

Registration number: 3498959

LANXESS Limited
Annual Report and Financial Statements
for the Year Ended 31 December 2020



LANXESS Limited

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LANXESS Limited

Company Information

Directors	Mr J L A Perez Mr A J Risino Mr R G Krueger
Registered office	Tenax Road Traford Park Manchester M17 1WT
Solicitors	Eversheds Sutherland 1 Wood Street London United Kingdom EC2V 7WS
Bankers	The Royal bank of Scotland Corporate Banking 135 Bishopgate London EC2M 3UR Deutsche Bank AG Region West An den Dominikanern 11-27 50668 Koln Germany

LANXESS Limited

Strategic Report for the Year Ended 31 December 2020

The directors present their strategic report for the year ended 31 December 2020.

Fair review of the business

Company Objectives

LANXESS Limited is part of a global group with a product portfolio ranging from polymers to industrial speciality and fine chemicals.

The organisation of the company is such that it secures conditions that include diversified customer base, flexible asset structure and an entrepreneurial management structure; this ensures the long term success of our business.

LANXESS has positioned itself as a reliable high tech supplier of premium products, which has enabled us to strengthen customer loyalty setting us apart from our competition.

LANXESS has a positive outlook for its business as future development is based around four key megatrends.

Agriculture - as populations expand there will be a sharp increase in the demand for food.

Urbanisation - more migration from rural areas to cities increasing demand for new housing and work space.

Mobility - increase in travel in emerging countries leads to increasing demand for both private and public transport.

Water - growing populations and climate change will mean water increasingly becomes a scarce resource.

Business review

As a result of the reorganisation of some business units within LANXESS Limited, the 2020 sales revenue increased 84% compared to 2019. This reorganisation impacted mainly on the Material Protection Products business.

Distribution costs increased by 1% (2019: increase of 5%) resulting in an increase in operating profit of 190% (2019: decrease of 111%). The company has net assets at book value of £15,014k as at 31 December 2020 (2019: £22,925k)

The company's key financial and other performance indicators during the year were as follows:

	Unit	2020	2019
Increase in revenue gross sales - This KPI is calculated by taking the turnover and other operating income as a % movement from the prior year.	%	84.00	10.00
Gross Margin year on year change - The gross Margin is calculated by deducting the Raw material and consumable total from the Turnover.	%	7.00	(19.00)
Return on Capital Invested - This KPI is calculated by dividing the profit on ordinary activities before taxation by the called up share capital.	%	4.00	(0.14)

LANXESS Limited

Strategic Report for the Year Ended 31 December 2020 (continued)

Principal risks and uncertainties

The principal risks and uncertainties of the company are integrated with the principal risks of the LANXESS AG group and are not managed separately.

Complying with laws and regulations

Risk description

There are continuously expanding laws and regulatory requirements in environmental, health and safety and product registration areas and we may be held responsible for any liabilities arising out of non-compliance with these laws and regulations.

Mitigating actions

The directors use both internal employees and external advisors to monitor compliance with specific laws and regulations. We support the EU REACH chemical regulation program for environmental and public safety and have so far registered all the chemicals that are relevant for the company by the stipulated deadlines.

The company remains dedicated to minimizing compliance risk by fostering an open and transparent culture through continuous employee training, education and adherence to our Code of Conduct.

Foreign Exchange volatility

Risk description

Foreign exchange rates have seen significant fluctuation in recent years, particularly following the United Kingdom's decision to exit the European Union. Many of our raw materials are priced in Euros (EUR) and US Dollars (USD) and this can have a negative impact on our profitability.

Mitigating actions

Foreign exchange volatility is managed at Group level using financial derivatives to hedge exposure. The Company aids this process through weekly EUR and USD cash requirement forecasting.

Sourcing of raw materials and energy

Risk description

Supply and prices of key raw materials and energy can be volatile, affected by economic turbulence and additional regulations. This can have a direct impact on our margins and our ability to maintain our competitive position.

Mitigating actions

Our procurement processes and organisation are designed to leverage the cost, quality and delivery of raw materials and energy, including the performance of suppliers. Whilst we attempt to match raw material and energy price increases with corresponding product price increases we may not be able to do so immediately. Ultimately, our ability to pass on increases depends on market conditions.

Covid-19 Pandemic

Risk description

The risk caused by the outbreak of coronavirus, which started in China in December 2019 and has been declared a Public Health Emergency by the World Health Organisation. The virus is a potential hazard to the health and safety of our employees, the ability of both our and our customers' businesses to operate normally and poses adverse risk to global supply chains and the flow of goods and services.

Mitigating actions

We are closely monitoring our employees health, safety and security and relevant regulatory requirements. We have implemented extensive hygiene control and prevention measures for our office and field-based staff, put in place temporary travel restrictions and are engaging with our customers to support their needs. We have employees engaged in working groups at the Group, regional and local levels to monitor the situation and put appropriate mitigation action and continuity plans in place.

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Strategic Report for the Year Ended 31 December 2020 (continued)

Section 172(1) statement

The Company's objective is to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. Throughout the year, the Board was mindful of the long-term consequences of the decisions it made, focusing on the interests of relevant stakeholders as appropriate.

The Company is committed to maintaining a workplace that is safe, professional and supportive of teamwork and trust and the interest of all employees is considered in major decisions. The Company is committed to creating and sustaining a work environment of mutual trust where all employees are treated with respect and dignity, compensated fairly, and are entitled to adequate and flexible working hours. The Company adopts an open approach to employee communications, with regular updates from senior management across the business divisions, both at company level and wider Group. The Company values the diversity of its people and each of its employees is recognised as an important member of our team.

The Company respects the rights, values and dignity of all employees, customers, contractors, vendors and other stakeholders. The Company aims to build enduring relationships with customers, partners, suppliers and the local community.

The Company is committed to protecting and maintaining the quality of the environment and to promoting the health and safety of its employees, contractors, suppliers, customers, visitors and the communities in which it operates. Compliance with all legislation intended to protect people, property and the environment is a fundamental priority and applies to our products as well as to our processes. The LANXESS group has declared a target of net zero carbon emissions by 2040 and the Board fully supports this and considers the actions taken in the Company to reduce water and material wastage, to conserve energy and to utilise recycled materials where possible. Management lead by example and allocate the required resources to achieve excellence in HSE performance.

The Company is committed to operating as a responsible corporate citizen and to complying with all relevant local, national and international laws. It has a Code of Conduct to which all employees are expected to adhere.

After weighing up all relevant factors, the Directors consider which course of action best enables delivery of the Company's strategy through the long-term, taking into consideration the impact on stakeholders and the need to ensure the long-term sustainability of the Company. The Directors, in doing so, act as fairly as possible between the Company's members. Decisions on the Company's approach to investment opportunities, Capex, R&D, dividend policy and the defined benefit pension plan, taken during the course of the year, were all carefully considered against this backdrop.

Engagement with employees

Considerable importance is placed on the involvement of employees. During the year the policy of providing employees with information about the Company has been continued through Company journals, notice boards and conferences. Regular meetings are held between local management and employees to allow a free flow of information and ideas.

Approved by the Board on 22 September 2021 and signed on its behalf by:



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Mr A J Risino
Director

LANXESS Limited

Directors' Report for the Year Ended 31 December 2020

The directors present their report and the financial statements for the year ended 31 December 2020.

Business Performance and operations

The company has made a profit for the financial year of £89k (2019: £3k).

A full business overview is included in the Strategic report on page 2.

Results and dividends

The results for the company are set out on page 8. During the year, there was a dividend payment of £8m (2019: £nil).

Directors' of the company

The directors, who held office during the year, were as follows:

Mr H Hueppeler (resigned 15 June 2020)

Mr J L A Perez

Mr A J Risino (appointed 15 June 2020)

Mr R G Krueger (appointed 15 June 2020)

Employment of disabled persons

It is company policy to give full and fair consideration to applications for employment made by disabled persons, to continue wherever possible the employment of staff who become disabled, and to provide opportunities for the training and career development of disabled employees.

Employee involvement

Considerable importance is placed on the involvement of employees. During the year the policy of providing employees with information about the Company has been continued through Company journals, notice boards and conferences. Regular meetings are held between local management and employees to allow a free flow of information and ideas.

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Directors' Report for the Year Ended 31 December 2020 (continued)

Going concern

The rapid spread of the COVID-19 virus has led to a significant number of infections in 2020. The measures taken by various governments to contain the virus have affected economic activity. We have taken a number of measures to minimise the impact of the COVID-19 pandemic on our business, including codes of conduct on health and safety for our employees (e.g. physical distance at work and working from home where possible) and securing the supply of raw materials essential to our production process.

The manufacturing plant has continued to operate at full efficiency, however, production has been at a lower rate due to key customers closing during the UK lockdown.

In the preparation of these financial statements, the future impact of Covid-19 has been considered as part of the adoption to maintain the going concern assumption.

We will continue to comply with government regulations and, in parallel, will do everything possible to continue our operations in the best possible way without endangering the health of our employees and other stakeholders.

Directors' indemnities

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006.

The indemnity was in force throughout the last financial year and is currently in force.

The Company also purchased and maintained throughout the financial year Directors' and Officers' liability insurance in respect of itself and its Directors.

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

LANXESS Limited

Directors' Report for the Year Ended 31 December 2020 (continued)

Approved by the Board on 22 September 2021 and signed on its behalf by:



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Mr A. J. Risino
Director

LANXESS Limited

Profit and Loss Account for the Year Ended 31 December 2020

	Note	2020 £ 000	2019 £ 000
Turnover		29,393	15,956
Cost of sales		<u>(24,265)</u>	<u>(11,175)</u>
Gross profit		5,128	4,781
Distribution costs		(3,679)	(3,631)
Administrative expenses		<u>(1,316)</u>	<u>(1,299)</u>
Operating profit/(loss)	2	133	<u>(149)</u>
Interest receivable and similar income	5	23	137
Interest payable and similar expenses	6	<u>(2)</u>	<u>(4)</u>
		<u>21</u>	<u>132</u>
Profit/(loss) before tax		154	(17)
Tax on profit/(loss)	7	<u>(65)</u>	<u>20</u>
Profit for the year		<u>89</u>	<u>3</u>

The above results were derived from continuing operations.

LANXESS Limited

Statement of Comprehensive Income for the Year Ended 31 December 2020

	2020	2019
	£ 000	£ 000
Profit for the year	89	3
Total comprehensive income for the year	<u>89</u>	<u>3</u>

The notes on pages 12 to 31 form an integral part of these financial statements.

LANXESS Limited

**(Registration number: 3498959)
Balance Sheet as at 31 December 2020**

	Note	31 December 2020 £ 000	31 December 2019 £ 000
Fixed assets			
Tangible assets	8	3,807	3,695
Right-of-use assets	9	85	185
Deferred tax assets	7	30	27
		<u>3,922</u>	<u>3,907</u>
Current assets			
Stocks	10	4,434	3,388
Debtors	11	14,884	17,880
Other financial assets		22	-
Cash at bank and in hand		21	11
		<u>19,361</u>	<u>21,279</u>
Creditors: Amounts falling due within one year	12	<u>(8,241)</u>	<u>(2,174)</u>
Net current assets		<u>11,120</u>	<u>19,105</u>
Total assets less current liabilities		15,042	23,012
Provisions for liabilities	13	<u>(28)</u>	<u>(87)</u>
Net assets		<u>15,014</u>	<u>22,925</u>
Capital and reserves			
Called up share capital	14	4,000	12,000
Profit and loss account		<u>11,014</u>	10,925
Shareholders' funds		<u>15,014</u>	<u>22,925</u>
Audit exemption statement			

For the year ending 31 December 2020, the company was entitled to exemption from audit under section 479A of the Companies Act 2006 relating to subsidiary companies.

Directors' responsibilities:

The members have not required the company to obtain an audit of its accounts for the year in question in accordance with section 476. The directors acknowledge their responsibilities for complying with the requirements of the Act with respect to accounting records and the preparation of accounts.

Approved by the Board on 22 September 2021 and signed on its behalf by:



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Mr A J Risino
Director

LANXESS Limited

Statement of Changes in Equity for the Year Ended 31 December 2020

	Share capital	Retained	Total
	£ 000	earnings	£ 000
	£ 000	£ 000	£ 000
At 1 January 2020	12,000	10,925	22,925
Capital reduction for distribution	(8,000)	-	(8,000)
At 1 January 2020 (As restated)	4,000	10,925	14,925
Profit for the year	-	89	89
Total comprehensive income	-	89	89
At 31 December 2020	4,000	11,014	15,014
	Share capital	Retained	Total
	£ 000	earnings	£ 000
	£ 000	£ 000	£ 000
At 1 January 2019	12,000	10,922	22,922
Profit for the year	-	3	3
Total comprehensive income	-	3	3
At 31 December 2019	12,000	10,925	22,925

LANXESS Limited

Notes to the Financial Statements for the Year Ended 31 December 2020

1 Accounting policies

Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework.

Basis of measurement

The financial statements have been prepared on the historical cost basis, except for the following material items in the statement of financial position:

- derivative financial instruments are measured at fair value;
- non-derivative financial instruments at fair value through profit or loss are measured at fair value;
- available-for-sale financial assets are measured at fair value;

Going concern

The company has a history of profitable operations and has sufficient reserves to provide funding for its activities and to augment its working capital. Having regard to the Company's existing working capital position and its ability to raise potential financing, if required, the Directors are of the opinion that the Company has adequate resources to enable it to undertake its planned activities over the next twelve months.

Foreign currencies

Trading transactions denominated in foreign currencies are translated into sterling at the rate of exchange ruling when the transaction was entered into. Foreign monetary assets and liabilities are translated into sterling at the exchange rate ruling at the balance sheet date. Exchange gains or losses are included in the profit and loss account in the period in which they arise.

Pensions

The company operates a defined contribution pension scheme which is available to all its employees. The assets of the scheme are held separately from those of the company in an independently administered fund. All contributions payable by the company are charged to the profit and loss account in the period to which they relate.

Taxation

The charge for current tax is based on the results for the year as adjusted for items which are non-assessable or disallowed. It is calculated using rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction which affects neither the tax profit nor the accounting profit.

Deferred tax is calculated at the rates that are expected to apply when the asset or liability is settled. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

LANXESS Limited

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

1 Accounting policies (continued)

Property, plant and equipment

Tangible fixed assets are stated at their purchase price, together with any incidental expenses of acquisition less accumulated depreciation. The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable. Any impairment of tangible fixed assets will be charged to the profit and loss account in the period it arises.

Depreciation

Depreciation is calculated so as to write off the cost of tangible fixed assets using the straight-line method.

Freehold land is not depreciated.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

Asset class	Years
Freehold buildings	20 - 25 years
Plant and machinery	1 - 10 years
Furniture and office equipment	3 - 4 years
Motor vehicles	3 - 4 years

Intangible assets

The software licenses acquired are capitalised on the basis of costs incurred to acquire and implement the software. These are accounted for using the cost model whereby capitalised costs are amortised on a straight-line basis over their estimated useful lives which is five years. These assets are subject to the impairment testing noted below.

Impairment

At each balance sheet date, the Company reviews the carrying amounts of its tangible and intangible assets with finite lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is land or buildings at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase. However, impairment losses relating to goodwill may not be reversed.

LANXESS Limited

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

1 Accounting policies (continued)

Inventories

Stocks are stated at the lower of cost and net realisable value. Cost is determined on a first in first out basis and includes transportation, handling and duty as appropriate. The cost of products manufactured by the company consist of direct material and labour costs, together with production overheads where applicable, based on a normal level of activity. Provision is made where necessary for obsolete, slow moving and defective stock. Net realisable value is the price at which stocks can be sold in the normal course of business after allowing for the costs of realisation.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event which it is probable will result in an outflow of economic benefits that can be reasonably estimated.

Share capital

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the above categories of financial assets. Available-for-sale financial assets are recognised initially at fair value plus any directly attributable transaction costs.

Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments, are recognised in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognised, the gain or loss accumulated in equity is reclassified to profit or loss.

LANXESS Limited

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

1 Accounting policies (continued)

Non-derivative financial liabilities

The Company initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities are recognised initially on the trade date, which is the date that the Company becomes a party to the contractual provisions of the instrument. The Company derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

The Company classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise loans and borrowings, debt securities issued, bank overdrafts, and trade and other payables.

Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the statement of cash flows.

Equity instruments

Equity instruments are recorded at the proceeds received, net of direct issue costs.

Lessor activities

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. The company recognises revenue when performance obligations have been satisfied and for the company this is when the goods have transferred to the customer and the customer has control of these.

Where the goods or services promised within a contract are distinct, they are identified as separate performance obligations and are accounted for separately. Where separate performance obligations are identified, total revenue is allocated on the basis of relative stand-alone selling prices or management's best estimate of relative value where stand-alone selling prices do not exist.

The company's activities are described in detail below.

(a) Sales of goods

Sales are recognised when control of the products has transferred, being when the products are delivered, the customer has full discretion over the use of the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been accepted by the customer in accordance with the sales agreement, or the company has objective evidence that all criteria for acceptance has been satisfied.

LANXESS Limited

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

1 Accounting policies (continued)

Interest income/(expense)

Interest income/(expense) is recognised using the effective interest rate method. In calculating interest income/(expense), the effective interest rate is applied to the gross carrying amount of the asset, when the asset is not impaired or to the amortised cost of the liability for interest expense. For financial assets that have been impaired after initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer impaired the interest income calculation reverts to the gross carrying amount.

New and amended standards adopted by the company

There are no amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 December 2020.

Financial instruments (post January 2018)

Initial recognition

Financial assets and financial liabilities comprise all assets and liabilities reflected in the statement of financial position, although excluding property, plant and equipment, investment properties, intangible assets, deferred tax assets, prepayments, deferred tax liabilities and employee benefits plan.

The company recognises financial assets and financial liabilities in the statement of financial position when, and only when, the company becomes party to the contractual provisions of the financial instrument.

Financial assets are initially recognised at fair value. Financial liabilities are initially recognised at fair value, representing the proceeds received net of premiums, discounts and transaction costs that are directly attributable to the financial liability.

All regular way purchases and sales of financial assets and financial liabilities classified as fair value through profit or loss ("FVTPL") are recognised on the trade date, i.e. the date on which the company commits to purchase or sell the financial assets or financial liabilities. All regular way purchases and sales of other financial assets and financial liabilities are recognised on the settlement date, i.e. the date on which the asset or liability is received from or delivered to the counterparty. Regular way purchases or sales are purchases or sales of financial assets that require delivery within the time frame generally established by regulation or convention in the market place.

Subsequent to initial measurement, financial assets and financial liabilities are measured at either amortised cost or fair value.

LANXESS Limited

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

1 Accounting policies (continued)

Classification and measurement

Financial instruments are classified at inception into one of the following categories, which then determine the subsequent measurement methodology:-

Financial assets are classified into one of the following three categories:-

- financial assets at amortised cost;
- financial assets at fair value through other comprehensive income (FVTOCI); or
- financial assets at fair value through the profit or loss (FVTPL).

Financial liabilities are classified into one of the following two categories:-

- financial liabilities at amortised cost; or
- financial liabilities at fair value through the profit or loss (FVTPL).

The classification and the basis for measurement are subject to the company's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets, as detailed below:-

Financial assets at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:-

- the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

If either of the above two criteria is not met, the financial assets are classified and measured at fair value through the profit or loss (FVTPL).

If a financial asset meets the amortised cost criteria, the company may choose to designate the financial asset at FVTPL. Such an election is irrevocable and applicable only if the FVTPL classification significantly reduces a measurement or recognition inconsistency.

Financial assets at fair value through other comprehensive income (FVTOCI)

A financial asset is measured at FVTOCI only if it meets both of the following conditions and is not designated as at FVPTL:-

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investments that is not held for trading, the company may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

If an equity investment is designated as FVTOCI, all gains and losses, except for dividend income, are recognised in other comprehensive income and are not subsequently included in the statement of income.

Financial assets at fair value through the profit or loss (FVTPL)

Financial assets not otherwise classified above are classified and measured as FVTPL.

LANXESS Limited

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

1 Accounting policies (continued)

Financial liabilities at amortised cost

All financial liabilities, other than those classified as financial liabilities at FVTPL, are measured at amortised cost using the effective interest rate method.

Financial liabilities at fair value through the profit or loss

Financial liabilities not measured at amortised cost are classified and measured at FVTPL. This classification includes derivative liabilities.

De-recognition

Financial assets

The company derecognises a financial asset when:

- the contractual rights to the cash flows from the financial asset expire,
- it transfers the right to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred; or
- the company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On de-recognition of a financial asset, the difference between the carrying amount of the asset and the sum of the consideration received is recognised as a gain or loss in the profit or loss.

Any cumulative gain or loss recognised in OCI in respect of equity investment securities designated as FVTOCI is not recognised in profit or loss on de-recognition of such securities. Any interest in transferred financial assets that qualify for de-recognition that is created or retained by the company is recognised as a separate asset or liability.

The company enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised.

When the company derecognises transferred financial assets in their entirety, but has continuing involvement in them then the entity should disclose for each type of continuing involvement at the reporting date:

(a) The carrying amount of the assets and liabilities that are recognised in the entity's statement of financial position and represent the entity's continuing involvement in the derecognised financial assets, and the line items in which those assets and liabilities are recognised.

(b) The fair value of the assets and liabilities that represent the entity's continuing involvement in the derecognised financial assets;

(c) The amount that best represents the entity's maximum exposure to loss from its continuing involvement in the derecognised financial assets, and how the maximum exposure to loss is determined

(d) The undiscounted cash outflows that would or may be required to repurchase the derecognised financial assets or other amounts payable to the transferee for the transferred assets

Financial liabilities

The company derecognises a financial liability when its contractual obligations are discharged, cancelled, or expire.

LANXESS Limited

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

1 Accounting policies (continued)

Modification of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to the cash flows from the original financial asset are deemed to expire. In this case the original financial asset is derecognised and a new financial asset is recognised at either amortised cost or fair value.

If the cash flows are not substantially different, then the modification does not result in de-recognition of the financial asset. In this case, the company recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in the statement of income.

Financial liabilities

If the terms of a financial liabilities are modified, the company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual obligations from the cash flows from the original financial liabilities are deemed to expire. In this case the original financial liabilities are derecognised and new financial liabilities are recognised at either amortised cost or fair value.

If the cash flows are not substantially different, then the modification does not result in de-recognition of the financial liabilities. In this case, the company recalculates the gross carrying amount of the financial liabilities and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in the statement of income.

LANXESS Limited

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

1 Accounting policies (continued)

Impairment of financial assets

Measurement of Expected Credit Losses

The company recognises loss allowances for expected credit losses (ECL) on financial instruments that are not measured at FVPTL, namely:

- Financial assets that are debt instruments
- Accounts and other receivables
- Financial guarantee contracts issued; and
- Loan commitments issued.

The company classifies its financial instruments into stage 1, stage 2 and stage 3, based on the applied impairment methodology, as described below:

Stage 1: for financial instruments where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired on origination, the company recognises an allowance based on the 12-month ECL.

Stage 2: for financial instruments where there has been a significant increase in credit risk since initial recognition but they are not credit-impaired, the company recognises an allowance for the lifetime ECL.

Stage 3: for credit-impaired financial instruments, the company recognises the lifetime ECL.

The company measures loss allowances at an amount equal to the lifetime ECL, except for the following, for which they are measured as a 12-month ECL:

- debt securities that are determined to have a low credit risk (equivalent to investment grade rating) at the reporting date; and
- other financial instruments on which the credit risk has not increased significantly since their initial recognition.

The company considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'.

A 12-month ECL is the portion of the ECL that results from default events on a financial instrument that are probable within 12 months from the reporting date.

Provisions for credit-impairment are recognised in the statement of income and are reflected in accumulated provision balances against each relevant financial instruments balance.

Evidence that the financial asset is credit-impaired include the following;

- Significant financial difficulties of the borrower or issuer;
- A breach of contract such as default or past due event;
- The restructuring of the loan or advance by the company on terms that the company would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for the security because of financial difficulties; or
- There is other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the company, or economic conditions that correlate with defaults in the company.

LANXESS Limited

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

1 Accounting policies (continued)

For trade receivables, the company applies the simplified approach, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The company has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

The expected loss rates are based on the payment profiles of sales over a period of 36 month before Thursday, December 31, 2020 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The company has identified the GDP and the unemployment rate of the countries in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

Derivative financial instruments

Derivative financial instruments are contracts, the value of which is derived from one or more underlying financial instruments or indices, and include futures, forwards, swaps and options in the interest rate, foreign exchange, equity and credit markets.

Derivative financial instruments are recognised in the statement of financial position at fair value. Fair values are derived from prevailing market prices, discounted cash flow models or option pricing models as appropriate.

In statement of financial position, derivative financial instruments with positive fair values (unrealised gains) are included as assets and derivative financial instruments with negative fair values (unrealised losses) are included as liabilities.

The changes in the fair values of derivative financial instruments entered into for trading purposes are included in trading income.

Hedge accounting

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets and liabilities.

The company designates certain derivatives held for risk management as well as certain non-derivative financial instruments as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the company formally documents the relationship between the hedging instruments and hedge items, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The company makes an assessment, both at inception of the hedge relationship and on an ongoing basis, of whether the hedging instruments are expected to be highly effective in offsetting that changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated.

These hedging relationships are discussed below.

LANXESS Limited

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

1 Accounting policies (continued)

Fair value hedges

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised assets or liability or a firm commitment that could affect profit or loss, changes in the fair value of the derivative are recognised immediately in profit or loss, together with changes in the fair value of the hedged item that are attributable to the hedged risk (in the same line item in the statement of profit or loss and OCI as the hedged item).

If hedging derivatives expire or are sold, terminated or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. However, if the derivative is novated to a central clearing counterparty by both parties as a consequence of laws or regulations without changes in its terms except for those that are necessary for the novation, then the derivative is not considered expired or terminated.#

Any adjustment up to the point of discontinuation of a hedged item for which the effective interest method is used is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

Cash flow hedges

The company makes an assessment for a cash flow hedge of a forecast transaction, of whether the forecast transaction is highly probable to occur and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability that could affect profit or loss, then the effective portion of changes in the fair value of the derivative is recognised in OCI and presented in the hedging reserve within equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. The amount recognised in OCI is reclassified to profit or loss as a reclassification adjustment in the same period as the hedged cash flows affect profit or loss, and in the same line item in the statement of profit or loss and OCI.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. However, if the derivative is novated to a central clearing counterparty by both parties as a consequence of laws or regulations without changes in its terms except for those that are necessary for the novation, then the derivative is not considered expired or terminated.

Hedges of a net investment in a foreign operation

When a derivative instrument or a non-derivative financial liability is designated as the hedging instrument in a hedge of a foreign investment, the effective portion of changes in the fair value of the hedging instrument is recognised in OCI and presented as a separate reserve within equity.

Any ineffective portion of the changes in the fair value of the hedge instrument is recognised immediately in profit or loss. The amount recognised in OCI is reclassified to profit or loss as a reclassification adjustment on disposal of the foreign investment.

LANXESS Limited

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

1 Accounting policies (continued)

Accounting estimates and assumptions

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of certain financial assets, liabilities, income and expenses.

The use of estimates and assumptions is principally limited to the determination of provisions for impairment, the valuation of financial instruments as explained in more detail below:-

Provisions for impairment

In determining impairment of financial assets, judgement is required in the estimation of the amount and timing of future cash flows as well as an assessment of whether the credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL.

Fair value of financial assets and liabilities

Where the fair value of financial assets and liabilities cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is derived from observable markets where available, but where this is not feasible, a degree of judgement is required in determining assumptions used in the models. Changes in assumptions used in the models could affect the reported fair value of financial assets and liabilities.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise cash and cash equivalents, and trade and other receivables.

2 Operating profit

Arrived at after charging/(crediting)

	2020 £ 000	2019 £ 000
Operating profit is stated after charging		
Wages and salaries	2,535	2,824
Social security costs	397	409
Other pension costs	349	337
Other benefit costs	-	12
Depreciation on owned assets	148	141
Depreciation on right of use assets	100	123
Operating lease expense	195	116
Foreign exchange gains	(25)	(9)
	<u>3,699</u>	<u>3,955</u>

LANXESS Limited

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

3 Directors' remuneration

The directors' remuneration for the year was as follows:

	2020	2019
	£ 000	£ 000
Aggregate emoluments (for 3 directors)	111	150

Two directors are employed by LANXESS Solutions UK Ltd (a related company) and their remuneration for services to LANXESS Limited during the year of £56,000 (2019: £45,000) has been allocated but not recharged.

4 Employee information

The average number of persons employed by the company (including directors) during the year, analysed by category was as follows:

	2020	2019
	No.	No.
Manufacturing	19	18
Sales & marketing	21	25
General administration	6	7
Total	46	50

5 Other interest receivable and similar income

	2020	2019
	£ 000	£ 000
Interest income on bank deposits	23	137

6 Interest expense on leases

	2020	2019
	£ 000	£ 000
Interest expense on leases	2	4

LANXESS Limited

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

7 Income tax

Tax charged/(credited) in the profit and loss account

	2020 £ 000	2019 £ 000
Current taxation		
UK corporation tax	62	22
UK corporation tax adjustment to prior periods	/	(24)
	69	(2)
Deferred taxation		
Arising from origination and reversal of temporary differences	(4)	(18)
Tax expense/(receipt) in the profit and loss account	65	(20)

The tax on profit before tax for the year is higher than the standard rate of corporation tax in the UK (2019 - the same as the standard rate of corporation tax in the UK) of 19% (2019 - 19%).

The differences are reconciled below:

	2020 £ 000	2019 £ 000
Profit/(loss) before tax	154	(17)
Corporation tax at standard rate	29	(3)
Increase (decrease) from effect of expenses not deductible in determining taxable profit (tax loss)	32	26
Increase (decrease) in current tax from adjustment for prior periods	7	(24)
Deferred tax expense (credit) from unrecognised temporary difference from a prior period	(4)	(18)
Total tax charge/(credit)	65	(20)

Changes in the UK corporation tax rates were substantively enacted as part of Finance Act 2016.

Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

LANXESS Limited

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

7 Income tax (continued)

Deferred tax

Deferred tax assets and liabilities

Deferred tax movement during the year:

	At 1 January 2020 £ 000	Recognised in income £ 000	At 31 December 2020 £ 000
Accelerated tax depreciation	27	3	30

Deferred tax movement during the prior year:

	At 1 January 2019 £ 000	Recognised in income £ 000	At 31 December 2019 £ 000
Accelerated tax depreciation	9	18	27

LANXESS Limited

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

8 Tangible Assets

	Freehold land and buildings £ 000	Plant and machinery £ 000	Furniture, fittings and equipment £ 000	Assets under construction £ 000	Total £ 000
Cost or valuation					
At 1 January 2020	6,054	3,037	519	53	9,663
Additions	-	240	-	20	260
Transfers	45	-	-	(45)	-
At 31 December 2020	6,099	3,277	519	28	9,924
Depreciation					
At 1 January 2020	2,458	2,991	519	-	5,968
Charge for the year	140	9	-	-	148
At 31 December 2020	2,598	2,999	519	-	6,116
Carrying amount					
At 31 December 2020	3,501	278	-	28	3,807
At 31 December 2019	3,596	46	-	53	3,695

Included within the net book value of land and buildings above is Freehold land amounting to £2,899,000 (2019: £2,899,000) which has not been depreciated.

LANXESS Limited

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

9 Right of use assets

	Machinery £ 000	Property £ 000	Fixtures and fittings £ 000	Total £ 000
Cost or valuation				
At 1 January 2019	37	61	175	274
Additions	-	-	35	35
At 31 December 2019	37	61	210	309
At 1 January 2020	37	61	210	309
Disposals	(13)	(61)	(25)	(99)
At 31 December 2020	24	-	186	210
Depreciation				
Charge for year	12	37	75	123
At 31 December 2019	12	37	75	123
At 1 January 2020	12	37	75	123
Charge for the year	11	25	65	100
Eliminated on disposal	(13)	(61)	(25)	(99)
At 31 December 2020	10	-	115	125
Carrying amount				
At 31 December 2020	14	-	71	85
At 31 December 2019	25	25	136	185

10 Inventories

	31 December 2020 £ 000	31 December 2019 £ 000
Raw materials and consumables	527	575
Finished goods and goods for resale	3,907	2,813
	4,434	3,388

The value of stocks in the balance sheet is not materially different from the replacement cost

LANXESS Limited

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

11 Debtors

	31 December 2020 £ 000	31 December 2019 £ 000
Trade debtors	4,481	2,470
Income tax asset	214	231
Net trade debtors	4,695	2,701
Amounts owed by group undertakings	9,845	14,907
Other debtors	279	214
Prepayments and accrued income	65	58
	14,884	17,880

Amounts owed by group undertakings, excluding trade receivables of £728,984 (2019: £670,629) are unsecured, interest-bearing (at variable rates not materially different from LIBOR) and repayable on demand.

Trade receivables owed by group undertakings are unsecured, interest free and repayable on demand.

12 Creditors: Amount falling due within one year

	31 December 2020 £ 000	31 December 2019 £ 000
Trade creditors	248	375
Amounts owed to group undertakings	5,838	1,057
Accruals and deferred income	1,873	518
Provisions	195	99
Current portion of long term lease liabilities	87	125
	8,241	2,174

Amounts owed to group undertakings are unsecured, interest free and repayable on demand.

13 Other provisions

	Long term lease obligations £ 000	Total £ 000
At 1 January 2020	(87)	(87)
Increase (decrease) in existing provisions	59	59
At 31 December 2020	(28)	(28)

The provisions shown above relate to the long term liabilities for finance leases.

LANXESS Limited

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

14 Share capital

Allotted, called up and fully paid shares

	31 December 2020		31 December 2019	
	No. 000	£ 000	No. 000	£ 000
Allotted and fully paid of £1 each	12,000	12,000	12,000	12,000
Capital Share Reduction of £1 (2019 - £0) each	(8,000)	(8,000)	-	-
	<u>4,000</u>	<u>4,000</u>	<u>12,000</u>	<u>12,000</u>

15 Pension commitments

Defined contribution pension scheme

The company operates a defined contribution pension scheme, which is available to all its employees. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge for the year represents contributions payable by the company to the scheme and amounted to £348,719 (2019: £336,991).

At the year end there were outstanding contributions of £nil (2019: £24,795) and no prepayments (2019: £nil).

16 Related party transactions

The Company has taken advantage of the disclosure exemption requirement in IAS 24 Related Party Disclosures and is therefore not required to disclose related party transactions entered into between two or more members of a Group.

17 Parent and ultimate parent undertaking

LANXESS Limited is a wholly owned subsidiary of the immediate parent undertaking, LANXESS Deutschland GmbH, a company incorporated in Germany. LANXESS A.G, a company incorporated in Germany, is the ultimate parent undertaking and ultimate controlling party of LANXESS Limited. LANXESS A.G is the parent undertaking of the only group of undertakings to consolidate these financial statements at 31 December 2019. The consolidated financial statements of LANXESS A.G are publicly available and can be obtained from LANXESS A.G, 18 Kennedyplatz 1, 50569 Cologne, Germany.

LANXESS Limited

Notes to the Financial Statements for the Year Ended 31 December 2020 (continued)

17 Parent and ultimate parent undertaking (continued)

Relationship between entity and parents

The parent of the largest group in which these financial statements are consolidated is Lanxess AG, incorporated in Germany.

The address of Lanxess AG is:
18 Kennedyplatz 1, 50569 Cologne, Germany.

18 Contingent liabilities

The company has no contingent liabilities as at 31 December 2020 (2019: £NIL).