target (SPT) calibrated – whether the KPI selected is core, relevant and material to the issuer’s business model and sector, and whether the associated target is ambitious.
2. LANXESS’ Sustainability-Linked Financing Framework (May 2021 version) and structural components of the transaction – benchmarked against the Sustainability-Linked Bond Principles (SLBPs), as administered by the International Capital Market Association's (ICMA) and the Sustainability-Linked Loan Principles (SLLPs), as administered by the Loan Market Association (LMA).
3. Sustainability-Linked Instruments link to LANXESS’ sustainability strategy – drawing on LANXESS’ overall sustainability profile and related objectives.

## LANXESS BUSINESS OVERVIEW

LANXESS is a speciality chemicals company based in Germany with global operations that is active in over 30 countries. The company develops and produces chemical intermediates, additives, and plastics whereby it focuses on speciality applications. LANXESS business is managed through four segments, namely Advanced Intermediates (33% of net sales in FY2020), Speciality Additives (28%), Consumer Protection (18%), and Engineering Materials (20%).



## ISS ESG SPO ASSESSMENT SUMMARY

SECTION	EVALUATION SUMMARY <sup>1</sup>
<p><b>Part 1:</b></p> <p><b>KPI selection and SPT calibration</b></p>	<p><b>KPI selection: Relevant and core to issuer’s business model and sustainability profile. Material to the company’s direct operations but not material to the whole Corporate Value Chain as the KPI does not include Scope 3 emissions<sup>2</sup>.</b></p> <p><b>Sustainability Performance Target (SPT) calibration:</b></p> <ul style="list-style-type: none"> <li>• <b>Ambitious against issuer’s past performance</b></li> <li>• <b>Ambitious against issuer’s sectorial peer group</b></li> <li>• <b>Sufficiently ambitious against Paris Climate Goals as the target is in line with the SBTi absolute contraction approach<sup>3</sup>. However, the SPT has not been verified by the SBTi.</b></li> </ul> <hr/> <p>The KPI selected is relevant and core to the issuer’s business model and consistent with its sustainability strategy. It is considered material to the company’s direct operations and activities as it covers 100% of Scopes 1 and 2 emissions but not material to the whole Corporate Value Chain as it does not cover Scope 3 emissions that represent approximately 85% of LANXESS’ total emissions. However, LANXESS is currently working on a specific target for Scope 3 emissions<sup>4</sup>. The KPI is appropriately measurable, quantifiable, externally verifiable and benchmarkable. It covers a material Scope of the direct operations and activities of LANXESS.</p> <p>The SPT calibrated by LANXESS is ambitious against the company’s past performance, compared to Chemicals sector practices in terms of defining a GHG emissions reduction target. ISS ESG finds that the SPT calibrated by LANXESS is ambitious against the company’s past performance, compared to the Chemicals sector practices in terms of defining a GHG emissions reduction target and sufficiently ambitious against Paris Climate Goals. Although the target has not been verified by the SBTi, it meets the SBTi criteria that assess the level of ambition of an absolute Scopes 1 and 2 target against a 1.5° Celsius warming scenario (annual linear reduction rate &gt; than 4.2% over target period). The SPT remains in a similar order of magnitude as top tier companies in the Chemicals sector in ISS ESG Universe. However, it is not as ambitious as other companies’ targets that cover Scopes 1, 2 and 3. The target is set in a clear timeline, is benchmarkable and supported by a credible strategy and action plan.</p>

<sup>1</sup> ISS ESG’s evaluation is based on the engagement conducted in April/May 2021, on LANXESS’ Sustainability-Linked Financing Framework (May 2021 version) and on the ISS ESG Corporate Rating applicable at the SPO delivery date (updated on the 17.03.2021).

<sup>2</sup> <https://ghgprotocol.org/standards/Scope-3-standard>

<sup>3</sup> <https://sciencebasedtargets.org/resources/files/SBTi-criteria.pdf>

<sup>4</sup> LANXESS has already identified, in its Corporate Value Chain, the steps that contribute the most to Scope 3 emissions: Purchased goods and services (45% of total GHG emissions in 2020) and End-of-life treatment of sold products (25% of total GHG emissions in 2020). The company also started to implement key measures such as chemical recycling to reduce those emissions.

<p><b>Part 2:</b></p> <p><b>Alignment with the SLBPs and the SLLPs</b></p>	<p><b>Aligned with ICMA Sustainability-Linked Bond Principles and with LMA Sustainability-Linked Loan Principles</b></p> <hr/> <p>The Issuer has defined a formal Framework for its Sustainability-Linked Instruments regarding the selection of KPI, calibration of Sustainability Performance Target (SPT), Sustainability-Linked Instruments characteristics, reporting and verification. The Framework is in line with the Sustainability-Linked Bond Principles (SLBPs) administered by the ICMA and the Sustainability-Linked Loan Principles (SLLPs) administered by the LMA.</p>
<p><b>Part 3:</b></p> <p><b>Link to issuer's sustainability strategy</b></p>	<p><b>Consistent with issuer's sustainability strategy</b></p> <hr/> <p>According to the ISS ESG Corporate Rating published 17.03.2021, the company currently shows a high sustainability performance against peers on key ESG issues faced by Chemicals sector and obtains a Decile Rank relative to industry group of 1, given that a decile rank of 1 indicates highest relative ESG performance out of 10. The issuer is rated 8<sup>th</sup> out of 173 companies within its sector as of 07.05.2021.</p> <p>The KPI selected by the issuer is related to climate change. Climate change has been defined as one of the key priorities of the issuer in terms of sustainability strategy and ISS ESG finds that this is a material sustainability topic for the issuer. ISS ESG finds that this issuance contributes to the issuer's sustainability strategy thanks to the KPI's clear link to one of the key sustainability priorities of the issuer and due to an ambitious SPT against company's past performance and peer group. The strategy could be further strengthened by adding Scope 3 emissions to the KPI as they represent the largest part of LANXESS' GHG emissions.</p>

## ISS ESG SPO ASSESSMENT

### PART 1: KPI SELECTION & SPT CALIBRATION

#### 1.1. KPI selection

##### KPI selected by the issuer

###### FROM ISSUER'S FRAMEWORK

- **KPI:** Reduce Scopes 1 and 2 Greenhouse Gas Emissions (in tCO<sub>2</sub>e)
- **SPT:**
  - Until 2025, reduce GHG emissions (Scopes 1 and 2) to 75% (equals to 2.4 million tCO<sub>2</sub>e) or below of the KPI-SPT Reference Base (baseline).
  - Until 2030, reduce GHG emissions (Scopes 1 and 2) to 50% (equals to 1.6 million tCO<sub>2</sub>e) or below of the KPI-SPT Reference Base (baseline).

**Long-term goal:** Climate Neutral by 2040<sup>5</sup>

**Rationale:** To reduce its GHG emissions (Scopes 1 and 2) is one of the key levers for LANXESS to contribute to the global effort to drive GHG emissions to zero until 2050. To underline its commitment, LANXESS has decided to include this KPI with SPT into its financing. The defined targets are considered as key milestones in LANXESS' climate protection strategy. The GHG emissions (Scopes 1 and 2) target was initially set in 2019 as part of its ambition to become climate neutral by 2040. LANXESS currently doesn't see external factors negatively impacting its ability to achieve the set targets.

**Baseline:** 3.2 million tCO<sub>2</sub>e.

**Baseline year:** 2018.

**2030 goal:** 1.6 million tCO<sub>2</sub>e.

**Scope:** 100% of LANXESS-owned facilities<sup>6</sup>.

##### Materiality and relevance

Climate protection is considered as a key ESG issue faced by the Chemicals sector according to key ESG standards<sup>7</sup> for reporting and ISS ESG assessment. The chemical sector is the largest industrial consumer of both oil and gas and the third industry subsector in terms of direct CO<sub>2</sub> emissions – behind iron and steel, and cement<sup>8</sup>. Other indicators that have a significant impact across the sector include freshwater use and hazardous waste intensity according to ISS ESG's proprietary rating methodology.

<sup>5</sup> LANXESS' definition of Climate Neutrality is lowering Scopes 1 and 2 emissions from 3.2 million tons to less than 300,000 tons by 2040 and neutralizing these residual emissions through compensation measures.

<sup>6</sup> 100% of LANXESS facilities cover 100% of LANXESS continued operations.

<sup>7</sup> Key ESG Standards include SASB and TCFD, among others.

<sup>8</sup> <https://www.iea.org/fuels-and-technologies/chemicals>.

ISS ESG finds that Climate protection and GHG emissions reduction KPI selected by the issuer are:

- **Relevant** to LANXESS' business as the Chemicals industry is highly GHG-emitting.
- **Core** to the issuer's business as climate change mitigation reduction measures affect key processes and operations that are core to the business model of the issuer (e.g. launching nitrous oxide reduction plan, switching energy supply to renewable energy sources and phase out coal-based energy use, etc.).
- **Moderately material** to LANXESS from an ESG perspective:
  - The KPI selected is material related to the direct operations and activities of the issuer as it covers 100% of Scopes 1 and 2 emissions.
  - A key ESG issue where companies in the Chemicals industry have a material impact on climate change, is GHG emissions in the upstream and downstream value chain (i.e. Scope 3 emissions). As the selected KPI does not cover Scope 3 emissions, it is considered not material to the whole Corporate Value Chain of the company due to the fact that Scope 3 represents approximately 85% of the company's total GHG emissions. It is worth noting that even though the company does not include Scope 3 emissions in its target setting for this KPI, the company recognizes the importance of reducing its Scope 3 emissions. LANXESS is currently working on a roadmap to reduce its Scope 3 emissions. LANXESS has already identified, in its Corporate Value Chain, the steps that contribute the most to Scope 3 emissions: Purchased goods and services (45% of total GHG emissions in 2020) and End-of-life treatment of sold products (25% of total GHG emissions in 2020). The company also started to implement key measures such as chemical recycling to reduce those emissions<sup>9</sup>.

### Consistency with overall company's sustainability strategy

LANXESS identified climate change mitigation as a material topic and as one of its priority long-term goals together with Resilient Sourcing, Safe and Sustainable sites, Valuing Customer Relations, Business-Driven Innovation, Sustainable Product Portfolio and Energized Employees And Performing Teams. The definition of a GHG emission reduction KPI is consistent with LANXESS' long-standing strategy of mitigating climate change.

Between 2004 and 2018, the company halved its GHG emissions from around 6.5 million tons of CO<sub>2</sub>e to about 3.2 million tons. In 2016, the company set its first absolute CO<sub>2</sub>e emissions target (reducing its Scopes 1 and 2 emissions by 25% by 2025 compared to 2015) and reached it in 2018. To keep on tackling climate change, the company set new targets in 2019: reaching 1.6 million tons of CO<sub>2</sub>e by 2030 (50% reduction by 2030 compared to 2018) and being Climate Neutral by 2040.

ISS ESG finds that the KPI selected by the issuer is consistent with the overall company's sustainability strategy.

<sup>9</sup> See section "Resilient Sourcing" (p.40) in 2020 Annual Report  
<https://lanxess.com/en/Investors/Reporting>

See Section "C12.1b Details of climate-related engagement strategy with customers" (p.52) in 2020 CDP report  
[https://lanxess.com/-/media/Project/Lanxess/Corporate-Internet/Responsibility/References/Indices-and-Ratings/2020-LANXESS-CDP-Climate\\_Change.pdf](https://lanxess.com/-/media/Project/Lanxess/Corporate-Internet/Responsibility/References/Indices-and-Ratings/2020-LANXESS-CDP-Climate_Change.pdf)

## Measurability

- **Material scope and perimeter:** The KPI selected covers a material scope of its direct operations and activity. However, the KPI does not cover Scope 3 emissions representing approximately 85% of the issuer's total GHG emissions.
- **Quantifiable:** The KPI selected is measurable and quantifiable. GHG emissions (Scopes 1 and 2) are widely disclosed and standardized in the market. The issuer is referring to key reporting and accounting protocols for GHG emissions such as The Greenhouse Gas Protocol (GHG Protocol).
- **Externally verifiable:** The KPI selected is externally verifiable thanks to the various standards and protocols mentioned above. The GHG inventory of the issuer has been verified by a third-party verifier since 2008. The issuer commits to get a third-party verification of its GHG accounting and of the KPI considered under this transaction annually and in any case for any period relevant for assessing if a SPT Event has occurred (event that triggers variation in the bond characteristics).
- **Benchmarkable:** By referring to commonly acknowledged GHG accounting standards and protocol, the KPI is easily comparable with the data reported by other companies and with international targets such as the Paris Agreement. Benchmarking of the SPT in relation with this KPI has been analysed in section 2.

**Opinion on KPI selection:** ISS ESG finds that the KPI selected is core and relevant to the issuer's business model and consistent with its sustainability strategy. The KPI is considered as material to LANXESS' operations and activities that the company has direct control of (Scopes 1 and 2). However, it is considered as not material to the whole Corporate Value Chain as it does not cover Scope 3 emissions representing the majority of the issuer's GHG emissions. It is appropriately measurable, quantifiable, externally verifiable and benchmarkable.

## 1.2. Calibration of SPT

### SPT set by the issuer

#### FROM ISSUER'S FRAMEWORK<sup>10</sup>

##### Sustainability Performance Target:

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

**Link with long-term targets:** Climate neutral by 2040.

**Sustainability Performance Target Trigger<sup>11</sup>:** if the amount shown for the GHGE (Scopes 1 and 2) KPI in the Relevant Determination Report exceeds the [relevant year<sup>12</sup>] GHGE (Scopes 1 and 2) SPT.

**Sustainability Performance Target Observation Date:** 31 December of the [relevant year].

**2018 Baseline:** 3.2 million tCO<sub>2</sub>e.

**Selection of methodology for calculating the SPT:** The GHG emissions (Scopes 1 and 2) target was initially set in 2019 as part of LANXESS ambition to become climate neutral by 2040.

**Factors that support the achievement of the target:** LANXESS has developed a three pronged approach to reach its medium- and long-term targets:

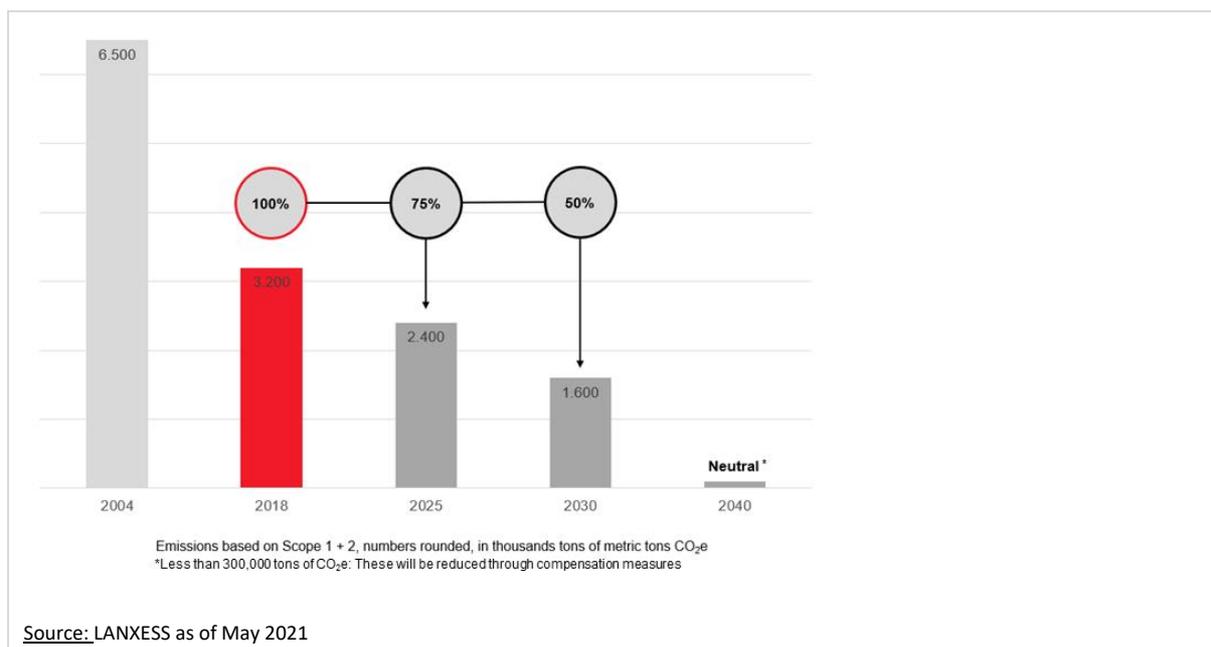
- Major impact projects for climate protection: LANXESS will continue to undertake several special projects to significantly lower GHG emissions over the next few years. In 2021, LANXESS inaugurated a nitrous oxide reduction plan at its site in Antwerp, Belgium. A second plant is scheduled to start up in 2023. In addition, LANXESS is also switching the entire energy supply at its Indian sites to renewable energy sources and phase out coal-based energy use at its major production sites in Germany. LANXESS plans to invest up to €100m in its 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, its governance Framework makes its carbon footprint an investment criterion for organic growth and acquisitions.
- Strengthen process and technological innovation: In order to become climate-neutral by 2040, LANXESS is revising numerous existing production processes. For example, LANXESS will further improve its 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. LANXESS is therefore focusing its research more strongly on climate-neutral process and technology innovations.

**Risks to the target:** LANXESS currently does not see external factors negatively impacting its ability to achieve the set targets.

<sup>10</sup> This table is displayed by the issuer in its Sustainability-Linked Financing Framework and have been copied over in this report by ISS ESG for clarity.

<sup>11</sup> LANXESS communicated to ISS a draft version of the base prospectus that was not including the final terms (e.g., maturity, interest payment dates, SPT thresholds for KPI/SPT). As LANXESS plans to issue various bonds under this Framework, for which final terms may vary, LANXESS will define final terms by completing the final terms documents. Regarding SPT thresholds, LANXESS would reserve the option to issue Sustainability-Linked Instruments related to (i) 2025 KPI-SPT, (ii) 2030 KPI-SPT, or (iii) both, 2025 and 2030 KPI-SPT.

<sup>12</sup> 2025 or 2030.



## Ambition

### Against company's past performance

LANXESS sets the SPT to reduce its GHG emissions (Scopes 1 and 2) by 25% by 2025 and by 50% by 2030 compared to a 2018 baseline year. This would imply an annual linear reduction rate of -4.0% over the 2018 – 2025 period<sup>13</sup> and of -5.6% over the 2018 – 2030 period. Achieving this target would represent a significant reduction of Scopes 1 and 2 emissions relative to the baseline year.

As mentioned above, between 2004 and 2018, the company halved its GHG emissions from around 6.5 million tons of CO<sub>2</sub>e to about 3.2 million tons (representing a -4.8% annual decrease rate). However, at least 50% of the GHG emissions reduction over the 2004 – 2018 period is due to a change in perimeter. Indeed, from 2017 to 2018, ISS ESG observes a strong reduction of the GHG emissions from 5.1 million tons to 3.2 million tons that is mainly explained by the sale of ARLANXEO (former business segment for production of synthetic rubber) which accounted for 1.8 million tons of CO<sub>2</sub>e.

It is worth noting that the issuer aims to reach its new targets regardless of macroeconomic factors. However, in case of M&A activity that impacts the amount of greenhouse gases the company emits, LANXESS has set an option to amend the SPT Reference Base accordingly.

In this context and compared to the baseline year, the SPT set by LANXESS is perceived by ISS ESG as ambitious against the company's past performance.

<sup>13</sup> The annual linear reduction rate over the 2018 – 2025 period is slightly lower than the one over the 2018 – 2030 period as LANXESS anticipates (i) a strong global economic recovery in 2021 after the COVID-19 pandemic and (ii) a change in perimeter by the end of 2021 through the acquisition of a company that would increase LANXESS Scopes 1 and 2 GHG emissions by 0.2 million tons.

**Against company’s sectorial peers**

ISS ESG benchmarked the SPT set by LANXESS against the Chemicals sector’s peer group of 178 listed companies derived from ISS ESG’s Universe. Those companies are located in geographical markets displayed in Figure 1.

In terms of target set, LANXESS is one of 63 companies (top 35% tier) in its industry to have an updated GHG emissions reduction target. While 34 companies have set an intensity target, 29 have set an absolute target (including LANXESS). Almost all companies that set an absolute emissions reduction target in the ISS ESG Universe cover at least Scopes 1 and 2, while only two cover Scopes 1, 2 and 3 emissions (Figure 2).

Among the 27 companies that have set Scopes 1 and 2 absolute reduction target, the SPT set by LANXESS is considered as more ambitious as it would imply one of the highest annual decrease rate in that peer group.

ISS ESG concludes that the SPT set by the issuer is ambitious compared to the Chemicals sector practices in terms of defining an absolute GHG emissions reduction target. The SPT remains in a similar order of magnitude as top tier companies in the Chemicals sector of ISS ESG Universe. However, it is worth noting that two other companies have set Scopes 1, 2 and 3 absolute targets and, hence LANXESS target could be even more ambitious by covering Scope 3.

**Against international targets**

**Paris agreement**

ISS ESG notes that at the time this SPO was written, 14 companies in the Chemicals sector have GHG emissions target verified by the Science Based Target Initiative (SBTi), a collaboration between Carbon Disclosure Project, the United Nations Global Compact, World Resources Institute and the World Wide Fund for Nature, derived from Beyond 2°C Scenario (B2DS) developed by the International Energy Agency (IEA) as part of its publication, Energy Technology Perspectives (ETP) 2017 (IEA, 2017).

Even though LANXESS’ SPT is not verified by the SBTi, ISS ESG observes that it would imply an annual linear reduction rate over target period of -5.6% and then would meet the SBTi criteria (global emissions pathway) to be considered as sufficiently ambitious against a 1.5°C pathway (annual linear reduction rate >4.2%<sup>14</sup>). Moreover, the company defined a target that is considered, in terms of yearly average of GHG emissions reduction, as more ambitious than the average SBTi certified targets.

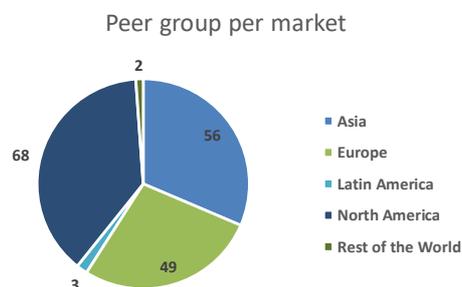


Figure 1 - Source: ISS ESG, as of 20.01.21

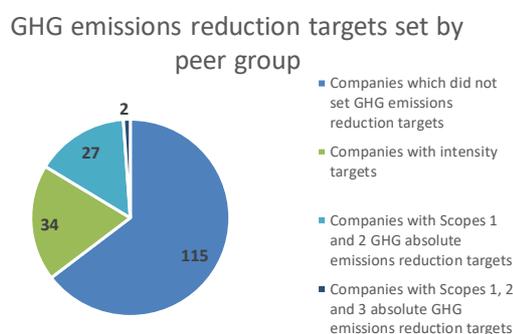


Figure 2 - Source: ISS ESG, as of 20.01.21

<sup>14</sup> <https://sciencebasedtargets.org/resources/files/SBTi-criteria.pdf>

ISS ESG finds that, even though the target is not verified by SBTi, the SPT is sufficiently ambitious against the Paris Climate Goals (according to the SBTi absolute contraction approach<sup>7</sup>).

#### UN Sustainable Development Goals

In addition, ISS ESG, using a proprietary methodology, assessed that the SPT achievement would have a positive contribution to the SDG 13 “Climate action”.

#### Measurability & comparability

- **Historical data:** The issuer provided all yearly GHG emissions data available since 2004, going beyond the SLBP of providing historical data for the previous three years. The data provided has been audited by a third party since 2008. However, it is worth noting that since 2004, figures have not been restated while LANESS’ perimeter has changed.
- **Benchmarkable:** By referring to commonly acknowledge GHG accounting standards and protocol, the KPI is easily comparable with the data reported by other companies.
- **Timeline:** The issuer defined a precise timeline related to the SPT achievement, including the trigger event and the frequency of SPTs measurement. The target observation dates will be clearly defined in the final terms documents.

#### Supporting strategy and action plan

To reduce its Scopes 1 and 2 GHG emissions the company designed a three-ponged approach:

- Launch climate protection projects (e.g., building a facility for the decomposition of nitrous oxide at the site in Lillo, Belgium);
- Break the link between emissions and growth (e.g., use the company’s carbon footprint as an investment criterion for organic growth and acquisitions);
- Strengthen process and technological innovations (e.g., improve LANXESS composite structures when it comes to heat exchange between plants and air purification).

The supporting strategy and action plan contemplated by LANXESS is aligned with recommendations released by the World Economic Forum<sup>15</sup> on how Chemicals industry can reduce GHG emissions, by focusing namely on renewable energy use and implementing new technologies to improve process efficiency. This action plan is perceived as credible to support the achievement of the SPT set by LANXESS.

**Opinion on SPT calibration:** ISS ESG finds that the SPT calibrated by LANXESS is ambitious against the company’s past performance, compared to Chemicals sector practices in terms of defining a GHG emissions reduction target and sufficiently ambitious against Paris Climate Goals. Indeed, even if the target has not been verified by the SBTi, it meets the SBTi criteria that assess the level of ambition of an absolute Scopes 1 and 2 target against a 1.5° Celsius warming scenario (annual linear reduction rate > than 4.2% over target period). The SPT remains in a similar order of magnitude as top tier companies in the Chemicals ISS ESG Universe. However, it is not as ambitious as other company’s targets that cover Scopes 1, 2 and 3. The target is set in a clear timeline, is benchmarkable and supported by a credible strategy and action plan.

<sup>15</sup> <https://www.weforum.org/agenda/2020/01/how-to-build-a-more-climate-friendly-chemical-industry/>.

## PART 2: ALIGNMENT WITH ICMA'S SUSTAINABILITY-LINKED BOND PRINCIPLES AND LMA'S SUSTAINABILITY-LINKED LOAN PRINCIPLES

### Rationale for Framework

#### FROM ISSUER'S FRAMEWORK

With investments in sustainability being an integrated part of LANXESS' strategy for future success, linking its newly established financing Framework to its sustainability goals is a natural choice. LANXESS has already taken the first step to align its financing strategy to its sustainability commitments, by entering a Revolving Credit Facility linked to its sustainability performance. Now, LANXESS 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), as administered by the International Capital Market Association (ICMA), as well as the Sustainability-Linked Loan Principles (SLLP) 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.

**Opinion:** ISS ESG considers the description of the Rationale for Issuance provided by LANXESS as aligned with the SLBPs and the SLLPs. The issuer has created and committed to publicly disclose the inaugural Framework in a comprehensive and credible manner.

#### 2.1. Selection of KPI

ISS ESG conducted a detailed analysis of the sustainability credibility of KPI selection available in section 1 of this report.

**Opinion:** ISS ESG considers the Selection of KPIs as per the description provided by LANXESS as aligned with the SLBPs and the SLLPs. ISS ESG finds that the KPI selected is core and relevant to the issuer's business model and consistent with its sustainability strategy. The KPI is considered as material to LANXESS' operations and activities that the company has direct control of (Scope 1 and 2). However, it is considered as not material to the whole Corporate Value Chain as it does not cover Scope 3 emissions representing the majority of the issuer's GHG emissions. It is appropriately measurable, quantifiable, externally verifiable and benchmarkable.

#### 2.2. Calibration of Sustainability Performance Target (SPT)

ISS ESG conducted a detailed analysis of the sustainability credibility of SPT is available in section 1 of this report.

**Opinion:** ISS ESG considers the Calibration of Sustainability Performance Target (SPT) description provided by LANXESS as aligned with the SLBPs and the SLLPs. ISS ESG finds that the SPT calibrated by LANXESS is ambitious against the company's past performance, compared to Chemicals sector practices in terms of defining a GHG emissions reduction target and sufficiently ambitious against Paris Climate Goals. Indeed, even if the target has not been verified by the SBTi, it meets the SBTi criteria that assess the level of ambition of an absolute Scopes 1 and 2 target against a 1.5 ° Celsius warming scenario (annual linear reduction rate > than 4.2% over target period). The SPT remains in a similar order of magnitude as top tier companies in the Chemicals ISS ESG Universe. However, it is not as

*ambitious as other company's targets that cover Scopes 1, 2 and 3. The target is set in a clear timeline, is benchmarkable and supported by a credible strategy and action plan.*

### 2.3. Sustainability-Linked Instruments Characteristics

#### FROM ISSUER'S FRAMEWORK

Financial instruments issued under this Framework are linked to its 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 KPT-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>2e</sub> 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.

**Opinion:** *ISS ESG considers the Sustainability-Linked Instruments Characteristics description provided by LANXESS as aligned with the SLBPs and SLLPs. The issuer gives a description of the potential variation of the financial characteristics of the Instruments, while defining the KPI and SPT and its calculation methodology. LANXESS communicated to ISS a draft version of the base prospectus that was not including the final terms (e.g., maturity, interest payment dates, SPT thresholds for KPI/SPT). As LANXESS plans to issue various Instruments under this Framework, for which final terms may vary, LANXESS will define final terms by completing the final terms documents. Regarding SPT thresholds, LANXESS would reserve the option to issue Sustainability-Linked Instruments related to (i) 2025 KPI-SPT, (ii) 2030 KPI-SPT, or (iii) both, 2025 and 2030 KPI-SPT.*

## 2.4. Reporting

### FROM ISSUER'S FRAMEWORK

In its annual Corporate Responsibility Report LANXESS 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 KPI 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 its 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 its investor relations website (<https://LANXESS.com/en/Investors>).

**Opinion:** ISS ESG considers the Reporting description provided by LANXESS as aligned with the SLBPs and the SLLPs. The issuer has committed to publicly and annually report on the SPT's performance in order to allow investors to monitor and analyse the level of ambition and progress of the SPT. The issuer has provided the granularity of the reporting as well as the location where the report will be found.

## 2.5. Verification

### FROM ISSUER'S FRAMEWORK

LANXESS 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 its investor relations website (<https://LANXESS.com/en/Investors>).

**Opinion:** ISS ESG considers the Verification description provided by LANXESS as aligned with the SLBPs and SLLPs. The issuer commits to externally verify the performance of the KPI annually on a best effort basis, and in any case at the trigger event date. This will outline the performance against the SPT, the related impact and timing of such impact on the Instruments financial characteristics.

## PART 3: LINK TO LANXESS' SUSTAINABILITY STRATEGY

The ISS ESG Corporate Rating provides material and forward-looking environmental, social and governance (ESG) data and performance assessments.

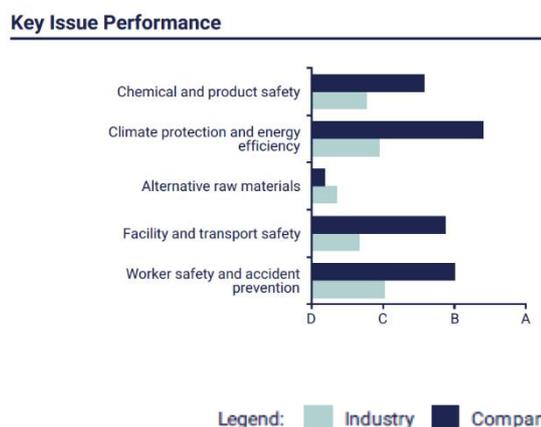
COMPANY	SECTOR	DECILE RANK	TRANSPARENCY LEVEL
<b>LANXESS</b>	<b>CHEMICALS</b>	<b>1</b>	<b>Very High</b>

This means that the company currently shows a high sustainability performance against peers on key ESG issues faced by Chemicals sector and obtains a Decile Rank relative to industry group of 1, given that a decile rank of 1 indicates highest relative ESG performance out of 10.

### ESG performance

As of 17.03.2021, this Rating places LANXESS 8<sup>th</sup> out of 178 companies rated by ISS ESG in the Chemicals sector.

Key Challenges faced by companies in term of sustainability management in this sector are displayed in the chart on the right, as well as the issuer's performance against those key challenges in comparison to the average industry peers' performance.



### Sustainability Opportunities

LANXESS is a speciality chemicals company based in Germany with global operations that is active in over 30 countries. The company develops and produces chemical intermediates, additives, and plastics whereby it focuses on speciality applications. LANXESS business is managed through four segments, namely Advanced Intermediates (33% of net sales in FY2020), Speciality Additives (28%), Consumer Protection (18%), and Engineering Materials (20%). Some of LANXESS' products contribute to overcoming global health challenges, e.g., medical disinfectants and insect repellents. However, the overall revenue share of such contributions is estimated to be rather small. In addition, while LANXESS' uses some alternative or renewable raw materials, its manufacturing processes are still largely dependent on fossil-based resources.

### Sustainability Risks

LANXESS is exposed to significant sustainability risks mainly related to production processes (handling of hazardous substances and greenhouse gas intensity) and its product portfolio. The company has implemented a comprehensive climate strategy that includes emission reduction targets and also addresses energy use through dedicated management systems and energy reduction targets. Moreover, procedures to mitigate supply chain risks as well as some measures to manage product risks (life cycle assessments) are presented. In addition, LANXESS has developed a sustainable

chemicals management strategy that includes comprehensive risk assessments of its products as well as a strategy to reduce and substitute substances of concern; however, clear targets for the phase out of such substances do not seem to be in place. In the social dimension, LANXESS presents a reasonable management of occupational health and safety and a decreasing accident rate over the last years. With regard to community outreach, the company operates neighborhood offices at a majority of its sites, but it remains unclear if mechanisms for public consultation are in place.

*Governance opinion*

LANXESS' governance structure is designed to ensure effective supervision of management. All board members, including the chair of the board (Matthias L. Wolfgruber) are independent (as at February 5, 2021). In addition, the board has established committees in charge of audit, remuneration, and nomination. Yet, apart from the nomination committee, these are only partially staffed with independent board members (as at February 5, 2021). LANXESS discloses its remuneration policy for executives, including long-term components, which could incentivize sustainable value creation.

Regarding the governance of sustainability, there is no indication that a sustainability board committee has been set up. LANXESS is in the process of integrating sustainability performance objectives into the variable remuneration of members of the executive management team. To ensure sound business ethics, LANXESS has set up a good group-wide code of conduct that covers almost all relevant issues such as corruption, conflicts of interest, and anti-competitive practices. The code is complemented by various compliance procedures, yet third party anti-corruption due diligence is not addressed.

*Sustainability impact of products and services portfolio*

Using a proprietary methodology, ISS ESG assessed the contribution of the LANXESS current products and services portfolio to the Sustainable Development Goals defined by the United Nations (UN SDGs). This analysis is limited to evaluation of final product characteristics and does not include practices along the LANXESS' production process.

PRODUCT/SERVICES PORTFOLIO	ASSOCIATED PERCENTAGE OF REVENUE	DIRECTION OF IMPACT	UN SDGS
<b>Household insecticides and repellents, key components for water filtration/purification products, medical sterilization/disinfection equipment, pharmaceutical contract manufacturing services</b>	14%	CONTRIBUTION	 
<b>Key components for water filtration/purification products</b>	5%	CONTRIBUTION	

<b>Medical sterilization/disinfection equipment</b>	3%	CONTRIBUTION	
<b>Pesticides (WHO II or better)</b>	3%	OBSTRUCTION	
<b>Services to the oil industry</b>	1%	OBSTRUCTION	 
<b>Others</b>	N/A	NO NET IMPACT	N/A

*Breaches of international norms and ESG controversies*

The company is not facing any controversy.

*Contribution of the KPI selected to sustainability objectives and key ESG industry challenges*

ISS ESG mapped the KPI selected by the issuer for its Sustainability-Linked Financing Framework with the sustainability objectives defined by the issuer, and with the key ESG industry challenges as defined in the ISS ESG Corporate Rating methodology for the Chemicals sector. Key ESG industry challenges are key issues that are highly relevant for a respective industry to tackle when it comes to sustainability, e.g. climate change and energy efficiency in the buildings sector. From this mapping, ISS ESG derived a level of contribution to the strategy of each KPI selected.

KPI SELECTED	SUSTAINABILITY OBJECTIVES FOR THE ISSUER	KEY ESG INDUSTRY CHALLENGES	CONTRIBUTION
<b>Reduce Scopes 1 and 2 Greenhouse Gas Emissions (in t CO<sub>2</sub>e)</b>	✓	✓	Contribution to a material objective

**Opinion:** ISS ESG finds that the KPI selected by the issuer is consistent with the issuer’s sustainability strategy and material ESG topics for the issuer’s industry.

## DISCLAIMER

1. Validity of the SPO: For LANXESS' Sustainability-Linked Instruments issuances as long as the Sustainability-Linked Financing Framework (May 2021), SPTs benchmarks and structural instruments characteristics described in this document do not change.
2. ISS ESG uses a scientifically based rating concept to analyse and evaluate the environmental and social performance of companies and countries. In doing so, we adhere to the highest quality standards which are customary in responsibility research worldwide. In addition, we create a Second Party Opinion (SPO) on bonds based on data from the issuer.
3. We would, however, point out that we do not warrant that the information presented in this SPO is complete, accurate or up to date. Any liability on the part of ISS ESG in connection with the use of these SPO, the information provided in them and the use thereof shall be excluded. In particular, we point out that the verification of the compliance with the selection criteria is based solely on random samples and documents submitted by the issuer.
4. All statements of opinion and value judgements given by us do not in any way constitute purchase or investment recommendations. In particular, the SPO is no assessment of the economic profitability and credit worthiness of a bond but refers exclusively to the social and environmental criteria mentioned above.
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## ANNEX 1: ISS ESG Corporate Rating Methodology

The following pages contain extracts from LANXESS' ISS ESG Corporate Rating.

## LANXESS AG

### Methodology - Overview

The ESG Corporate Rating methodology was originally developed by Institutional Shareholder Services Germany (formerly oekom research) and has been consistently updated for more than 25 years.

**ESG Corporate Rating** - The ESG Corporate Rating universe, which is currently expanding from more than 8,000 corporate issuers to a targeted 10,000 issuers in 2020, covers important national and international indices as well as additional companies from sectors with direct links to sustainability and the most important bond issuers that are not publicly listed companies.

The assessment of a company's social & governance and environmental performance is based on approximately 100 environmental, social and governance indicators per sector, selected from a pool of 800+ proprietary indicators. All indicators are evaluated independently based on clearly defined performance expectations and the results are aggregated, taking into account each indicator's and each topic's materiality-oriented weight, to yield an overall score (rating). If no relevant or up-to-date company information with regard to a certain indicator is available, and no assumptions can be made based on predefined standards and expertise, e.g. known and already classified country standards, the indicator is assessed with a D-

In order to obtain a comprehensive and balanced picture of each company, our analysts assess relevant information reported or directly provided by the company as well as information from reputable independent sources. In addition, our analysts actively seek a dialogue with the assessed companies during the rating process and companies are regularly given the opportunity to comment on the results and provide additional information.

**Analyst Opinion** - Qualitative summary and explanation of the central rating results in three dimensions:

- (1) Opportunities - assessment of the quality and the current and future share of sales of a company's products and services, which positively or negatively contribute to the management of principal sustainability challenges.
- (2) Risks - summary assessment of how proactively and successfully the company addresses specific sustainability challenges found in its business activity and value chain, thus reducing its individual risks, in particular regarding its sector's key issues.
- (3) Governance - overview of the company's governance structures and measures as well as of the quality and efficacy of policies regarding its ethical business conduct.

**Norm-Based Research - Severity Indicator** - The assessment of companies' sustainability performance in the ESG Corporate Rating is informed by a systematic and comprehensive evaluation of companies' ability to prevent and mitigate ESG controversies. ISS ESG conducts research and analysis on corporate involvement in verified or alleged failures to respect recognized standards for responsible business conduct through Norm-Based Research.

Norm-Based Research is based on authoritative standards for responsible business conduct such as the UN Global Compact, the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles for Business and Human Rights and the Sustainable Development Goals.

As a stress-test of corporate disclosure, Norm-Based Research assesses the following:

- Companies' ability to address grievances and remediate negative impacts
  - Degree of verification of allegations and claims
  - Severity of impact on people and the environment, and systematic or systemic nature of malpractices
- Severity of impact is categorized as Potential, Moderate, Severe, Very severe. This informs the ESG Corporate Rating.

**Decile Rank** - The Decile Rank indicates in which decile (tenth part of total) the individual Corporate Rating ranks within its industry from 1 (best – company's rating is in the first decile within its industry) to 10 (lowest – company's rating is in the tenth decile within its industry). The Decile Rank is determined based on the underlying numerical score of the rating. If the total number of companies within an industry cannot be evenly divided by ten, the surplus company ratings are distributed from the top (1 decile) to the bottom. If there are Corporate Ratings with identical absolute scores that span a division in decile ranks, all ratings with an equal decile score are classified in the higher decile, resulting in a smaller number of Corporate Ratings in the decile below.

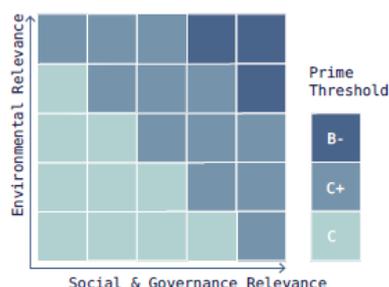
**Distribution of Ratings** - Overview of the distribution of the ratings of all companies from the respective industry that are included in the ESG Corporate Rating universe (company portrayed in this report: dark blue).

# LANXESS AG

## Methodology - Overview

**Industry Classification** - The social and environmental impacts of industries differ. Therefore, based on its relevance, each industry analyzed is classified in a Sustainability Matrix.

Depending on this classification, the two dimensions of the ESG Corporate Rating, the Social Rating and the Environmental Rating, are weighted and the sector-specific minimum requirements for the ISS ESG Prime Status (Prime threshold) are defined (absolute best-in-class approach).



**Industry Leaders** - List (in alphabetical order) of the top three companies in an industry from the ESG Corporate Rating universe at the time of generation of this report.

**Key Issue Performance** - Overview of the company's performance with regard to the key social and environmental issues in the industry, compared to the industry average.

**Performance Score** - The ESG Performance Score allows for cross-industry comparisons using a standardized best-in-class threshold that is valid across all industries. It is the numerical representation of the alphabetic ratings (D- to A+) on a scale of 0 to 100 with 50 representing the prime threshold. All companies with values greater than 50 are Prime, while companies with values less than 50 are Not Prime. As a result, intervals are of varying size depending on the original industry-specific prime thresholds.

**Rating History** - Development of the company's rating over time and comparison to the average rating in the industry.

**Rating Scale** - Companies are rated on a twelve-point scale from A+ to D-:

A+: the company shows excellent performance.

D-: the company shows poor performance (or fails to demonstrate any commitment to appropriately address the topic).

Overview of the range of scores achieved in the industry (light blue) and indication of the grade of the company evaluated in this report (dark blue).

**Sources of Information** - A selection of sources used for this report is illustrated in the annex.

**Status & Prime Threshold** - Companies are categorized as Prime if they achieve/exceed the sustainability performance requirements (Prime threshold) defined by ISS ESG for a specific industry (absolute best-in-class approach) in the ESG Corporate Rating. Prime companies are sustainability leaders in their industry and are better positioned to cope with material ESG challenges and risks, as well as to seize opportunities, than their Not Prime peers. The financial materiality of the Prime Status has been confirmed by performance studies, showing a continuous outperformance of the Prime portfolio when compared to conventional indices over more than 14 years.

**Transparency Level** - The Transparency Level indicates the company's materiality-adjusted disclosure level regarding the environmental and social performance indicators defined in the ESG Corporate Rating. It takes into consideration whether the company has disclosed relevant information regarding a specific indicator, either in its public ESG disclosures or as part of the rating feedback process, as well as the indicator's materiality reflected in its absolute weight in the rating. The calculated percentage is classified in five transparency levels following the scale below.

0% - < 20%: very low

20% - < 40%: low

40% - < 60%: medium

60% - < 80%: high

80% - 100%: very high

For example, if a company discloses information for indicators with a cumulated absolute weight in the rating of 23 percent, then its Transparency Level is "low". A company's failure to disclose, or lack of transparency, will impact a company's ESG performance rating negatively.

## ANNEX 2: Methodology

### ISS ESG Corporate Rating

The ESG Corporate Rating universe, which is currently expanding from more than 8,000 corporate issuers to a targeted 10,000 issuers in 2020, covers important national and international indices as well as additional companies from sectors with direct links to sustainability and the most important bond issuers that are not publicly listed companies.

The assessment of a company's social & governance and environmental performance is based on approximately 100 environmental, social and governance indicators per sector, selected from a pool of 800+ proprietary indicators. All indicators are evaluated independently based on clearly defined performance expectations and the results are aggregated, taking into account each indicator's and each topic's materiality-oriented weight, to yield an overall score (rating). If no relevant or up-to-date company information with regard to a certain indicator is available, and no assumptions can be made based on predefined standards and expertise, e.g. known and already classified country standards, the indicator is assessed with a D-.

In order to obtain a comprehensive and balanced picture of each company, our analysts assess relevant information reported or directly provided by the company as well as information from reputable independent sources. In addition, our analysts actively seek a dialogue with the assessed companies during the rating process and companies are regularly given the opportunity to comment on the results and provide additional information.

### Alignment of the concept set for transactions against the Sustainability-Linked Bond Principles, as administered by ICMA

ISS ESG reviewed the Sustainability-Linked Financing Framework of LANXESS, as well as the concept and processes for issuance against the Sustainability-Linked Bond Principles administered by the ICMA and the Sustainability-Linked Loan Principles administered by the LMA. Those principles are voluntary process guidelines that outline best practices for financial instruments to incorporate forward-looking ESG outcomes and promote integrity in the development of the Sustainability-Linked Bond and Loan market by clarifying the approach for issuance.

### Analysis of the KPI selection and associated SPT

In line with the voluntary guidance provided by the Sustainability-Linked Bond Principles, ISS ESG conducted an in-depth analysis of the sustainability credibility of the KPI selected and associated SPT. ISS ESG analysed if the KPI selected is core, relevant and material to the issuer's business model and consistent with its sustainability strategy thanks to its long-standing expertise in evaluating corporate sustainability performance and strategy. ISS ESG also reviewed if the KPI is appropriately measurable by referring to key GHG reporting protocols and against acknowledged benchmarks.

ISS ESG analysed the ambition of the SPT against LANXESS' own past performance (according to LANXESS' reported data), against LANXESS' Chemicals peers (as per ISS ESG Peer Universe), and against international benchmarks such as the Paris agreement (based on data from the Transition Pathway Initiative) and the UN SDGs (according the ISS ESG proprietary methodology). Finally, ISS ESG evaluated the measurability & comparability of the SPT, and the supporting strategy and action plan of LANXESS.

## ANNEX 3: Quality management processes

### SCOPE

- LANXESS commissioned ISS ESG to compile a Sustainability-Linked Instruments SPO. The Second Party Opinion process includes verifying whether the Sustainability-Linked Financing Framework aligns with the Sustainability-Linked Bond Principles (administered by the ICMA) and Sustainability-Linked Loan Principles (administered by the LMA) and to assess the sustainability credentials of its Sustainability-Linked Instruments, as well as the issuer's sustainability strategy.

### CRITERIA

Relevant Standards for this Second Party Opinion

- ICMA Sustainability-Linked Bond Principles
- LMA Sustainability-Linked Loan Principles

### ISSUER'S RESPONSIBILITY

LANXESS' responsibility was to provide information and documentation on:

- Sustainability-Linked Financing Framework (May 2021 version)

### ISS ESG'S VERIFICATION PROCESS

ISS ESG is one of the world's leading independent environmental, social and governance (ESG) research, analysis and rating houses. The company has been actively involved in the sustainable capital markets for over 25 years. Since 2014, ISS ESG has built up a reputation as a highly-reputed thought leader in the green and social bond market and has become one of the first CBI approved verifiers.

ISS ESG has conducted this independent Second Party Opinion of the Sustainability-Linked Instruments to be issued by LANXESS based on ISS ESG methodology and in line with the ICMA Sustainability-Linked Bond Principles and the LMA Sustainability-Linked Loan Principles.

The engagement with LANXESS took place in April/May 2021.

### ISS ESG'S BUSINESS PRACTICES

ISS has conducted this verification in strict compliance with the ISS Code of Ethics, which lays out detailed requirements in integrity, transparency, professional competence and due care, professional behaviour and objectivity for the ISS business and team members. It is designed to ensure that the verification is conducted independently and without any conflicts of interest with other parts of the ISS Group.

## About ISS ESG SPO

ISS ESG is one of the world's leading rating agencies in the field of sustainable investment. The agency analyses companies and countries regarding their environmental and social performance.

As part of our Sustainable (Green & Social) Bond Services, we provide support for companies and institutions issuing sustainable bonds, advise them on the selection of categories of projects to be financed and help them to define ambitious criteria.

We assess alignment with external principles (e.g. the ICMA Green / Social Bond Principles), analyse the sustainability quality of the assets and review the sustainability performance of the issuer themselves. Following these three steps, we draw up an independent SPO so that investors are as well informed as possible about the quality of the bond / loan from a sustainability perspective.

Learn more: <https://www.isscorporatesolutions.com/solutions/esg-solutions/green-bond-services/>

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