
Registration number: 02624692

LANXESS Solutions UK Ltd

Annual Report and Financial Statements

for the Year Ended 31 December 2020



LANXESS Solutions UK Ltd

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LANXESS Solutions UK Ltd

Company Information

Directors Anthony John Risino
Ralf Guenther Krueger
Jacques Louis Albert Perez

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LANXESS Solutions UK Ltd

Strategic Report for the Year Ended 31 December 2020

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

Principal activities and business review

The principal activity of the Company is the manufacture of speciality chemicals, particularly brominated and phosphorous flame retardants and performance additive fluids.

In December 2019 the Trustees of the Great Lakes pension fund agreed to purchase an insurance policy from Aviva, a UK regulated life insurer. The Aviva policy covers all benefits for all members' with the exclusion of an uplift for GMP equalisation an estimate of which has been included in the liability figures. However, a balancing premium is yet to be calculated which will allow for the impact of data cleansing and the impact of any clarifications in relation to the final benefits to be insured (including GMP equalisation). At this stage the adjustment has not been calculated and is not known and the Trustee is working through the process with advisors to finalise the detail of the data and benefits. This change took effect from January 2020 onwards.

Since 2005 the company had manufactured industrial water treatment products for a supply agreement partner. This agreement was terminated by the partner as from November 2020. Revenue from this contract was £16,890,000 in 2020 (2019: £15,805,000). An ongoing project is in place to examine strategies for bringing in new product lines and a comprehensive review of plant efficiency and structures is being undertaken.

Strategy

The business strategy is to generate growth in sales and profitability through technology-led innovation, participating in the growth of the faster growing regions of the world, creating a performance driven culture among its employees and actively managing its business portfolio and costs. The company has three distinct business segments and the largest, bromine additives, is particularly concentrated in the Asian market, where the growth strategy has been enhanced by continuously seeking to improve logistics and product flows.

Performance during 2020

Overall turnover was down by 8% compared to the previous year. Global logistics were affected by Covid-19 related transportation issues, impacting the movement of goods into Asia and the Mediterranean area. Asian demand continued to remain strong for bromine intermediates but the company faced problems sourcing the raw material from its suppliers and then moving materials into Asia. Overall, bromine revenue decreased by 8% compared to the previous year. Sales of phosphorous flame retardants slightly increased. Industrial water treatment products sales to the supply agreement partner were 7% higher, but this contract terminated in November 2020. Performance additive fluids sales were 23% lower than in the previous year, harmed by contracting car production volumes in Europe. Gross margins were 1% lower compared to previous year.

Operating profit decreased by £8,184,000 compared to the prior year. This was driven by lower gross profit of £5,086,000, an increase in administrative expenses of £3,803,000, offset by a reduction in distribution costs of £706,000.

Within administrative expenses there was an increase of £3,056,000 in group service fees due to changes in the allocation of group function costs and foreign exchange differences swung to a loss of £264,000 compared to a gain of £608,000 in the previous year.

Profit before tax in 2020 was £29,748,000 (2019: £40,693,000) a decrease of £10,945,000.

LANXESS Solutions UK Ltd

Strategic Report for the Year Ended 31 December 2020

The Company's key financial performance indicators during the year were as follows:

| | 2020 £ 000 | 2019 £ 000 |
|-------------------------------|---------------|---------------|
| Turnover | 126,403 | 137,751 |
| Gross Profit | 45,272 | 50,358 |
| Operating Profit | 29,779 | 37,963 |
| Profit for the financial year | <u>23,429</u> | <u>33,329</u> |

On time delivery to customers was 80% in 2020 compared to 73% in 2019.

This measurement includes the quantity delivered against the customer order as well as the delivery time. The prior year performance was adversely affected by the fire at the Trafford Park plant in April 2019.

| Safety performance | 2020 | 2019 |
|-----------------------|----------|----------|
| Plant hours worked | 415,112 | 432,955 |
| First aid cases | 3 | 7 |
| Lost time accidents | 2 | 3 |
| No. of lost work days | <u>2</u> | <u>5</u> |

Principal risks and uncertainties

Key risks recognised to the business and actions taken to mitigate them are:

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.

LANXESS Solutions UK Ltd

Strategic Report for the Year Ended 31 December 2020

Climate change

Risk description

We continuously consider the wider context in which we operate and, in particular, the impact of climate change. As a chemicals manufacturer, we recognise that risks associated with climate change are multi-faceted. The direct risk of climate change on the company includes weather volatility impacting customer demand, our ability to move materials across the globe and the costs associated with complying with climate change related operational regulations and disclosure requirements.

Mitigating actions

We will continue to expand the scope of our water, energy and carbon monitoring and target further savings against our baseline to reduce our carbon footprint. We are focused on the energy we use and aim to switch to sourcing our energy from renewable sources where possible. We aim for transparency and in addition to publishing our energy use and carbon footprint, we will expand our data collection and reporting.

Maintaining safety

Risk description

As a manufacturer of chemicals we are exposed to safety risks through damage to our plant and equipment, the surrounding environment and our employees.

Mitigating actions

As a chemical site following the Control of Major Accident Hazards (COMAH) regulations, which ensure that companies take all necessary measures to prevent major accidents involving dangerous substances and limit the consequences to people and the environment of any major accidents that do occur. We have a dedicated health and safety team and promote safe working conditions and practices through active engagement with our employees and visitors to the site.

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 in Germany on behalf of all subsidiaries, using financial derivatives to hedge exposure. The Company does not conduct hedging activity by itself but 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.

LANXESS Solutions UK Ltd

Strategic Report for the Year Ended 31 December 2020

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.

Section 172(1) statement

Under Section 172 of the Companies Act 2006, the Directors have a duty to promote the success of the Company over the long term for the benefit of shareholders as a whole, having regard to a range of other key stakeholders and interests.

The S172 statement focuses on matters of strategic importance to the Company, and the level of information disclosed is consistent with the size and the complexity of the business. The Directors must have regard (amongst other matters) to:

(a) The likely consequences of any decision in the long term

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.

(b) The interests of the Company's employees

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.

(c) The need to foster the Company's business relationships with suppliers, customers and others

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.

LANXESS Solutions UK Ltd

Strategic Report for the Year Ended 31 December 2020

(d) The impact of the Company's operations on the community and the environment

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.

(e) The desirability of the Company maintaining a reputation for high standards of business conduct

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.

(f) The need to act fairly as between members of the Company

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.

Approved by the Board and signed on its behalf by:



Anthony John Risino
Director

22 September 2021

LANXESS Solutions UK Ltd

Directors' Report for the Year Ended 31 December 2020

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

Directors' of the company

The directors of the company who were in office during the year and up to the date of signing the financial statements were as follows:

Anthony John Risino

Christopher James Flett (resigned 15 June 2020)

Ralf Guenther Krueger (appointed 15 June 2020)

Jacques Louis Albert Perez

Charitable and political contributions

The Company made no political contributions during the year (2019: £nil). Donations to non UK charities amounted to £18,000 (2019: £nil).

Future developments

The United Kingdom left the European Union on 31 January 2020, with a trade agreement being finalised at the end of the one year transition period. We were well prepared for the UK's departure and the company has not experienced any particular difficulties in the procurement from, or sale of goods to, the EU so far in 2021, but we recognise that there are still significant risks associated with the availability of chemicals imported into the UK.

The rapid spread of the COVID-19 virus led to a significant number of global infections in 2020 and into 2021. 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 vaccination roll-out in the UK has proceeded at a robust pace but for countries in the wider world there have been issues with the program and the level of infection rates is still volatile across Europe.

The manufacturing plant has continued to operate throughout the UK lockdown period and has not experienced production difficulties. At this stage, the impact on our business is anticipated to be a return to pre Covid levels of activity later in 2021. Our current order book is strong but the company faces Covid-19 related global logistics issues. 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.

Employment of disabled persons

The Company gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person.

Where existing employees become disabled, it is the Company policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion to disabled employees wherever appropriate.

LANXESS Solutions UK Ltd

Directors' Report for the Year Ended 31 December 2020

Employee engagement

How we engage

Feedback surveys, townhall meetings, personal development plans, communications directly from our Group Board of Management, our UK based Country Representative and senior managers.

Topics of engagement

- What is the Impact of COVID-19 on the Company and how are we responding to it? How will this effect our employees? How are we supporting our employees mental health?
- How are we providing our teams with opportunities to develop and grow and reach their full potential?
- How are we embracing diversity and inclusion?
- How are we managing the social and environmental impact of our organisation?

Impact of engagement

- Our employees have been kept fully informed of the business' performance, direction and thinking through the many difficulties created by COVID-19.
- The dynamic of working from home has changed dramatically in the course of the year and it is possible that flexibility of working locations will remain a permanent change.
- Employees have direct access to Occupational Health service providers who can provide help and guidance.

Stakeholder engagement

The success of the company depends on developing and maintaining open and strong relationships with all our key stakeholders. We operate with integrity; comply with laws and regulations and endeavor to treat all stakeholders of the company fairly.

We aim to differentiate our products and enhance the range of capabilities and solutions we can offer to both new and existing customers by offering innovative solutions, high quality products driven by research and development and a commitment to service and solving our customers challenges.

The company has a stable supplier base and seeks to build long term relationships. Where possible we seek local suppliers to fulfil our requirements and work closely with them. Constructive engagement ensures that our suppliers are able to meet our high expectations on safety, quality, value, delivery performance and ethical business conduct. We recognise that prompt payment terms are important and these and other metrics are closely monitored. Strong supplier relationships are important in building a long-term, sustainable and supportive supply chain. Day-to-day interaction with suppliers is conducted largely by supply chain teams within our businesses.

The company, either directly or through other LANXESS Group companies, engages with customers, suppliers and other stakeholders through multiple channels. During the year, engagement included face to face meetings, industry associations and working group memberships, surveys and via the corporate website. Our business operates in highly regulated environments and we need to ensure that we maintain our licences to operate and continue to run our business in full compliance with all laws and regulations. We also need to keep ahead of planned regulatory developments which may impact future operations.

The directors received reports and presentations from management on engagement activities and therefore were provided with a diverse and broad understanding of the issues most relevant to our stakeholders and allowed them to take into account the interest of those stakeholders when performing their duties under s.172.

LANXESS Solutions UK Ltd

Directors' Report for the Year Ended 31 December 2020

Research and development

Costs of £2,310,000 (2019: £2,309,000) are estimated to have been incurred in relation to qualifying research and development expenditure.

Dividends

The directors recommended dividend payments of £57,001,000 in the course of the year ended 31 December 2020 (2019: £59,000,000).

Directors' liabilities

A qualifying third-party indemnity provision as defined in Section 234 of the Companies Act 2006 was in force during the financial year and at the date of approval of the financial statements for the benefit of each of the Directors in respect of liabilities incurred as a result of their office, to the extent permitted by law.

Financial risk management

The management of the company and the execution of the company's strategy are subject to a number of financial risks: market risk (including currency and price risk), credit risk and liquidity risk. These risks are managed by LANXESS AG's Treasury function for the company and fellow Group subsidiaries, including the use of derivative financial instruments (which are held at Group level) to hedge certain risk exposures. The company finances its operations, aided by cashflow forecasting, through intercompany balances to ensure that it has adequate short and long-term funds available to finance current operations and future activities. The company has a net debtor position on these intercompany balances. The Directors confirm that they have reviewed the Company's risk management and internal control systems up to and including the date of approval of the financial statements and are satisfied that they are appropriate to mitigate the financial risks that exist.

Going concern

The rapid spread of the COVID-19 virus has led to a significant number of infections in 2020, both in the UK and globally. The measures taken by various governments to contain the virus have affected economic activity, by closing public venues including schools, offices to non-essential workers, restaurants and other leisure facilities. We have taken a number of measures to minimise the impact of the COVID-19 pandemic on the company by securing the supply of raw materials essential to our production process. This has been done by increasing stock holdings and discussions with suppliers to understand and try to mitigate issues as they arise.

The manufacturing plant has continued to operate at full efficiency and sales have remained stable despite pressures arising from global logistics problems. 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. Health and safety precautions are in place for all employees to ensure their safety at work. Extra emphasis has been put on production areas to ensure social distancing, cleaning facilities, personal protection equipment and understanding of safe working. A prolonged outbreak should not affect either the production facilities or the sales.

The cash flows necessary for the day-to-day running of the company are secured by the LANXESS cash pooling arrangements which support the going concern assertion. The company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the company is expected to be cash generative, and should be expected to be a net depositor into, rather than borrower from, the LANXESS cash pooling facility.

After making enquiries, the directors have a reasonable expectation that the company has access to adequate financial and other resources to continue in operational existence for the foreseeable future. The company therefore continues to adopt the going concern basis in preparing its financial statements.

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Directors' Report for the Year Ended 31 December 2020

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, 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 these 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 judgments 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.

Directors' confirmations

In the case of each director in office at the date the directors' report is approved:

- as far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

LANXESS Solutions UK Ltd

Directors' Report for the Year Ended 31 December 2020

Streamlined energy and carbon reporting ("SECR") requirement

The total consumption and emissions figures for energy supplies reportable by Lanxess Solutions UK Ltd

Consumption (kWh) and Greenhouse Gas emissions (tCO₂e) Totals

The following figures make up the baseline reporting for Lanxess Solutions UK Ltd, as 2020 is the first year that Lanxess Solutions UK Ltd is required to report this information.

Scope 1 consumption and emissions relate to direct combustion of natural gas, and fuels utilised for transportation operations, such as company vehicle fleets, and grey fleet.

~~Scope 2 consumption and emissions relate to indirect emissions relating to the consumption of purchased electricity in day to day business operations.~~

Totals

The total consumption (kWh) figures for energy supplies reportable by Lanxess Solutions UK Ltd are as follows:

| | 2020 UK Consumption (kWh) |
|-------------------------------------|---------------------------------|
| Utility and Scope | |
| Grid-supplied electricity (Scope 2) | 9,442,379 |
| Gaseous and other fuels (Scope 1) | 37,023,626 |
| Transportation (Scope 1 and 3) | 28,604 |
| Total | <u>46,494,609</u> |

The total emission (tCO₂e) figures for energy supplies reportable by Lanxess Solutions UK Ltd are as follows:

| | 2020 UK Consumption (tCo ₂ e) |
|-------------------------------------|--|
| Utility and Scope | |
| Grid-supplied electricity (Scope 2) | 2,201 |
| Gaseous and other fuels (Scope 1) | 6,818 |
| Transportation (Scope 1 and 3) | 7 |
| Total | <u>9,026</u> |

An intensity metric of tCo₂e per total turnover (£m) has been applied for the annual total emissions of LANXESS Solutions UK Ltd. The results of this analysis are as follows:

LANXESS Solutions UK Ltd

Directors' Report for the Year Ended 31 December 2020

| | 2020 UK Intensity Metric |
|--|--------------------------------|
| Intensity Metric | |
| tCO ₂ e / Total Turnover (£m) | 71 |
| Energy Efficiency Improvements | |

LANXESS Solutions UK Ltd are committed to year on year improvements in their operational energy efficiency. As such, a register of energy efficiency measures available to the company has been compiled, with a view to implementing these measures in the next five years.

Measures ongoing and undertaken prior and through 2020:

LED Lighting

At the Deesside site within the workshop area we replaced 5,600W of low bay lamps with 880W of LED lamps resulting in a saving of 11,000kWh per year, equivalent to 2.75 tCO₂e.

Measures prioritised for implementation in 2021:

LED Lighting

At the Deesside site the plan during 2021 is to replace the remaining area of Workshop lighting with LED lamps which will yield a similar saving to the project undertaken during 2020. At the Trafford Park site there is a replacement LED lamps program ongoing as and when an existing unit fails.

Appendix

Reporting Methodology

Scope 1 and 2 consumption and CO₂e emission data has been calculated in line with the 2019 UK Government environmental reporting guidance. The following Emission Factor Databases consistent with the 2019 UK Government environmental reporting guidance have been used, utilising the current published kWh gross calorific value (CV) and kgCO₂e emissions factors relevant for reporting year 01/01/20 - 31/12/20:

Database 2020, Version 1.01

Estimations undertaken to cover missing billing periods for properties directly linked to LANXESS Solutions UK Ltd were calculated on a kWh/day pro-rata basis at meter level. These estimations equated to 7% of reported consumption.

For properties where LANXESS Solutions UK Ltd is indirectly responsible for utilities (i.e. via a landlord or service charge), an average consumption for properties with similar operations was calculated at meter level and applied to the properties with no available data.

Intensity metrics have been calculated utilising the 2020 reportable figures for the following metrics, and tCO₂e for both individual sources and total emissions were then divided by this figure to determine the tCO₂e per metric: Total Turnover (£m) 126.4.

LANXESS Solutions UK Ltd

Directors' Report for the Year Ended 31 December 2020

Reappointment of auditors

The auditors PricewaterhouseCoopers LLP are deemed to be reappointed under section 487(2) of the Companies Act 2006.

Approved by the Board and signed on its behalf by:



Anthony John Risino
Director

22 September 2021

LANXESS Solutions UK Ltd

Independent auditors' report to the members of LANXESS Solutions UK Ltd

Report on the audit of the financial statements

Opinion

In our opinion, LANXESS Solutions UK Ltd's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework" and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Balance Sheet as at 31 December 2020; the Profit and Loss Account, Statement of Comprehensive Income and Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

LANXESS Solutions UK Ltd

Independent auditors' report to the members of LANXESS Solutions UK Ltd

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. ~~If, based on the work we have performed, we conclude that there is a material misstatement of this other~~ information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

LANXESS Solutions UK Ltd

Independent auditors' report to the members of LANXESS Solutions UK Ltd

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to environmental regulations, health and safety regulations and tax regulations, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to inappropriate journal entries to increase revenue or reclass expenditure and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Obtained an understanding of the legal and regulatory framework applicable to the company and how the company is complying with that framework;
- Discussions with management including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations; and
- Challenging assumptions and judgements made by management in their significant accounting estimates.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

LANXESS Solutions UK Ltd

Independent auditors' report to the members of LANXESS Solutions UK Ltd

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

~~We have no exceptions to report arising from this responsibility.~~



.....
Daniel Wilbourn (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester
24 September 2021

LANXESS Solutions UK Ltd

Profit and Loss Account for the Year Ended 31 December 2020

| | Note | 2020 £ 000 | 2019 £ 000 |
|--|------|----------------------|----------------------|
| Turnover | 4 | 126,403 | 137,751 |
| Cost of sales | | <u>(81,131)</u> | <u>(87,393)</u> |
| Gross profit | | 45,272 | 50,358 |
| Distribution costs | | (3,507) | (4,212) |
| Administrative expenses | | <u>(11,986)</u> | <u>(8,183)</u> |
| Operating profit | 5 | 29,779 | 37,963 |
| Interest receivable and similar income | 18 | 5,319 | 7,369 |
| Interest payable and similar expenses | 19 | <u>(5,350)</u> | <u>(4,639)</u> |
| Profit before taxation | | 29,748 | 40,693 |
| Tax on profit | 14 | <u>(6,319)</u> | <u>(7,364)</u> |
| Profit for the financial year | | <u><u>23,429</u></u> | <u><u>33,329</u></u> |

The above results were derived from continuing operations.

LANXESS Solutions UK Ltd

Statement of Comprehensive Income for the Year Ended 31 December 2020

| | Note | 2020 £ 000 | 2019 £ 000 |
|---|------|------------------------|----------------------|
| Profit for the year | | <u>23,429</u> | <u>33,329</u> |
| Items that will not be reclassified subsequently to profit or loss | | | |
| Remeasurement of defined benefit asset | 13 | (60,394) | (1,205) |
| Deferred tax in respect of defined benefit asset | 14 | <u>10,798</u> | <u>205</u> |
| | | <u>(49,596)</u> | <u>(1,000)</u> |
| Total comprehensive (expense)/income for the year | | <u><u>(26,167)</u></u> | <u><u>32,329</u></u> |

The notes on pages 22 to 47 form an integral part of these financial statements.

LANXESS Solutions UK Ltd
(Registration number: 02624692)
Balance Sheet as at 31 December 2020

| | Note | 2020 £ 000 | 2019 £ 000 |
|---|------------|-----------------|-----------------|
| Non-current assets | | | |
| Intangible assets | 9 | 548 | 492 |
| Property, plant and equipment | 10 | 17,889 | 20,889 |
| Right of use assets | 11, 17, 20 | 258 | 155 |
| Investments | 12 | 51,537 | 51,537 |
| Pension asset | 13 | 10,178 | 71,917 |
| Deferred tax assets | 14 | 59 | 193 |
| | | <u>80,469</u> | <u>145,183</u> |
| Current assets | | | |
| Stocks | 15 | 13,767 | 13,865 |
| Trade and other Receivables | 16 | 43,927 | 76,344 |
| | | <u>57,694</u> | <u>90,209</u> |
| Creditors: Amounts falling due within one year | | | |
| Trade and other payables | 17 | (14,084) | (17,279) |
| Provisions for liabilities | 20 | (413) | (413) |
| | | <u>(14,497)</u> | <u>(17,692)</u> |
| Net current assets | | <u>43,197</u> | <u>72,517</u> |
| Total assets less current liabilities | | 123,666 | 217,700 |
| Deferred tax liabilities | 14 | (1,934) | (12,226) |
| Provisions for liabilities | 20 | (1,849) | (2,423) |
| Net assets | | <u>119,883</u> | <u>203,051</u> |
| Capital and reserves | | | |
| Called up share capital | 21 | 100,310 | 100,310 |
| Share premium reserve | | 10,000 | 10,000 |
| Profit and loss account | | 9,573 | 92,741 |
| Total Shareholders' funds | | <u>119,883</u> | <u>203,051</u> |

The financial statements on pages 18 to 47 were authorised for issue and approved by the Board of Directors and signed on its behalf by:



Anthony John Risino
Director

22 September 2021

The notes on pages 22 to 47 form an integral part of these financial statements.
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LANXESS Solutions UK Ltd

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

| | Share capital £ 000 | Share premium account £ 000 | Retained earnings £ 000 | Total £ 000 |
|-------------------------------|------------------------|-----------------------------------|-------------------------------|----------------|
| At 1 January 2020 | 100,310 | 10,000 | 92,741 | 203,051 |
| Profit for the financial year | - | - | 23,429 | 23,429 |
| Other comprehensive expense | - | - | (49,596) | (49,596) |
| Total comprehensive expense | - | - | (26,167) | (26,167) |
| Dividends paid | - | - | (57,001) | (57,001) |
| At 31 December 2020 | 100,310 | 10,000 | 9,573 | 119,883 |

| | Share capital £ 000 | Share premium account £ 000 | Retained earnings £ 000 | Total £ 000 |
|-------------------------------|------------------------|-----------------------------------|-------------------------------|----------------|
| At 1 January 2019 | 100,310 | 25,000 | 104,412 | 229,722 |
| Profit for the financial year | - | - | 33,329 | 33,329 |
| Other comprehensive expense | - | - | (1,000) | (1,000) |
| Total comprehensive income | - | - | 32,329 | 32,329 |
| Dividends paid | - | - | (59,000) | (59,000) |
| Share premium reduction | - | (15,000) | 15,000 | - |
| At 31 December 2019 | 100,310 | 10,000 | 92,741 | 203,051 |

The notes on pages 22 to 47 form an integral part of these financial statements.

LANXESS Solutions UK Ltd

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

1 General information

The company is a private company limited by share capital, incorporated and domiciled in United Kingdom.

The address of its registered office is:

UK Finance 2nd Floor

Tenax Road

Trafford Park

Manchester

M17 1WT

United Kingdom

The Company's financial statements are presented in sterling and all values are rounded to the nearest thousand pounds (£'000) except where otherwise indicated.

2 Accounting policies

Summary of significant accounting policies and key accounting estimates

These financial statements have been prepared on a going concern basis. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The company meets its day-to-day working capital requirements through access to funds as part of the LANXESS group's cash pooling arrangement that is administered through LANXESS AG, a fellow group company, which acts as an internal bank for LANXESS subsidiaries. The company has access to funding levels that are defined, controlled and reviewed from time to time at the sole discretion of LANXESS AG as part of the contractual cash pooling terms and conditions, and either party has the right to withdraw from the agreement by giving twenty days notice, for which no reason needs to be given. Under the cash pooling arrangements, there is no cash held by the Company - all balances are 'swept' to LANXESS AG at the end of business on each day. The company therefore has a £nil cash balance.

The cash flows necessary for the day-to-day running of the company are secured by the LANXESS cash pooling arrangements which support the going concern assertion. The company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the company is expected to be cash generative, and should be expected to be a net depositor into, rather than borrower from, the LANXESS cash pooling facility.

After making enquiries, the directors have a reasonable expectation that the company has access to adequate financial and other resources to continue in operational existence for the foreseeable future. The company therefore continues to adopt the going concern basis in preparing its financial statements.

LANXESS Solutions UK Ltd

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

2 Accounting policies (continued)

Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). The financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 2006 as applicable to companies using FRS 101.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of international accounting standards in conformity with the requirements of the Companies Act 2006, but makes amendments where necessary in order to comply with the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The Company's ultimate parent undertaking, LANXESS AG includes the Company in its consolidated financial statements. The consolidated financial statements of LANXESS AG are prepared in accordance with IFRS and are available to the public and may be obtained from the address in note 24.

Summary of disclosure exemptions

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by FRS 101 "Reduced Disclosure Framework":

- the requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 Share-based Payment;
- the requirements of IFRS 7 Financial Instruments: Disclosures;
- the requirements of paragraphs 91 to 99 of IFRS 13 Fair Value Measurement;
- the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers;
- the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:
 - paragraph 79(a)(iv) of IAS 1;
 - paragraph 73(e) of IAS 16 Property, Plant and Equipment;
 - paragraph 118(e) of IAS 38 Intangible Assets;
- the following paragraphs of IAS 1, 'Presentation of financial statements':
 - 10(d) (statement of cash flows);
 - 16 (statement of compliance with all IFRS)
 - 38A (requirement for minimum of two primary statements, including cash flow statements);
 - 38B-D (additional comparative information);
 - 111 (cash flow statement information)
 - 134-136 (capital management disclosures)
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements of paragraph 17 of IAS 24 Related Party Disclosures;
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group;
- the requirements of paragraphs 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 Impairments of Assets.

The notes on pages 22 to 47 form an integral part of these financial statements.

LANXESS Solutions UK Ltd

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

2 Accounting policies (continued)

Exemption from consolidation

The company is a wholly owned subsidiary of Lanxess AG. It is included in the consolidated financial statements of Lanxess AG, which are publicly available. Therefore, the company is exempt, by virtue of section 400 of the Companies Act 2006, from the requirement to prepare consolidated financial statements. The address of the ultimate parent's registered office is included in Note 24. These financial statements are separate financial statements.

Changes in accounting policy

New standards, interpretations and amendments effective

No new accounting standards, or amendments to accounting standards that impact these financial statements have become effective during the year ended 31 Dec 2020.

Revenue recognition

Revenue from the sale of goods is attributable to contracts with third parties and is recognised when control over the goods has transferred to the buyer representing a single performance obligation which is satisfied upon delivery of the relevant goods.

Revenue is measured net of returns, refunds or other obligations due to customers for goods returned to the seller. Revenue consists of the invoiced value for the sale of goods net of value added tax and after the deduction of customer rebates and discounts allowed. Payment is due, on average, within sixty days of delivery.

Return provisions and early settlement discounts are based on experience over an appropriate period whereas volume discounts are based on agreements with customers and expected volumes. There has been no change to the Company's accounting policy for revenue as a result of the adoption of IFRS 15 from 1 January 2018.

Foreign currency transactions and balances

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the respective functional currency of the entity at the rates prevailing on the reporting period date.

Non-monetary items measured in terms of historical cost in a foreign currency are not retranslated.

Current and deferred tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in shareholders' funds.

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

LANXESS Solutions UK Ltd

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

2 Accounting policies (continued)

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; or arise from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Investments

Investments in subsidiaries are accounted for at cost less, where appropriate, allowances for impairment.

Property, plant and equipment

Property, plant and equipment is stated in the balance sheet at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The cost of property, plant and equipment includes directly attributable incremental costs incurred in their acquisition and installation.

Depreciation

Depreciation is charged so as to write off the cost of assets, other than land and properties under construction over their estimated useful lives, as follows:

| Asset class | Depreciation method and rate |
|-------------------------------------|--|
| Buildings (within Land & Buildings) | Equal instalments over 40 years |
| Plant & Machinery | Equal instalments between 3 and 15 years |

Intangible assets

Intangible assets that are acquired by the company are stated at cost less accumulated amortisation and accumulated impairment losses. These intangible assets comprise REACH costs, which is an EU regulation covering the Registration, Evaluation, Authorisation and restriction of Chemicals.

Amortisation

Amortisation is provided on intangible assets so as to write off the cost, less any estimated residual value, over their expected useful economic life as follows:

| Asset class | Amortisation method and rate |
|-------------------------|---------------------------------|
| Other intangible assets | Equal instalments over 12 years |

LANXESS Solutions UK Ltd

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

2 Accounting policies (continued)

Financial assets

The company classifies its financial assets in the following categories:

- Amortised cost.
- Fair value through profit or loss (FVTPL)
- Fair value through other comprehensive income (FVOCI)

The classification depends on the purpose for which the financial assets were acquired i.e. the entity's business model for managing the financial assets and/or the contractual cash flow characteristics of the financial asset.

Regular way purchases and sales of financial assets are recognised on trade date, being the date on which the group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the company has transferred substantially all the risks and rewards of ownership.

At initial recognition, the company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

a) Financial assets at amortised cost

The company classifies its financial assets as at amortised cost only if both of the following criteria are met (and are not designated as FVTPL):

- The asset is held within a business model whose objective is to collect the contractual cash flows, and
- The contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest.

Subsequent to initial recognition these are measured at amortised cost using the effective interest method. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other (expenses)/income together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the profit or loss under 'net impairment losses on financial and contract assets'.

b) Financial assets at fair value through profit or loss

Financial assets that are held within a different business model other than 'hold to collect' or 'hold to collect and sell' and are categorised as fair value through profit or loss. The assets are subsequently measured at fair value with gains or losses recognised in profit or loss and presented net within other (expenses)/income in the period they arise. Fair values are determined by reference to active market or using valuation techniques where no active market exists.

The following financial assets are classified at fair value through profit or loss (FVPL):

- Debt investments that do not qualify for measurement at either amortised cost (see note above).
- Equity investments that are held for trading, and
- Equity investments for which the entity has not elected to recognise fair value gains and losses through OCI.

LANXESS Solutions UK Ltd

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

2 Accounting policies (continued)

c) Financial assets at fair value through other comprehensive income (FVOCI) comprise:

- Equity securities which are not held for trading, and which the company has irrevocably elected at initial recognition to recognise in this category. These are strategic investments and the company considers this classification to be more relevant.
- Debt securities where the contractual cash flows are solely principal and interest and the objective of the company's business model is achieved both by collecting contractual cash flows and selling financial assets.

Where the entity has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the company's right to receive payments is established.

Trade and other receivables

Trade and other receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business.

Trade receivables are recognised initially at the amount of consideration that is unconditional, unless they contain significant financing components, when they are recognised at fair value. The company holds the trade receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

The company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables are grouped based on shared credit risk characteristics and the days past due.

Inventories

The cost of finished goods and work in progress comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. At each reporting date, inventories are assessed for impairment. If inventory is impaired, the carrying amount is reduced to its selling price less costs to complete and sell; the impairment loss is recognised immediately in profit or loss.

Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

LANXESS Solutions UK Ltd

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

2 Accounting policies (continued)

Leases

The company leases land and buildings, equipment and vehicles. Rental contracts are typically made for periods of 6 months to 8 years but may have extension options.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interest in the leased assets that are held by the lessor. Leased assets may not be used as a security for borrowing purposes.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the lease asset is available for use by the company.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- a) Fixed payments, less any lease incentives available;
- b) Penalty payments for terminating the lease, if the lease term reflects the company exercising that option;
- c) Amounts expected to be payable by the company under residual value guarantees.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and options.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit and loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- a) The amount of the initial measurement of lease liability;
- b) Any lease payments made at or before the commencement date less any lease incentives received;
- c) Any initial direct costs; and
- d) Restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material.

The notes on pages 22 to 47 form an integral part of these financial statements.

LANXESS Solutions UK Ltd

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

2 Accounting policies (continued)

Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the years during which services are rendered by employees.

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's ~~net obligation in respect of defined benefit pension plans, and other post-employment benefits, is calculated by~~ estimating the amount of future benefit that employees have earned in return for their service in the current and prior years; that benefit is discounted to determine its present value, and the fair value of any plan assets (at bid price) are deducted. The Company determines the net interest on the net defined benefit liability/(asset) for the year by applying the discount rate used to measure the defined benefit obligation at the beginning of the year to the net defined benefit liability/(asset).

The discount rate is the yield at the reporting date on bonds that have a credit rating of at least AA that have maturity dates approximating the terms of the Company's obligations and that are denominated in the currency in which the benefits are expected to be paid.

Remeasurements arising from defined benefit plans comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). The Company recognises them immediately in other comprehensive income and all other expenses related to defined benefit plans in employee benefit expenses in profit or loss.

When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised immediately in profit or loss when the plan amendment or curtailment occurs.

The calculation of the defined benefit obligations is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, the recognised asset is limited to the present value of benefits available in the form of any future refunds from the plan or reductions in future contributions and takes into account the adverse effect of any minimum funding requirements.

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.

Dividends

Dividend distribution to the company's shareholders is recognised as a liability in the company's financial statements in the period in which the dividends are approved by the company's shareholders.

LANXESS Solutions UK Ltd

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

3 Critical accounting judgments and key sources of estimation uncertainty

Defined benefit pension scheme

The company has an obligation to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation in the balance sheet. The assumptions reflect historical experience and current trends. See note 13 for the disclosures of the defined benefit pension scheme.

Environmental provisions

~~The company is exposed to environmental regulations in the UK and significant judgment is required in~~ determining the provision for environmental remediation. We monitor the site to ensure compliance with legislative requirements and to assess the liability arising from the need to adapt to changing legal demands. The company recognizes liabilities for environmental remediation based on the latest assessment of the environmental situation of the site and the most recent requirements of the respective legislation. Where the final remediation results in expenses that differ from the amounts previously recorded, such differences impact the income statement in the period in which such determination is made.

Non-current asset impairment

The Directors are required to assess whether there are any indicators of impairment at each reporting date. All relevant potential indicators are considered, including the performance of the underlying trading subsidiaries and the results of the impairment reviews performed as at the same date. The Directors exercise their judgement in determining whether any such indicators exist. Where an indicator of impairment is identified in relation to the Company's investments, a full impairment review is performed.

The impairment assessment over the company's investment in LANXESS Urethanes UK Ltd required the use of estimates, including the projected cash flows for a five-year period, discount rate and growth rate into perpetuity. These have been based upon the Directors' best estimates of the future results of the subsidiary and its operations. The Directors performed their assessment and concluded that no impairment indicators existed at 31 December 2020 and, as such, a full impairment review over the Company's investments in subsidiaries was not performed.

4 Turnover

The analysis of the Company's revenue for the year from continuing operations, is as follows:

| | 2020 £ 000 | 2019 £ 000 |
|---------------------------------|----------------|----------------|
| Turnover by destination: | | |
| Europe | 125,331 | 137,366 |
| Americas | - | 19 |
| Asia | 1,072 | 366 |
| | <u>126,403</u> | <u>137,751</u> |

The notes on pages 22 to 47 form an integral part of these financial statements.

LANXESS Solutions UK Ltd

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

4 Turnover (continued)

Turnover has not been disaggregated by category as all turnover is derived from one category, i.e. the sale of goods.

5 Operating profit

Arrived at after charging/(crediting)

| | 2020 | 2019 |
|--|-------|-------|
| | £'000 | £'000 |
| Depreciation expense | 3,349 | 1,889 |
| Other Intangibles amortisation | 43 | 47 |
| Foreign exchange loss/(gain) | 264 | (608) |
| Fire damage costs | - | 650 |
| Operating lease expense: IFRS 16 | 224 | 144 |
| Low value lease expense | 19 | 60 |
| Government grants | - | (3) |
| Effect of discount rate changes on environmental provision | - | 198 |
| Reorganisation costs | 182 | 93 |
| Loss on disposal of fixed assets | 311 | 253 |

Reorganisation costs of £182,000 relate to severance payments (2019: Reorganisation costs of £93,000 all related to severance payments).

6 Staff costs

The aggregate payroll costs (including directors' remuneration) were as follows:

| | 2020 | 2019 |
|--|--------|--------|
| | £'000 | £'000 |
| Wages and salaries | 9,388 | 9,172 |
| Social security costs | 1,041 | 982 |
| Pension costs, defined contribution scheme | 543 | 484 |
| | 10,972 | 10,638 |

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

| | 2020 | 2019 |
|----------------------------|------|------|
| | No. | No. |
| Production | 72 | 73 |
| Administration and support | 105 | 113 |
| | 177 | 186 |

The notes on pages 22 to 47 form an integral part of these financial statements.

LANXESS Solutions UK Ltd

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

7 Directors' remuneration

The directors' remuneration for the year was as follows:

| | 2020 £ 000 | 2019 £ 000 |
|--|---------------|---------------|
| Emoluments | 452 | 390 |
| Long-term incentive schemes (excluding shares) | 110 | 57 |
| | <u>562</u> | <u>447</u> |

During the year the number of directors who were receiving benefits and share incentives, totalling £164,000 (2019: £104,000), was as follows:

| | 2020 No. | 2019 No. |
|---|-------------|-------------|
| Received or were entitled to receive shares under long term incentive schemes | 2 | 2 |
| Exercised share options | <u>2</u> | <u>2</u> |

In respect of the highest paid director:

| | 2020 £ 000 | 2019 £ 000 |
|---|---------------|---------------|
| Emoluments | 311 | 254 |
| Benefits under long-term incentive schemes (excluding shares) | 78 | 18 |
| | <u>389</u> | <u>272</u> |

During the year the highest paid director received or was entitled to receive shares under a long term incentive scheme.

Two of the directors are also directors of other related companies within the United Kingdom and £309,000 (2019: £246,000) of their total remuneration has been allocated, but not recharged, within these entities for their services.

8 Audit fees

| | 2020 £ 000 | 2019 £ 000 |
|-------------------------------------|---------------|---------------|
| Audit of these financial statements | <u>139</u> | <u>72</u> |

Fees for non-audit services paid to the Company's auditors were £Nil (2019: £4,000 for VAT online subscriptions).

LANXESS Solutions UK Ltd

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

9 Intangible assets

| | Other intangible assets £ 000 | Total £ 000 |
|---------------------------------|--|----------------|
| Cost or valuation | | |
| At 1 January 2019 | 464 | 464 |
| Additions | 99 | 99 |
| At 31 December 2019 | 563 | 563 |
| At 1 January 2020 | 563 | 563 |
| Additions | 99 | 99 |
| At 31 December 2020 | 662 | 662 |
| Accumulated amortisation | | |
| At 1 January 2019 | 24 | 24 |
| Amortisation charge | 47 | 47 |
| At 31 December 2019 | 71 | 71 |
| At 1 January 2020 | 71 | 71 |
| Amortisation charge | 43 | 43 |
| At 31 December 2020 | 114 | 114 |
| Carrying amount | | |
| At 31 December 2020 | 548 | 548 |
| At 31 December 2019 | 492 | 492 |

Other intangible assets relate to capitalised REACH costs, which is a European Union regulation concerning the Registration, Evaluation, Authorisation and restriction of CHemicals.

Intangible asset amortisation of £43,000 (2019: £47,000) has been charged in Administrative expenses.

LANXESS Solutions UK Ltd

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

10 Property, plant and equipment

| | Land and buildings £ 000 | Plant & Machinery £ 000 | Total £ 000 |
|---------------------------------|--------------------------------|-------------------------------|----------------|
| Cost or valuation | | | |
| At 1 January 2019 | 5,963 | 59,340 | 65,303 |
| Additions | - | 11,917 | 11,917 |
| Disposals | (226) | (440) | (666) |
| Transfers | 1,210 | (1,210) | - |
| At 31 December 2019 | 6,947 | 69,607 | 76,554 |
| At 1 January 2020 | 6,947 | 69,607 | 76,554 |
| Additions | 27 | 684 | 711 |
| Disposals | (615) | (17,917) | (18,532) |
| At 31 December 2020 | 6,359 | 52,374 | 58,733 |
| Accumulated depreciation | | | |
| At 1 January 2019 | 3,826 | 50,363 | 54,189 |
| Charge for the year | 130 | 1,759 | 1,889 |
| Disposals | (122) | (291) | (413) |
| At 31 December 2019 | 3,834 | 51,831 | 55,665 |
| At 1 January 2020 | 3,834 | 51,831 | 55,665 |
| Charge for the year | 136 | 3,213 | 3,349 |
| Disposals | (405) | (17,765) | (18,170) |
| At 31 December 2020 | 3,565 | 37,279 | 40,844 |
| Carrying amount | | | |
| At 31 December 2020 | 2,794 | 15,095 | 17,889 |
| At 31 December 2019 | 3,113 | 17,776 | 20,889 |

There are contractual commitments on capital expenditure of £265,000 (2019: £180,000).

Depreciation of £3,014,000 (2019: £1,582,000) has been charged in Cost of sales and £335,000 (2019: £307,000) in Administrative expenses.

LANXESS Solutions UK Ltd

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

11 Leases

The company has lease contracts for property and equipment used in the operations. The amounts recognised in the financial statements in relation to leases are as follows:

(i) Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

Right-of-use assets

| | 2020 £ 000 | 2019 £ 000 |
|-----------|---------------|---------------|
| Property | 38 | 89 |
| Equipment | 220 | 66 |
| Total | <u>258</u> | <u>155</u> |

Equipment includes additions in the year of £321,000 (2019: £152,000).

Lease liabilities

| | 2020 £ 000 | 2019 £ 000 |
|-------------|---------------|---------------|
| Current | 118 | 90 |
| Non-current | 146 | 66 |
| Total | <u>264</u> | <u>156</u> |

(ii) Amounts recognised in the Profit and Loss Account

The Profit and Loss account shows the following amounts relating to leases:

Depreciation charge of right-of-use assets

| | 2020 £ 000 | 2019 £ 000 |
|-----------|---------------|---------------|
| Property | (51) | (54) |
| Equipment | (166) | (86) |
| Total | <u>(217)</u> | <u>(140)</u> |

The notes on pages 22 to 47 form an integral part of these financial statements.

LANXESS Solutions UK Ltd

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

11 Leases (continued)

| | 2020 £ 000 | 2019 £ 000 |
|---|---------------------|---------------------|
| Interest expense included in finance cost (note 19) | (11) | (4) |
| Expense relating to short-term leases (included in Cost of sales) | <u>(224)</u> | <u>(144)</u> |
| Total | <u><u>(235)</u></u> | <u><u>(148)</u></u> |

Future minimum lease payments as at 31 December 2020 are as follows:

| | 2020 £ 000 | 2019 £ 000 |
|---|-------------------|-------------------|
| Not later than one year | 62 | 90 |
| Later than one year and not later than five years | 227 | 209 |
| Impact of finance expenses | <u>(25)</u> | <u>(143)</u> |
| Carrying amount of liability | <u><u>264</u></u> | <u><u>156</u></u> |

Total cash outflow for leases in 2020 was £190,000 (2019: £177,000)

12 Investments

Shares in group undertakings £ 000

Cost

At 31 December 2020 51,537

At 31 December 2019 51,537

Net book value

At 31 December 2020 51,537

At 31 December 2019 51,537

The Directors consider the carrying value of the investment to be supported by the underlying assets and future trading.

Details of the subsidiaries as at 31 December 2020 are as follows:

| Name of subsidiary | Principal activity | Country of incorporation and principal place of business | Proportion of ownership interest and voting rights held | |
|--------------------------|------------------------|--|---|------|
| | | | 2020 | 2019 |
| LANXESS Urethanes UK Ltd | Chemicals manufacturer | United Kingdom | 100% | 100% |

The notes on pages 22 to 47 form an integral part of these financial statements.

LANXESS Solutions UK Ltd

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

12 Investments (continued)

The registered address of LANXESS Urethanes UK Ltd is Paragon Works, Baxenden, Lancashire, BB5 2SL and the investment is a direct holding.

13 Pension and other schemes

Defined contribution pension scheme

The Company operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the company to the scheme and amounted to £543,000 (2019: £484,000).

Defined benefit pension schemes

Great Lakes (UK) Ltd Pension Plan

LANXESS Solutions UK Ltd, ("the Company"), operates a defined benefit arrangement called the Great Lakes (UK) Limited Pension Plan ("the Scheme"). The Scheme also has a defined contribution section. The defined benefit scheme provides benefits based on final salary and length of service on retirement, leaving service or death.

The scheme is subject to the Statutory Funding Objective under the Pensions Act 2004.

The scheme is managed by a board of Trustees appointed in part by the Company and in part from elections by members of the scheme. The Trustees have responsibility for obtaining valuations of the fund, administering benefit payments and investing the Scheme's assets. The Trustees delegate some of these functions to their professional advisers where appropriate.

The Scheme closed to future benefit accrual with effect from 31 May 2008, although a link to Final Pensionable Salary at the date a member leaves employment has been retained. There were no scheme amendments, curtailments or settlements during the period under review.

A valuation of the Scheme is carried out at least every three years to determine whether the Statutory Funding Objective is met. As part of the process the Company must agree with the Trustees of the Scheme the contributions to be paid to address any shortfall against the Statutory Funding Objective. The Statutory Funding Objective does not currently impact on the recognition of the Scheme in these accounts.

Contributions paid to the pension scheme in the year were £Nil (2019 - £Nil).

The expected contributions to the plan for the next reporting period are £Nil.

The scheme was most recently valued on 31 December 2017. The next valuation of the Scheme is due at 31 December 2020.

Risks

Investment risk

The Scheme holds assets in asset classes, such as equities, which have volatile market values and while these assets are expected to provide real returns over the long-term, the short-term volatility can cause additional funding to be required if deficits emerge.

Interest risk

The Scheme's liabilities are assessed using market yields on high quality corporate bonds to discount the liabilities. As the Scheme holds different assets such as equities the value of the assets may not move in the same way.

The notes on pages 22 to 47 form an integral part of these financial statements.

LANXESS Solutions UK Ltd

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

13 Pension and other schemes (continued)

Inflation risk

A significant proportion of the benefits under the scheme are linked to inflation. Although the Scheme's assets are expected to provide a good hedge against inflation over the long-term, movements over the short-term could lead to deficits emerging.

Life expectancy risk

In the event that members live longer than assumed a deficit will emerge in the Scheme.

Reconciliation of scheme assets and liabilities to assets and liabilities recognised

The amounts recognised in the balance sheet are as follows:

| | 2020 £ 000 | 2019 £ 000 |
|--|---------------|---------------|
| Fair value of scheme assets | 212,894 | 253,360 |
| Present value of scheme liabilities | (202,716) | (181,443) |
| Defined benefit pension scheme surplus | <u>10,178</u> | <u>71,917</u> |

Scheme assets

Changes in the fair value of scheme assets are as follows:

| | 2020 £ 000 | 2019 £ 000 |
|------------------------------|----------------|----------------|
| Fair value at start of year | 253,360 | 238,318 |
| Interest income | 5,076 | 6,661 |
| Remeasurement (losses)/gains | (34,021) | 17,582 |
| Benefits paid | (10,338) | (9,201) |
| Administrative expenses paid | (1,183) | - |
| Fair value at end of year | <u>212,894</u> | <u>253,360</u> |

Analysis of assets

The major categories of scheme assets are as follows:

| | 2020 £ 000 | 2019 £ 000 |
|---------------------------|----------------|----------------|
| Cash and cash equivalents | 12,577 | 46,707 |
| Debt instruments | - | 206,653 |
| Insurance policy | <u>200,317</u> | <u>-</u> |
| | <u>212,894</u> | <u>253,360</u> |

In 2020 the company purchased an insurance policy from Aviva to cover future benefits payable to members under the Plan.

The notes on pages 22 to 47 form an integral part of these financial statements.

LANXESS Solutions UK Ltd

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

13 Pension and other schemes (continued)

Actual return on scheme's assets

| | 2020 £ 000 | 2019 £ 000 |
|---------------------------------------|-----------------|---------------|
| Actual (loss)/return on scheme assets | <u>(28,945)</u> | <u>24,243</u> |

The loss on the assets reflects the difference between the premium paid and the value now being placed on the Aviva policy. In the accounting figures the asset in relation to the Aviva policy has been set to equal the value of the liabilities on the accounting basis (excluding the adjustment for GMP equalisation) and this is significantly lower than the premium paid out and hence the loss occurs.

The pension scheme has not invested in any of the company's own financial instruments or in properties or other assets used by the company.

Scheme liabilities

Changes in the present value of scheme liabilities are as follows:

| | 2020 £ 000 | 2019 £ 000 |
|--|-----------------|----------------|
| Present value at start of year | 181,443 | 167,222 |
| Past service cost | 150 | - |
| Remeasurement losses arising from changes in demographic assumptions | 4,311 | 1,215 |
| Remeasurement losses arising from changes in financial assumptions | 23,536 | 17,572 |
| Interest cost | 3,614 | 4,635 |
| Benefits paid | <u>(10,338)</u> | <u>(9,201)</u> |
| Present value at end of year | <u>202,716</u> | <u>181,443</u> |

Principal actuarial assumptions

The significant actuarial assumptions used to determine the present value of the defined benefit obligation at the balance sheet date are as follows:

| | 2020 % | 2019 % |
|--------------------------|-------------|-------------|
| Mortality rate | 1.00 | 1.00 |
| Future pension increases | 2.45 | 2.15 |
| Discount rate | 1.40 | 2.05 |
| Inflation (RPI) | <u>2.90</u> | <u>2.95</u> |

The notes on pages 22 to 47 form an integral part of these financial statements.

LANXESS Solutions UK Ltd

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

13 Pension and other schemes (continued)

Post retirement mortality assumptions

| | 2020 Years | 2019 Years |
|--|---------------|---------------|
| Current UK pensioners at retirement age - male | 21.60 | 21.60 |
| Current UK pensioners at retirement age - female | 23.70 | 23.00 |
| Future UK pensioners at retirement age - male | 22.80 | 22.80 |
| Future UK pensioners at retirement age - female | <u>25.30</u> | <u>25.30</u> |

Amounts recognised in the income statement

| | 2020 £ 000 | 2019 £ 000 |
|--|---------------|----------------|
| Amounts recognised in operating profit | | |
| Past service cost | 150 | - |
| Administrative expenses paid | <u>1,183</u> | <u>-</u> |
| Recognised in arriving at operating profit | <u>1,333</u> | <u>-</u> |
| Amounts recognised in finance income or costs | | |
| Net interest | <u>12</u> | <u>(2,026)</u> |
| Total recognised in the income statement | <u>1,345</u> | <u>(2,026)</u> |

The past service cost charge of £150,000 relates to the requirement to equalise benefits between men and women to allow for differences in the Guaranteed Minimum Pension (GMP).

Amounts taken to the Statement of Comprehensive Income

| | 2020 £ 000 | 2019 £ 000 |
|--|----------------|---------------|
| Remeasurement losses arising from changes in demographic assumptions | 4,311 | 1,215 |
| Remeasurement losses arising from changes in financial assumptions | 23,536 | 17,572 |
| Actual return less expected return on scheme assets | 34,021 | (17,582) |
| Interest effect of asset ceiling | <u>(1,474)</u> | <u>-</u> |
| Amounts recognised in the Statement of Comprehensive Income | <u>60,394</u> | <u>1,205</u> |

The notes on pages 22 to 47 form an integral part of these financial statements.

LANXESS Solutions UK Ltd

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

13 Pension and other schemes (continued)

History of experience gains and losses

| | 2020 £ 000 | 2019 £ 000 | 2018 £ 000 | 2017 £ 000 | 2016 £ 000 |
|----------------------------|---------------|---------------|---------------|---------------|---------------|
| Defined benefit obligation | (202,716) | (181,443) | (167,222) | (195,749) | (208,036) |
| Fair value of plan assets | 212,894 | 253,360 | 238,318 | 250,347 | 242,537 |
| Surplus | 10,178 | 71,917 | 71,096 | 54,598 | 34,501 |

Experience adjustments

| | 2020 £ 000/% | 2019 £ 000/% | 2018 £ 000/% | 2017 £ 000/% | 2016 £ 000/% |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| Difference between the expected and actual return on plan assets | 34,021 | (17,582) | 9,523 | (7,718) | (38,009) |
| As a percentage of plan assets | 16 % | (7) % | 4 % | (3) % | (16) % |
| Experience adjustments on plan liabilities | - | - | (10,578) | - | - |
| As a percentage of present value of plan liabilities | - | - | (6) % | - | - |

Sensitivity analysis

A sensitivity analysis for the principal assumptions used to measure scheme liabilities is set out below:

| | | 2020 | | | 2019 | | |
|---|-------------------|---------------|-------------------|---------|-------------------|---------------|-------------------|
| Adjustment to discount rate | + .25% £ 000 | 0.0% £ 000 | - .25% £ 000 | | + .25% £ 000 | 0.0% £ 000 | - .25% £ 000 |
| Present value of total obligation | 194,336 | 202,716 | 211,755 | 174,160 | 181,443 | 189,187 | |
| | | 2020 | | | 2019 | | |
| Adjustment to rate of inflation | + .25% £ 000 | 0.0% £ 000 | - .25% £ 000 | | + .25% £ 000 | 0.0% £ 000 | - .25% £ 000 |
| Present value of total obligation | 207,601 | 202,716 | 198,604 | 185,667 | 181,443 | 177,823 | |
| | | 2020 | | | 2019 | | |
| Adjustment to mortality age rating assumption | + 1 Year £ 000 | None £ 000 | - 1 Year £ 000 | | + 1 Year £ 000 | None £ 000 | - 1 Year £ 000 |
| Present value of total obligation | 195,175 | 202,716 | 211,241 | 175,142 | 181,443 | 188,537 | |

The notes on pages 22 to 47 form an integral part of these financial statements.

LANXESS Solutions UK Ltd

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

13 Pension and other schemes (continued)

The above sensitivity analyses are based on a change in an assumption, while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions might be correlated. When calculating the sensitivity of the defined benefit asset to significant actuarial assumptions, the same method (that is, present value of the defined benefit asset calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension asset recognised within the balance sheet.

14 Tax on profit

Tax charged/(credited) in the income statement

| | 2020 £ 000 | 2019 £ 000 |
|--|---------------|---------------|
| Current taxation | | |
| Current tax on profits for the year | 5,756 | 6,084 |
| UK corporation tax adjustment to prior periods | (77) | (15) |
| | <u>5,679</u> | <u>6,069</u> |
| Deferred taxation | | |
| Arising from origination and reversal of temporary differences | (79) | 1,465 |
| Arising from changes in tax rates and laws | 737 | (154) |
| Adjustments in respect of prior periods | (18) | (16) |
| Total deferred taxation | <u>640</u> | <u>1,295</u> |
| Tax expense in the income statement | <u>6,319</u> | <u>7,364</u> |

Tax income included in other comprehensive income:

Current tax: £nil (2019: nil). Deferred tax arising from origination and reversal of temporary differences £(10,798,000) (2019: £(205,000)).

Tax expense for the year is higher (2019: higher) than the standard rate of corporation tax in the UK for the year ended 31 December 2020 of 19.00% (2019 19.00%)

The differences are reconciled below:

The notes on pages 22 to 47 form an integral part of these financial statements.

LANXESS Solutions UK Ltd

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

14 Tax on profit (continued)

| | 2020 £ 000 | 2019 £ 000 |
|--|---------------|---------------|
| Profit before taxation | 29,748 | 40,693 |
| Profit multiplied by the standard rate of tax in the UK of 19.00% (2019: 19.00%) | 5,652 | 7,732 |
| Decrease from adjustment for prior periods | (95) | (31) |
| Increase/(decrease) from effect of expenses not deductible | 50 | (6) |
| Group relief claimed | (25) | (177) |
| Changes in tax rates or laws | 737 | (154) |
| Total tax charge | 6,319 | 7,364 |

The Finance Act 2016, which received Royal Assent on 15 September 2016, enacted a reduction in the UK corporation tax rate from 19% to 17% effective from 1 April 2020. However, legislation introduced in the Finance Act 2020 (enacted on 22 July 2020) repealed the reduction of the corporation tax, thereby maintaining the current rate of 19%. Deferred taxes on the balance sheet have been measured at 19% (2019: 17%) which represents the future corporation tax rate that was enacted at the balance sheet date.

The UK Budget 2021 announcements on 3 March 2021 included measures to support economic recovery as a result of the ongoing COVID-19 pandemic. These included an increase to the UK's main corporation tax rate to 25%, which is due to be effective from 1 April 2023. These changes were not substantively enacted at the balance sheet date. It is not anticipated that these changes will have a material impact on the company's deferred tax balances.

Deferred tax

Deferred tax assets and liabilities

| | Asset £ 000 | Liability £ 000 | Net deferred tax £ 000 |
|------------------------------|----------------|--------------------|------------------------------|
| 2020 | | | |
| Accruals | 28 | - | 28 |
| Accelerated tax depreciation | 31 | - | 31 |
| Pension benefit obligations | - | (1,934) | (1,934) |
| | 59 | (1,934) | (1,875) |
| 2019 | | | |
| Accruals | 32 | - | 32 |
| Accelerated tax depreciation | 161 | - | 161 |
| Pension benefit obligations | - | (12,226) | (12,226) |
| | 193 | (12,226) | (12,033) |

The notes on pages 22 to 47 form an integral part of these financial statements.

LANXESS Solutions UK Ltd

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

14 Tax on profit (continued)

Deferred tax movement during the year:

| | At 1 January 2020 £ 000 | Recognised in Profit and Loss £ 000 | Recognised in Statement of Comprehensive Income £ 000 | At 31 December 2020 £ 000 |
|------------------------------|-------------------------------|---|---|------------------------------------|
| Accruals | 32 | (4) | - | 28 |
| Accelerated tax depreciation | 161 | (130) | - | 31 |
| Pension benefit obligations | (12,226) | (506) | 10,798 | (1,934) |
| Net tax liabilities | <u>(12,033)</u> | <u>(640)</u> | <u>10,798</u> | <u>(1,875)</u> |

Deferred tax movement during the prior year:

| | At 1 January 2019 £ 000 | Recognised in Profit and Loss £ 000 | Recognised in Statement of Comprehensive Income £ 000 | At 31 December 2019 £ 000 |
|------------------------------|-------------------------------|---|---|------------------------------------|
| Accruals | 364 | (332) | - | 32 |
| Accelerated tax depreciation | 779 | (618) | - | 161 |
| Pension benefit obligations | (12,086) | (345) | 205 | (12,226) |
| Net tax liabilities | <u>(10,943)</u> | <u>(1,295)</u> | <u>205</u> | <u>(12,033)</u> |

Deferred tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. There are no unrecognised tax losses (2019: £nil). There is no expiry date on tax losses carried forward.

15 Stocks

| | 2020 £ 000 | 2019 £ 000 |
|-------------------------------------|---------------|---------------|
| Raw materials and consumables | 1,773 | 1,262 |
| Work in progress | 4,010 | 5,424 |
| Finished goods and goods for resale | <u>7,984</u> | <u>7,179</u> |
| | <u>13,767</u> | <u>13,865</u> |

Stock is stated after provisions for impairment of £1,039,000 (2019: £1,257,000).

The cost of stock recognised as an expense in the year amounted to £74,784,000 (2019: £81,326,000).

There is no significant difference between the replacement cost of Work in progress and Finished goods and goods for resale and their carrying amounts.

The notes on pages 22 to 47 form an integral part of these financial statements.

LANXESS Solutions UK Ltd

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

16 Trade and other Receivables

| | 2020 | 2019 |
|---|---------------|---------------|
| | £ 000 | £ 000 |
| Trade receivables | 99 | 171 |
| Amounts owed by group undertakings | 41,813 | 75,653 |
| Corporation tax | 1,650 | - |
| Prepayments | 200 | 359 |
| Other receivables | 165 | 161 |
| Total current trade and other receivables | <u>43,927</u> | <u>76,344</u> |

Amounts owed by group undertakings are currently subject to interest at a rate of 0.23% (2019: 0.71%), unsecured and repayable on demand.

Trade receivables and Other receivables are stated after provisions for impairment of £1,000 (2019: £1,000).

17 Trade and other Payables

| | 2020 | 2019 |
|---------------------------------|---------------|---------------|
| | £ 000 | £ 000 |
| Trade creditors | 3,673 | 7,525 |
| Accrued expenses | 2,211 | 1,839 |
| Amounts due to related parties | 6,445 | 4,910 |
| Social security and other taxes | 1,637 | 52 |
| Corporation tax | - | 2,863 |
| Leases | 118 | 90 |
| | <u>14,084</u> | <u>17,279</u> |

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

18 Interest receivable and similar income

| | 2020 | 2019 |
|--|--------------|--------------|
| | £ 000 | £ 000 |
| Interest income on financial assets | 243 | 708 |
| Interest income on pension scheme assets (note 13) | 5,076 | 6,661 |
| | <u>5,319</u> | <u>7,369</u> |

Interest receivable and similar income includes income from group undertakings of £233,000 (2019: £708,000).

The notes on pages 22 to 47 form an integral part of these financial statements.

LANXESS Solutions UK Ltd

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

19 Interest payable and similar expenses

| | 2020 £ 000 | 2019 £ 000 |
|--|---------------|---------------|
| Interest expense on pension scheme liabilities (note 13) | 5,088 | 4,635 |
| Total interest expense on financial liabilities measured at amortised cost | 3 | - |
| Effect of discount rate changes on environmental provision | 248 | - |
| Interest expense on leases | 11 | 4 |
| | <u>5,350</u> | <u>4,639</u> |

20 Provisions for liabilities

| | Dilapidation Reserve £ 000 | Deferred other income £ 000 | Supply agreement reserve £ 000 | Environ'l reserve £ 000 | Leases £000 | L/T share plan £ 000 | Total £ 000 |
|--|----------------------------------|--------------------------------------|---|-------------------------------|----------------|-------------------------------|----------------|
| At 1 January 2020 | 59 | 36 | 824 | 1,835 | 66 | 16 | 2,836 |
| Additions/(credits) to the income statement | (59) | - | - | - | 80 | (8) | 13 |
| Provisions utilised | - | (11) | - | - | - | - | (11) |
| Increase due to change in discount rate | - | - | - | 248 | - | - | 248 |
| Decrease from transfers and other changes | - | - | (824) | - | - | - | (824) |
| At 31 December 2020 | <u>-</u> | <u>25</u> | <u>-</u> | <u>2,083</u> | <u>146</u> | <u>8</u> | <u>2,262</u> |

Of the £2,083,000 total Environmental reserve, £413,000 is considered to be current.

The Dilapidation Reserve related to cleaning costs for rented isotanks and other equipment. The Deferred other income balance is a three year deferred credit on telephone line charges from a supplier and the Supply agreement reserve is a contractual item relating to the return of raw materials on the termination of the industrial water treatment supply agreement contract and was transferred to short term liabilities as a result of the supply agreement termination on 1 December 2020. The L/T share plan balance relates to employee share incentives greater than one year and the Lease balance relates to IFRS 16 lease expirations greater than one year. The Environmental reserve is in place to allow for site remediation work should plant operations cease permanently.

LANXESS Solutions UK Ltd

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

21 Called up share capital

Allotted, called up and fully paid shares

| | 31 December 2020 | | 31 December 2019 | |
|----------------------------|---------------------|----------------|---------------------|----------------|
| | No. 000 | £ 000 | No. 000 | £ 000 |
| Ordinary shares of £1 each | <u>100,310</u> | <u>100,310</u> | <u>100,310</u> | <u>100,310</u> |

22 Dividends

Dividends totaling £57,001,000 (2019: £59,000,000) were paid to the Company's immediate parent LANXESS Holding UK Ltd in the course of the year.

23 Commitments

Capital commitments

The total amount contracted for but not provided in the financial statements was £265,000 (2019 - £180,000).

Lease commitments

Commitments for minimum lease payments in relation to non-cancellable operating leases (under IAS 17) are:

| | 2020 £ 000 | 2019 £ 000 |
|---|---------------|---------------|
| Not later than one year | 7 | 33 |
| Later than one year and not later than five years | <u>22</u> | <u>29</u> |
| Total | <u>29</u> | <u>62</u> |

24 Parent and ultimate parent undertaking

The ultimate parent company at the year end and the largest group in which these financial statements are consolidated is LANXESS AG.

The address of LANXESS AG is Kennedyplatz 1, Cologne 50569, Germany.

The Company's immediate parent undertaking is LANXESS Holding UK Unlimited, which is exempt from the requirement to prepare group financial statements under Section 400 of the Companies Act 2006.