

Half-Year Financial Report
January 1 to June 30, 2018

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LANXESS Group Key Data

€ million	Q2 2017	Q2 2018	Change %	H1 2017	H1 2018	Change %
Sales	1,712	1,829	6.8	3,185	3,645	14.4
Gross profit	479	497	3.8	868	971	11.9
Gross profit margin	28.0%	27.2%		27.3%	26.6%	
EBITDA pre exceptionals ¹⁾	280	290	3.6	473	560	18.4
EBITDA margin pre exceptionals ¹⁾	16.4%	15.9%		14.9%	15.4%	
EBITDA ¹⁾	137	263	92.0	321	518	61.4
Operating result (EBIT) pre exceptionals ¹⁾	186	187	0.5	312	356	14.1
EBIT ¹⁾	29	159	> 100	146	313	> 100
EBIT margin ¹⁾	1.7%	8.7%		4.6%	8.6%	
Net income	3	126	> 100	81	222	> 100
from continuing operations	2	97	> 100	54	178	> 100
from discontinued operations	1	29	> 100	27	44	63.0
Earnings per share (€)	0.04	1.38	> 100	0.89	2.43	> 100
from continuing operations	0.02	1.05	> 100	0.59	1.94	> 100
from discontinued operations	0.02	0.33	> 100	0.30	0.49	63.0
Earnings per share adjusted for exceptional items and amortization of intangible assets (€) ²⁾	1.54	1.77	14.9	2.55	3.10	21.6
from continuing operations	1.57	1.45	(7.6)	2.26	2.61	15.5
from discontinued operations	(0.03)	0.32	> 100	0.29	0.49	69.0
Cash flow from operating activities	76	37	(51.3)	66	65	(1.5)
Depreciation and amortization ³⁾	108	104	(3.7)	175	205	17.1
Cash outflows for capital expenditures	77	83	7.8	117	143	22.2
Total assets				10,411 ⁶⁾	10,540	1.2
Equity (including non-controlling interests)				3,413 ⁶⁾	3,429	0.5
Equity ratio ⁴⁾				32.8% ⁶⁾	32.5%	
Net financial liabilities ⁵⁾				2,252 ⁶⁾	2,633	16.9
Employees (as of June 30)				19,029 ⁶⁾	19,197	0.9

Previous year figures according to continuing operations.

1) EBIT: earnings before interest and taxes

EBIT pre exceptionals: EBIT disregarding exceptional charges and income

EBIT margin: EBIT in relation to sales

EBITDA: EBIT before depreciation of property, plant and equipment and amortization of intangible assets, less reversals of impairment charges on property, plant, equipment and intangible assets

EBITDA pre exceptionals: EBITDA disregarding exceptional charges and income

EBITDA margin pre exceptionals: EBITDA pre exceptionals in relation to sales

See "Notes on EBIT and EBITDA (pre exceptionals)" for details.

2) Earnings per share adjusted for exceptional items and amortization of intangible assets: earnings per share disregarding exceptional charges and income, amortization of intangible assets and attributable tax effects

See "Net income/earnings per share/earnings per share adjusted for exceptional items and amortization of intangible assets" for details.

3) The half-year figures include reversals of write-downs of €1 million each.

4) Equity ratio: equity in relation to total assets

5) Net financial liabilities: total of current and non-current financial liabilities (adjusted for liabilities for accrued interest), less cash, cash equivalents and near-cash assets; see "Statement of financial position and financial condition" for details.

6) Previous year as of December 31, 2017

LANXESS ON THE CAPITAL MARKET

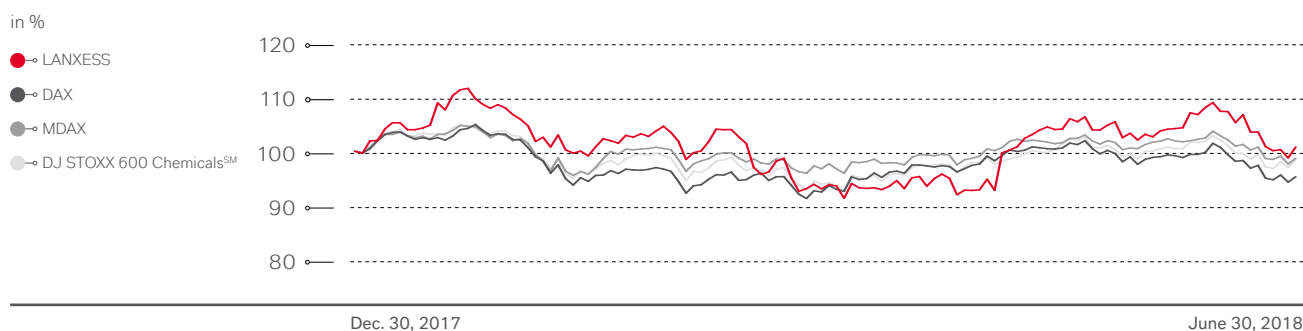
Following a positive start to 2018, the LANXESS stock reached a new intra-day all-time high of €74.78 on January 23. In the first half of 2018, the performance of our stock largely followed the fluctuations in the German lead index, the DAX, and the MDAX. In March, the stock fell markedly but made up the losses in May and recorded an increase in value of around 1% as of June 30 compared with the end of 2017. At the end of June, the LANXESS stock broke free positively from the index and gained approximately 2% compared with the MDAX and 5.5% compared with the DAX respectively over the half-year.

At this year's Annual Stockholders' Meeting, which took place in the LANXESS arena in Cologne on May 15, 2018, the stockholders agreed to the dividend proposal by the Board of Management and Supervisory Board for fiscal year 2017 of €0.80 per stock.

In January, the European rating agency Scope Ratings also performed an assessment of LANXESS. Scope Ratings rates LANXESS as BBB and has issued a stable outlook.

In May, LANXESS successfully placed a long-dated benchmark Eurobond with a coupon of 1.125% on the European capital market under the existing debt issuance program. LANXESS primarily used the funds to refinance a bond that still bore a coupon of 4.125%.

Stock Performance vs. Indices



LANXESS Stock

		Q4 2017	Q1 2018	Q2 2018
Capital stock/no. of shares ¹⁾	€/no. of shares	91,522.94	91,522.94	91,522.94
Market capitalization ¹⁾	€ billion	6.07	5.69	6.11
High/low for the period	€	70.59 / 61.03	74.78 / 60.68	72.60 / 60.18
Closing price ¹⁾	€	66.29	62.20	66.80
Earnings per share adjusted for exceptional items and amortization of intangible assets ²⁾	€	0.44	1.33	1.77

1) End of quarter: Q4: December 31, 2017, Q1: March 31, 2018, Q2: June 30, 2018

2) Earnings per share pre exceptional items and amortization of intangible assets: earnings per share disregarding exceptional charges and income, amortization of intangible assets and attributable tax effects.

INTERIM GROUP MANAGEMENT REPORT

as of June 30, 2018

- › Financial communication focuses on continuing operations (“New LANXESS”)
- › Sales up on prior-year quarter, rising by 6.8% to €1,829 million
- › Rise in raw material costs successfully passed on, resulting in a sales increase of 4.5%
- › EBITDA pre exceptionals increased by 3.6% to €290 million in the second quarter
- › EBITDA margin pre exceptionals at 15.9%, after 16.4% in the prior-year quarter
- › Net income and earnings per share increased significantly in the second quarter; prior year with high exceptional charges
- › Earnings per share adjusted for exceptional items and amortization of the Group's intangible assets increased in the second quarter from €1.54 to €1.77
- › Guidance for fiscal year 2018 specified with earnings increase at the upper end of a 5% to 10% range compared to EBITDA pre exceptionals of €925 million in 2017

GROUP STRUCTURE

Legal structure

LANXESS AG is the parent company of the LANXESS Group and functions largely as a management holding company. LANXESS Deutschland GmbH is a wholly owned subsidiary of LANXESS AG and in turn controls the other subsidiaries and affiliates in Germany and elsewhere.

A list of the principal direct and indirect subsidiaries of LANXESS AG and a description of the Group's management and control organization are provided on page 64 of the Annual Report 2017 and in the “Changes in the scope of consolidation” section of the Notes to the Condensed Consolidated Interim Financial Statements as of June 30, 2018.

Strategic alignment and reporting focus

LANXESS has reached important strategy milestones with the realignment program and has gained a strong partner for the synthetic rubber business in Saudi Aramco. The joint venture, ARLANXEO, in which both partners hold a share of 50% each,

was successfully positioned on the market on April 1, 2016. The business continues to be included in the consolidated financial statements of the LANXESS Group and will be fully consolidated in the first three years. Since April 1, 2018, i.e. a year before the end of full consolidation, ARLANXEO must be reported as discontinued operations according to IFRS 5. We pool discontinued operations without ARLANXEO, which is the focus of our reporting, under New LANXESS. While the statement of financial position was not adjusted for reporting dates before April 1, 2018, previous periods were adjusted in the income statement and earnings from discontinued operations shown in one row. In the tables below, we generally do not state that prior-year figures have been adjusted in this context. Further information on the accounting, the income statement of the discontinued operation and the main items of its statement of financial position can be found in the “Discontinued operations” section in the notes to the condensed consolidated financial statements as of June 30, 2018.

On February 7, 2018, LANXESS acquired the phosphorus additives business from Belgian chemicals group Solvay including its U.S. production site in Charleston. The site manufactures phosphorus additives and numerous derived products such as flame retardant additives and intermediates for agrochemicals. The production facility augments the global production network for phosphorus- and bromine-based flame retardants, especially on the U.S. market. The purchase price of €54 million was paid out of existing liquidity. The business generates annual sales of €65 million and employs around 90 people.

ECONOMIC ENVIRONMENT AND BUSINESS DEVELOPMENT

Business conditions

General economic situation

In the second quarter of 2018, the global economy grew by 3.3% overall compared with the prior-year quarter. Growth in the EMEA region was better than expected at 2.3%, while the Americas met expectations with growth of 2.6%. Asia-Pacific remained a fast-growing region with 5.0%.

Chemical industry

The chemical industry increased its production by 2.0% globally in the second quarter of 2018. Performance varied across the different customer markets. EMEA recorded robust expansion overall, while the development in the Americas was weaker than expected. As in the first quarter, the Asia-Pacific region fell short of expectations again in the second quarter.

Evolution of major user industries

Global automotive production in the reporting period was significantly up on the prior-year period at 3.3%. The EMEA region posted significant growth, while production in the Americas declined slightly. After a weak first quarter, the Asia-Pacific region displayed a positive development.

Agrochemicals developed positively in the second quarter. In EMEA, the negative development was brought to a halt, while in the Americas there were signs of solid growth. Asia-Pacific developed in line with expectations.

The **construction industry** recorded growth of 3.5% worldwide with Asia-Pacific being the main driver. The Americas posted robust growth, while the EMEA region developed stronger than expected.

Overall, the development of user industries had a positive influence on the LANXESS Group's business. Only the general growth of agrochemicals is not reflected in demand in our sector of customized agrochemical production.

Sales

Sales at the LANXESS Group in the second quarter of 2018 amounted to €1,829 million, up €117 million or 6.8% against the same period a year ago. This performance was influenced,

in particular, by the contribution from the Chemtura businesses acquired in the previous year as well as the adjustment in selling prices. Overall, portfolio effects led to a 5.5% sales increase and higher selling prices to a 4.5% sales increase. By contrast, adverse exchange rate effects saw sales decline by 3.7%. Increased volumes had a slightly positive impact on sales performance.

Sales in the first six months of 2018 rose by €460 million, or 14.4%, to €3,645 million. In the half-year period too, this growth was attributable in particular to the change in the portfolio in the prior year. The increase in selling prices also had a positive effect on sales. Currency effects had a negative impact on sales. Stable volumes had almost no effect on sales development in the half-year period. After adjustment for currency and portfolio effects, the LANXESS Group recorded a 4.8% increase in operational sales in the first half of 2018.

Effects on Sales

in %	Q2 2018	H1 2018
Price	4.5	4.8
Volume	0.5	0.0
Currency	(3.7)	(4.5)
Portfolio	5.5	14.1
	6.8	14.4

Sales in our Performance Chemicals segment were below the level of the prior year in both the second quarter and the first half. In all other segments, higher sales were achieved both in the quarter and in the first six months compared to the prior year. Please see the following table and "Segment data" for details.

Sales by Segment

€ million	Q2 2017	Q2 2018	Change %	Proportion of Group sales %	H1 2017	H1 2018	Change %	Proportion of Group sales %
Advanced Intermediates	505	546	8.1	29.8	1,024	1,111	8.5	30.4
Specialty Additives	441	508	15.2	27.8	680	1,008	48.2	27.7
Performance Chemicals	367	356	(3.0)	19.5	735	692	(5.9)	19.0
Engineering Materials	361	399	10.5	21.8	676	791	17.0	21.7
Reconciliation	38	20	(47.4)	1.1	70	43	(38.6)	1.2
	1,712	1,829	6.8	100.0	3,185	3,645	14.4	100.0

Order book status

Most of our business is not subject to long-term agreements on fixed volumes or prices. Instead, our business is characterized by long-standing relationships with customers and revolving master agreements. Our activities are focused on demand-driven orders with relatively short lead times which do not provide a basis for long-term forward-looking statements about our capacity utilization or volumes. Our business is managed primarily on the basis of regular Group-wide forecasts with respect to the Group's operating target.

Any disclosure of the Group's order book status at a given reporting date therefore would not be indicative of the Group's short- or medium-term earning power. For this reason, no such disclosure is made in this report.

Gross profit

The cost of sales increased by 8.0% compared with the prior-year quarter, to €1,332 million, which was slightly disproportionate to sales. The integration of the Chemtura businesses acquired in 2016 meant an absolute increase in the cost of sales. In addition, higher procurement prices for raw materials and en-

ergy led to higher costs. By contrast, the movement in exchange rates, particularly of the U.S. dollar, had a positive effect on our manufacturing costs. Capacity utilization was on a level with the prior-year period.

Gross profit was €497 million, up by €18 million or 3.8% against the prior-year quarter. At the same time, higher procurement prices for raw materials and energy were successfully passed on to the market by adjusting selling prices. The contribution from the Chemtura businesses acquired in the previous year also had a positive impact on earnings. The significant change in exchange rates had a negative impact on earnings performance. The gross profit margin fell from 28.0% to 27.2%.

In the half-year period, too, the cost of sales increased disproportionately to sales, advancing by 15.4% to €2,674 million. Gross profit rose year on year by €103 million, or 11.9%, to €971 million. This increase was the result of the contribution from the Chemtura businesses acquired in the previous year. Higher procurement prices for raw materials and energy were also successfully passed on to the market by adjusting selling prices. The change in exchange rates had an inverse impact on earnings performance. The gross profit margin was accordingly lower at 27.3% compared to 26.6%.

EBITDA Pre Exceptionals by Segment

€ million	Q2 2017	Q2 2018	Change %	H1 2017	H1 2018	Change %
Advanced Intermediates	97	97	0.0	188	199	5.9
Specialty Additives	75	91	21.3	119	172	44.5
Performance Chemicals	80	58	(27.5)	139	110	(20.9)
Engineering Materials	72	81	12.5	120	154	28.3
Reconciliation	(44)	(37)	15.9	(93)	(75)	19.4
	280	290	3.6	473	560	18.4

EBITDA pre exceptionals and operating result (EBIT)

EBITDA pre exceptionals rose in the second quarter of 2018 by €10 million, or 3.6%, to €290 million. Higher procurement prices for raw materials and energy were passed on to the market by adjusting selling prices. The positive overall earnings performance at Group level also resulted from the integration of the Chemtura business areas acquired in the previous year. The volume development also improved earnings overall for the Group. In contrast, the significant change in exchange rates had a particularly negative impact on earnings. Owing especially to portfolio effects and higher freight rates, selling expenses rose by 8.2% to €212 million. Research and development costs amounted to €28 million, compared to €29 million in the prior-year period, while general administration expenses fell by €14 million to €69 million due primarily to the reclassification of proceeds and equally high costs in connection with administrative services for ARLANXEO to other operating income and expenses. The Group EBITDA margin pre exceptionals came in at 15.9% for the second quarter, against 16.4% in the prior-year quarter.

With the exception of the Performance Chemicals segment, EBITDA pre exceptionals exceeded the level of the prior year in all segments. Please see the table above and "Segment data" for details.

Compared to the first half of previous year, EBITDA pre exceptionals improved year on year by €87 million to €560 million. Higher procurement prices for raw materials and energy were passed on to customers in all segments except Performance Chemicals by adjusting selling prices. The positive performance in the half-year also resulted from the integration of the Chemtura businesses acquired in the previous year. However, the significant change in exchange rates had a negative impact on earnings. The change in volumes had almost no effect on earnings performance in the half-year period. The increase in the specific functional cost areas was predominantly attributable to the integration of the Chemtura businesses. Selling expenses rose by €51 million to €411 million, research and development costs by €6 million to €58 million and general administration expenses by €5 million to €146 million.

The Group operating result (EBIT) increased significantly in the second quarter from €29 million to €159 million. The increase was primarily attributable to the fact that fewer exceptional items were incurred in the reporting quarter than in the prior-year period. Depreciation, amortization and write-downs came to

€104 million, which was €4 million, or 3.7%, below the figure for the prior-year quarter. Of the depreciation, amortization and write-downs, €2 million was unscheduled, including exceptional items of €1 million. Net negative exceptional items of €28 million included in other operating income and expenses for the reporting quarter resulted from negative exceptional items of €31 million and positive exceptional items of €3 million, with the latter fully impacting EBITDA. The negative exceptional items, of which €30 million impacted EBITDA and €1 million did not impact EBITDA, were largely attributable to expenses in connection with the strategic realignment of the LANXESS Group. In the prior-year quarter, negative exceptional items of €157 million were incurred. The exceptional items were principally associated with the acquisition of Chemtura, as well as the centralization of the Group's international chrome value chain in South Africa and the related closure of the Zárate production site in Argentina. Please see "Notes on EBIT and EBITDA (Pre Exceptionals)" for details.

In the first half of 2018, LANXESS posted EBIT of €313 million, compared with €146 million a year earlier. In the half-year period too, this growth was primarily attributable to the exceptional items incurred in the prior-year quarter. Depreciation, amortization and write-downs on intangible assets and property plant and equipment came to €205 million, compared with €175 million in the prior year. The increase reflects the depreciation and amortization of the former Chemtura businesses. Of the depreciation, amortization and write-downs, €3 million was unscheduled, including exceptional items of €1 million. On the other hand, reversals of impairment charges totaling €1 million were recognized.

Net negative exceptional items of €43 million included in other operating income and expenses for the half-year period resulted from negative exceptional items of €49 million and positive exceptional items of €6 million, with the latter fully impacting EBITDA. As in the second quarter, the negative exceptional items, of which €48 million impacted EBITDA and €1 million did not impact EBITDA, were largely attributable to expenses in connection with the strategic realignment of the LANXESS Group. In the prior-year period, negative exceptional items of €166 million were incurred, of which €152 million impacted EBITDA and €14 million did not impact EBITDA. The exceptional items were principally associated with the acquisition of Chemtura, as well as the centralization of the Group's international chrome value chain in South Africa and the related closure of the Zárate production site in Argentina. Please see "Notes on EBIT and EBITDA (Pre Exceptionals)" for details.

Reconciliation of EBITDA Pre Exceptionals to Operating Result (EBIT)

€ million	Q2 2017	Q2 2018	Change %	H1 2017	H1 2018	Change %
EBITDA pre exceptionals	280	290	3.6	473	560	18.4
Depreciation and amortization/reversals of impairment charges	(108)	(104)	3.7	(175)	(205)	(17.1)
Exceptional items in EBITDA	(143)	(27)	81.1	(152)	(42)	72.4
Operating result (EBIT)	29	159	> 100	146	313	> 100

Financial result

The financial result deteriorated in the second quarter of 2018 by €28 million to minus €21 million. Net interest income improved year on year by €6 million to minus €17 million. Compared with the prior-year quarter, interest expense decreased as a result of the repayment of the newly acquired Chemtura companies' financing in the prior year and the refinancing of a bond that matured in May 2018 on more favorable terms. As in the prior-year period, companies accounted for using the equity method did not generate an earnings contribution. The other financial result was minus €4 million, compared with plus €30 million in the prior-year period. The reduction in earnings primarily resulted from the payment of a reduced dividend by Currenta GmbH & Co. OHG, Leverkusen, Germany. This amounted to €9 million in the fiscal year after €45 million in the previous year.

The financial result for the first half of 2018 was minus €55 million, against minus €17 million a year earlier. Net interest income improved from minus €42 million to minus €35 million. The other financial result was minus €20 million in the reporting period, compared with plus €25 million in the prior-year period. The decline resulted primarily from the payment of a lower dividend by Currenta GmbH & Co. OHG, Leverkusen, Germany, and a higher exchange loss, which in the previous year was influenced by a gain from financial hedges in connection with the Chemtura acquisition.

Income before income taxes

Due to the development of the operating result, income before income taxes increased in the second quarter by €102 million to €138 million. The effective tax rate was 29.7%, compared with 91.7% for the prior-year quarter.

Income before income taxes also improved year on year from €129 million to €258 million because of the development of the operating result. The effective tax rate was 31.4%, against 57.4% a year earlier.

The comparatively high tax rates of the previous year resulted in particular from exceptional tax items.

Net income/earnings per share/ earnings per share pre exceptional items and amortization of intangible assets

Net income in the second quarter came to €126 million, of which €97 million was attributable to continuing operations. Of the net income for the prior year period of €3 million, €2 million was allocated to the net income from continuing operations. The prior year was influenced, in particular, by exceptional items associated with the acquisition of Chemtura, as well as the centralization of the Group's international chrome value chain in South Africa and the related closure of the Zárate production site in Argentina. In the first half of the year, net income increased year on year from €81 million to €222 million. Net income from continuing operations improved from €54 million to €178 million. Earnings attributable to non-controlling interests amounted to €30 million in the second quarter of 2018, compared with €11 million for the prior-year period. In the first half of 2018, they amounted to €43 million, against €36 million a year earlier. The earnings attributable to non-controlling interests in the second quarter and first half of 2018 resulted almost exclusively from Saudi Aramco's interest in ARLANXEO.

Earnings per share are calculated by dividing net income by the weighted average number of LANXESS shares in circulation during the reporting period. Earnings per share were €1.38 in the second quarter, which was significantly higher than the prior-year figure of €0.04. In the first half they were €2.43 compared with €0.89 in the first half of 2017.

Earnings per share from continuing operations are calculated by dividing net income from continuing operations by the weighted average number of LANXESS shares in circulation during the reporting period and, at €1.05 was €1.03 above the prior-year figure of €0.02 in the second quarter. In the first half they were €1.94 compared with €0.59 in the first half of 2017.

We also calculate earnings per share pre exceptional items and amortization of intangible assets, which is not defined by International Financial Reporting Standards. This value was calculated from the earnings per share adjusted for exceptional items, amortization of intangible assets and attributable tax effects.

Earnings per share pre exceptionals and adjusted for amortization of intangible assets came in at €1.77 and €3.10 in the second quarter and first half of 2018 respectively, compared with €1.54 and €2.55 in the corresponding prior-year periods.

Reconciliation to Earnings per Share Adjusted for Exceptional Items and Amortization of Intangible Assets

€ million	Q2 2017	Q2 2018	H1 2017	H1 2018
Net income	3	126	81	222
Exceptional items ¹⁾	153	29	164	45
Amortization of intangible assets/reversals of impairment charges ¹⁾	18	21	27	41
Attributable tax effects ¹⁾	(33)	(14)	(39)	(24)
Net income adjusted for exceptional items and amortization of intangible assets	141	162	233	284
Number of shares outstanding	91,522,936	91,522,936	91,522,936	91,522,936
Earnings per share adjusted for exceptional items and amortization of intangible assets (€)	1.54	1.77	2.55	3.10

¹⁾ Excluding items attributable to non-controlling interests.

Earnings per share from continuing operations pre exceptionals and adjusted for amortization of intangible assets came in at €1.45 and €2.61 in the second quarter and first half of 2018 respectively, compared with €1.57 and €2.26 in the corresponding prior-year periods.

Reconciliation to Earnings per Share from Continuing Operations Adjusted for Exceptional Items and Amortization of Intangible Assets

€ million	Q2 2017	Q2 2018	H1 2017	H1 2018
Net income	2	97	54	178
Exceptional items ¹⁾	157	28	166	43
Amortization of intangible assets/reversals of impairment charges ¹⁾	18	21	26	41
Attributable tax effects ¹⁾	(33)	(13)	(39)	(23)
Net income from continuing operations adjusted for exceptional items and amortization of intangible assets	144	133	207	239
Number of shares outstanding	91,522,936	91,522,936	91,522,936	91,522,936
Earnings per share from continuing operations adjusted for exceptional items and amortization of intangible assets (€)	1.57	1.45	2.26	2.61

¹⁾ Excluding items attributable to non-controlling interests.

BUSINESS DEVELOPMENT BY REGION

Sales by Market

	Q2 2017		Q2 2018		Change	H1 2017		H1 2018		Change
	€ million	%	€ million	%		%	€ million	%	€ million	
EMEA (excluding Germany)	532	31.1	577	31.6	8.5	1,024	32.2	1,180	32.4	15.2
Germany	316	18.4	363	19.8	14.9	637	20.0	723	19.8	13.5
North America	370	21.6	385	21.1	4.1	603	18.9	758	20.8	25.7
Latin America	114	6.7	105	5.7	(7.9)	210	6.6	194	5.3	(7.6)
Asia-Pacific	380	22.2	399	21.8	5.0	711	22.3	790	21.7	11.1
	1,712	100.0	1,829	100.0	6.8	3,185	100.0	3,645	100.0	14.4

There were portfolio effects in the reporting periods from the acquisition of Chemtura in April 2017, from the sale of International Dioxide Inc., North Kingstown, U.S., in November 2017 and from the acquisition of a production site in Charleston, U.S., from the Belgian chemicals group Solvay at the beginning of February 2018.

Sales in the **EMEA** region (excluding Germany) rose by €45 million, or 8.5%, to €577 million in the second quarter of 2018. Of this increase, €28 million was attributable to portfolio effects. Adjusted for these and for currency effects, sales were up 4.7% compared with the prior-year quarter. This performance was primarily attributable to the Engineering Materials segment, which saw sales rise by a low-double-digit percentage. Businesses of the Advanced Intermediates and Performance Chemicals segments rose by a mid-single-digit percentage. By contrast, the Specialty Additives segment posted a percentage fall in sales in the low single-digits. Sales in the first half of 2018 in the EMEA (excluding Germany) region increased by €156 million, or 15.2%, to €1,180 million. In this period, portfolio effects amounted to €108 million. After adjustment for these and for currency effects, sales were up by 6.0%. The Engineering Materials segment accounted for a predominant share of this sales growth, recording an increase in the low-double-digit-percentage range. The remaining segments achieved sales increases in the mid-single-digit-percentage range.

Our sales in **Germany** in the second quarter were up €47 million, or 14.9%, year on year, at €363 million. After adjustment for marginally positive currency effects and portfolio effects of €7 million, sales rose by 11.9%. The Advanced Intermediates and Performance Chemicals segments accounted for a large part of this increase, with sales growing by a double-digit percentage. The Engineering Materials segment reported growth in the high-single-digit range, while the Specialty Additives segment's sales fell by a high-single-digit percentage.

In the first half of 2018, sales in Germany advanced by 13.5%, or €86 million, to €723 million. Portfolio effects contributed €30 million. In adjusted terms, sales rose by 8.5%. The Performance Chemicals, Advanced Intermediates and Engineering Materials segments posted growth in sales in the low-double-digit-percentage range. Business in the Specialty Additives segment was down slightly.

Sales in the **North America** region increased by €15 million, or 4.1%, to €385 million in the second quarter of 2018. Portfolio changes contributed €27 million to this. After adjustment for these and for significantly negative currency effects resulting from movement in the U.S. dollar, sales were up by 3.7%. This performance was driven mainly by the Specialty Additives and Performance Chemicals segments, which posted a high-single-digit-percentage increase in sales. Slightly declining effects were registered in the Advanced Intermediates and Engineering Materials segments.

In the first half of 2018, sales in North America advanced by 25.7%, or €155 million, to €758 million. Portfolio changes contributed €182 million to this. Adjusted for these and for significantly negative currency effects resulting from the U.S. dollar, sales grew by 4.7%. The development resulted from a percentage increase in sales in all segments in the low to mid-single-digit range.

Sales in the **Latin America** region in the second quarter of 2018, at €105 million, were €9 million, or 7.9%, down on the figure for the prior-year period of €114 million. Portfolio changes had an impact of €2 million. After adjustment for these and for perceptibly negative currency effects, sales were up by 1.5%. The development resulted from an increase in sales in the Specialty Additives and Advanced Intermediates segments in the low-double-digit-percentage range as well as slightly increased sales in the Engineering Materials segment. By contrast, the Performance Chemicals segment reported a reduction in sales in the low-double-digit-percentage range.

In the first half of 2018, sales in the Latin America region fell by €16 million, or 7.6%, to €194 million. Portfolio changes contributed €9 million to this. After adjustment for these and for significantly negative currency effects, sales were on prior-year level. This was the result of sales growth in the Specialty Additives,

Advanced Intermediates, and Engineering Materials segments in the high-single to low-double-digit-percentage range, which was offset by a percentage reduction in sales in the low-double-digit range in the Performance Chemicals segment.

Second-quarter sales in the **Asia-Pacific** region increased by €19 million, or 5.0%, to €399 million. Portfolio changes accounted for €29 million. After adjustment for these and for currency effects, sales were up by 3.1%. Whereas sales in the Advanced Intermediates and Engineering Materials segments increased in the the low-double and high-single-digit-percentage range, respectively, the Specialty Additives segment showed a sales decrease in the low-single-digit-percentage range. Sales in our Performance Chemicals segment marginally exceeded the figure for the prior-year quarter. In the first half of 2018, sales in this region advanced by €79 million, or 11.1%, to €790 million. Portfolio changes contributed €120 million to this. After adjustment for these and for negative currency effects, sales were up by 1.7%. The growth in business of the Advanced Intermediates segment in the low-double-digit percentage range as well as a slight increase in sales in the Engineering Materials and Specialty Additives segments could compensate for the downward trend in the Performance Chemicals segment, which was in the low-single-digit-percentage range.

SEGMENT INFORMATION

Advanced Intermediates

	Q2 2017		Q2 2018		Change	H1 2017		H1 2018		Change
	€ million	Margin %	€ million	Margin %		%	€ million	Margin %	€ million	
Sales	505		546		8.1	1,024		1,111		8.5
EBITDA pre exceptionals	97	19.2	97	17.8	0.0	188	18.4	199	17.9	5.9
EBITDA	94	18.6	97	17.8	3.2	185	18.1	199	17.9	7.6
Operating result (EBIT) pre exceptionals	68	13.5	65	11.9	(4.4)	133	13.0	136	12.2	2.3
Operating result (EBIT)	65	12.9	65	11.9	0.0	130	12.7	136	12.2	4.6
Cash outflows for capital expenditures	33		30		(9.1)	49		53		8.2
Depreciation and amortization	29		32		10.3	55 ¹⁾		63		14.5
Employees as of June 30 (previous year: as of Dec. 31)	3,661		3,700		1.1	3,661		3,700		1.1

1) Figure includes reversals of impairment charges of €1 million

Our **Advanced Intermediates** segment posted sales of €546 million in the second quarter of 2018, 8.1% or €41 million higher than in the prior-year quarter. In both of the segment's business units, higher selling prices were realized than in the prior-year quarter and led to a 9.5% increase in sales overall. In addition, the integration of the organometallics operations acquired in the previous year into the Advanced Industrial Intermediates business unit had a positive effect of 2.0% on sales. Shifts in exchange rates had a negative effect of 3.4%. While sales volumes in the Advanced Industrial Intermediates business unit slightly exceeded the level of the prior year, sales volumes in the Saltigo business unit decreased as a result of continued weak demand from the agricultural industry. At segment level, volumes were on a par with the previous year. In North America, the segment's sales were below the prior-year level. In all other regions, the segment recorded positive business development.

EBITDA pre exceptionals in the Advanced Intermediates segment matched the prior-year level, at €97 million. Increases in procurement prices for raw materials and energy, which were significant in some cases, were passed on to customers by adjusting selling prices. Disadvantageous exchange rate developments had a negative impact on earnings. The organometallics

business acquired in the previous year had a positive effect on earnings. The segment's EBITDA margin pre exceptionals came in at 17.8% after 19.2% in the prior-year quarter.

The Advanced Intermediates segment generated half-year sales in 2018 of €1,111 million, a year-on-year increase of 8.5%. A positive price effect of 9.3% was attributable to higher procurement prices for raw materials being passed on to customers. In addition, the integration of Chemtura's organometallics business acquired in the prior year into the Advanced Industrial Intermediates business unit added 4.3% to sales. By contrast, the change in exchange rates diminished sales by 4.0%. Lower volumes reduced sales by 1.1%.

The segment achieved EBITDA pre exceptionals of €199 million in the first half of 2018, compared with €188 million in the prior-year period. The EBITDA margin pre-exceptionals came in at 17.9%, against 18.4% in the previous year.

The segment registered no exceptional items in either the second quarter or the first half. In the second quarter and the first half of 2017, negative exceptional items in the segment amounted to €3 million and fully impacted EBITDA. Please see "Notes on EBIT and EBITDA (Pre Exceptionals)" for details.

Specialty Additives

	Q2 2017		Q2 2018		Change	H1 2017		H1 2018		Change
	€ million	Margin %	€ million	Margin %		%	€ million	Margin %	€ million	
Sales	441		508		15.2	680		1,008		48.2
EBITDA pre exceptionals	75	17.0	91	17.9	21.3	119	17.5	172	17.1	44.5
EBITDA	24	5.4	89	17.5	> 100	68	10.0	170	16.9	> 100
Operating result (EBIT) pre exceptionals	50	11.3	57	11.2	14.0	87	12.8	107	10.6	23.0
Operating result (EBIT)	(7)	(1.6)	55	10.8	> 100	30	4.4	105	10.4	> 100
Cash outflows for capital expenditures	16		28		75.0	23		44		91.3
Depreciation and amortization	31		34		9.7	38		65 ¹⁾		71.1
Employees as of June 30 (previous year: as of Dec. 31)	2,936		3,024		3.0	2,936		3,024		3.0

1) Net of reversals of write-downs of €1 million.

Our **Specialty Additives** segment posted sales of €508 million in the second quarter of 2018, 15.2% or €67 million higher than in the prior-year quarter. The increase in sales was largely attributable to the integration of the additives business acquired in the previous year. The phosphorus additives business newly acquired from the Belgian chemicals group Solvay also made a positive sales contribution. Overall, portfolio effects led to an increase in sales of 17.7%. Higher selling prices in our existing additives business also added 2.3% to the rise in sales, with contributions from both business units. Shifts in exchange rates diminished sales for both of the segment's business units by 4.6%. Volumes in the segment were level with the strong prior-year quarter. Sales in all regions were above the prior-year figures.

EBITDA pre exceptionals for the Specialty Additives segment was €91 million, €16 million, or 21.3%, above the prior-year level. This strong earnings performance was the result of the integration of the additives business acquired in the previous year. Higher procurement prices for raw materials and energy stood against higher selling prices. Disadvantageous exchange rate developments had a countervailing effect. The EBITDA margin pre exceptionals of 17.9% was above the prior-year figure of 17.0%.

The Specialty Additives segment generated half-year sales of €1,008 million, a year-on-year increase of 48.2%. As in the quarterly comparison, the increase in sales was largely attributable

to the integration of the additives business acquired in the previous year and to the contribution of the newly acquired phosphorus additives business. Overall, portfolio effects led to an increase in sales of 50.4%. 2.2% of the rise in sales was also driven by higher selling prices in our existing additives business. Currency effects diminished sales by 4.9%. Volumes were on a par with the prior-year level.

The segment achieved EBITDA pre exceptionals of €172 million in the first half of 2018, compared with €119 million in the prior-year period. The EBITDA margin pre-exceptionals came in at 17.1%, against 17.5% in the previous year.

In the second quarter, negative exceptional items in the segment totaled €2 million, all of which impacted EBITDA. In the first half, net negative exceptional items amounted to €2 million, resulting from negative exceptional items of €3 million and positive exceptional items of €1 million. Of the negative exceptional items, €2 million impacted EBITDA and €1 million did not impact EBITDA. The positive exceptional items did not impact EBITDA. Both the exceptional items of the second quarter and of the first half primarily related to the strategic realignment of the LANXESS Group. In the second quarter and in the first half of 2017, negative exceptional items incurred in the segment totaled €57 million, of which €51 million impacted EBITDA and €6 million did not. Please see "Notes on EBIT and EBITDA (Pre Exceptionals)" for details.

Performance Chemicals

	Q2 2017		Q2 2018		Change	H1 2017		H1 2018		Change
	€ million	Margin %	€ million	Margin %		%	€ million	Margin %	€ million	
Sales	367		356		(3.0)	735		692		(5.9)
EBITDA pre exceptionals	80	21.8	58	16.3	(27.5)	139	18.9	110	15.9	(20.9)
EBITDA	16	4.4	58	16.3	> 100	75	10.2	109	15.8	45.3
Operating result (EBIT) pre exceptionals	61	16.6	39	11.0	(36.1)	101	13.7	72	10.4	(28.7)
Operating result (EBIT)	(9)	(2.5)	39	11.0	> 100	31	4.2	71	10.3	> 100
Cash outflows for capital expenditures	15		16		6.7	26		27		3.8
Depreciation and amortization	25		19		(24.0)	44		38		(13.6)
Employees as of June 30 (previous year: as of Dec. 31)	3,880		3,829		(1.3)	3,880		3,829		(1.3)

Sales in our **Performance Chemicals** segment fell by 3.0% in the second quarter of 2018, to €356 million. Shifts in exchange rates had a negative effect on all business units and diminished the segment's sales by 4.3% in total. The sale of the subsidiary International Dioxide Inc., North Kingstown, U.S., of the Material Protection Products business unit in the previous year also had a negative effect of 2.5% on sales. By contrast, overall sales increased by 3.3% as a result of volumes. The Material Protection Products and Liquid Purification Technologies business units recorded higher volumes. Due to the closure of the Zárate site in Argentina, volumes in the Leather business unit were down year on year. Selling prices in all business units were on a par with or slightly above the prior-year level, which led to an increase in sales of 0.5%. While higher sales were achieved in EMEA and Germany, the segment posted lower sales in all other regions.

EBITDA pre exceptionals in the Performance Chemicals segment decreased by €22 million, or 27.5%, to €58 million, compared with the comparatively very high prior-year level of €80 million. Weak chrome business and the sale of the subsidiary International Dioxide Inc., North Kingstown, U.S., in the Material Protection Products business unit in the prior year diminished earnings. The trend in earnings was also negatively impacted by disadvantageous currency effects. Higher procurement prices for

raw materials were not entirely passed on to customers. Higher volumes in our Material Protection Products and Liquid Purification Technologies business had a positive effect on earnings. The EBITDA margin pre exceptionals decreased from 21.8% to 16.3%.

The Performance Chemicals segment posted sales of €692 million in the first half of 2018, down 5.9% from the same period a year ago. Negative currency effects diminished sales by 6.0%. As in the quarterly comparison, the sale of the subsidiary International Dioxide Inc., North Kingstown, U.S., in the previous year also had a negative effect of 2.2% on sales. Higher volumes raised sales by 2.3%. Higher raw material prices were not passed on to customers. Overall, selling prices were on a par with the prior-year level.

The segment generated EBITDA pre exceptionals of €110 million in the first six months of 2018, against €139 million in the prior-year period. The EBITDA margin pre exceptionals came in at 15.9%, against 18.9% a year ago.

In the first half, negative exceptional items in the segment amounted to €1 million and fully impacted EBITDA. In the second quarter and in the first half of 2017, negative exceptional items incurred in the segment totaled €70 million, of which €64 million impacted EBITDA and €6 million did not. Please see "Notes on EBIT and EBITDA (Pre Exceptionals)" for details.

Engineering Materials

	Q2 2017		Q2 2018		Change %	H1 2017		H1 2018		Change %
	€ million	Margin %	€ million	Margin %		€ million	Margin %	€ million	Margin %	
Sales	361		399		10.5	676		791		17.0
EBITDA pre exceptionals	72	19.9	81	20.3	12.5	120	17.8	154	19.5	28.3
EBITDA	60	16.6	81	20.3	35.0	108	16.0	154	19.5	42.6
Operating result (EBIT) pre exceptionals	58	16.1	67	16.8	15.5	95	14.1	125	15.8	31.6
Operating result (EBIT)	45	12.5	66	16.5	46.7	82	12.1	124	15.7	51.2
Cash outflows for capital expenditures	10		9		(10.0)	15		15		0.0
Depreciation and amortization	15		15		0.0	26		30		15.4
Employees as of June 30 (previous year: as of Dec. 31)	1,976		2,037		3.1	1,976		2,037		3.1

Sales in our **Engineering Materials** segment increased by 10.5% year on year in the second quarter of 2018, to €399 million. Higher selling prices also added 4.7% to the rise in sales, contributed by the High Performance Materials business unit in particular. In addition, higher sales volumes increased sales by 4.2%. The increase in sales was also the result of the contribution from the newly acquired urethanes business, which added 4.1% to sales. Exchange rates had a negative impact on sales of 2.5%. With the exception of the Latin America region, the segment's sales in all other regions were above the prior-year quarter.

EBITDA pre exceptionals in the Engineering Materials segment rose by €9 million, or 12.5%, to €81 million. Higher procurement prices for raw materials and energy were passed on to customers by adjusting selling prices. The improvement in earnings was also due to higher volumes, a better product mix and the contribution from the urethanes business acquired in the previous year. However, the change in exchange rates had a negative impact on earnings. The EBITDA margin pre exceptionals of 20.3% was above the figure of 19.9% posted in the prior-year quarter.

First-half 2018 sales in the Engineering Materials segment advanced by 17.0% to €791 million. The increase in sales was, on the one hand, the result of the contribution from the urethanes business acquired in the previous year, which added 11.4% to sales. On the other hand, there was a positive price effect of 6.4% on sales. In addition, higher sales volumes increased sales by 2.8%. Exchange rates had a negative impact on sales of 3.6%.

The segment achieved EBITDA pre exceptionals of €154 million in the first half of 2018, compared with €120 million in the prior-year period. The EBITDA margin pre-exceptionals came in at 19.5%, against 17.8% in the previous year.

In the second quarter and the first half, negative exceptional items in the segment, which did not impact EBITDA, amounted to €1 million. In the second quarter and in the first half of 2017, negative exceptional items incurred in the segment totaled €13 million, of which €12 million impacted EBITDA and €1 million did not. Please see "Notes on EBIT and EBITDA (Pre Exceptionals)" for details.

Reconciliation

€ million	Q2 2017	Q2 2018	Change %	H1 2017	H1 2018	Change %
Sales	38	20	(47.4)	70	43	(38.6)
EBITDA pre exceptionals	(44)	(37)	15.9	(93)	(75)	19.4
EBITDA	(57)	(62)	(8.8)	(115)	(114)	0.9
Operating result (EBIT) pre exceptionals	(51)	(41)	19.6	(104)	(84)	19.2
Operating result (EBIT)	(65)	(66)	(1.5)	(127)	(123)	3.1
Cash outflows for capital expenditures	3	–	(100.0)	4	4	0.0
Depreciation and amortization	8	4	(50.0)	12	9	(25.0)
Employees as of June 30 (previous year: as of Dec. 31)	2,830	2,859	1.0	2,830	2,859	1.0

EBITDA pre exceptionals for the reconciliation came to minus €37 million and minus €75 million in the second quarter and first half respectively, compared with minus €44 million and minus €93 million in the corresponding prior-year periods. This change was mainly due to an improved result from hedging currency risks. The net negative exceptional items of €25 million, which impacted EBITDA in the second quarter, reported in the reconciliation resulted from negative exceptional items of €28 million and positive exceptional items of €3 million. In the first six months of fiscal year 2018, negative exceptional items amounted to €39 million, which fully impacted EBITDA. The exceptional items resulted from negative exceptional items of €44 million and positive exceptional items of €5 million. The exceptional items in the second quarter and the first six months of fiscal year 2018 resulted primarily from expenses in connection with the strategic realignment of the LANXESS Group. In the prior year, negative exceptional items came to €14 million in the quarter and €23 million in the first half. Please see “Notes on EBIT and EBITDA (Pre Exceptionals)” for details.

NOTES ON EBIT AND EBITDA (PRE EXCEPTIONALS)

In order to better assess our operational business and to steer earning power at Group level and for the individual segments, we additionally calculate the earnings indicators EBITDA, and EBITDA and EBIT pre exceptionals, none of which are defined

by International Financial Reporting Standards. These indicators are viewed as supplementary to the data prepared according to IFRS; they are not a substitute.

Reconciliation to EBIT/EBITDA

€ million	EBIT Q2 2017	EBIT Q2 2018	EBITDA Q2 2017	EBITDA Q2 2018	EBIT H1 2017	EBIT H1 2018	EBITDA H1 2017	EBITDA H1 2018
EBIT/EBITDA pre exceptionals	186	187	280	290	312	356	473	560
Advanced Intermediates	(3)	0	(3)	0	(3)	0	(3)	0
Strategic realignment ¹⁾	(3)	0	(3)	0	(3)	0	(3)	0
Specialty Additives	(57)	(2)	(51)	(2)	(57)	(2)	(51)	(2)
Strategic realignment ¹⁾	(57)	(2)	(51)	(2)	(57)	(3)	(51)	(2)
Optimization of the production network	0	0	0	0	0	1	0	0
Performance Chemicals	(70)	0	(64)	0	(70)	(1)	(64)	(1)
Strategic realignment	(70)	0	(64)	0	(70)	0	(64)	0
Optimization of the production network	0	0	0	0	0	(1)	0	(1)
Engineering Materials	(13)	(1)	(12)	0	(13)	(1)	(12)	0
Strategic realignment ¹⁾	(13)	(1)	(12)	0	(13)	(1)	(12)	0
Reconciliation	(14)	(25)	(13)	(25)	(23)	(39)	(22)	(39)
Strategic realignment ²⁾	(10)	(8)	(9)	(8)	(17)	(14)	(16)	(14)
Other	(4)	(17)	(4)	(17)	(6)	(25)	(6)	(25)
Total exceptional items	(157)	(28)	(143)	(27)	(166)	(43)	(152)	(42)
EBIT/EBITDA	29	159	137	263	146	313	321	518

1) The exceptional items in the second quarter and first half of 2017 related to the purchase price allocation and integration of Chemtura.

2) The exceptional items in the second quarter and first half of 2017 of €3 million each related to the purchase price allocation and integration of Chemtura.

EBITDA is calculated from earnings (EBIT) by adding back depreciation and impairments of property, plant and equipment as well as amortization and impairments of intangible assets and subtracting reversals of impairment charges on property, plant, equipment and intangible assets.

EBIT pre exceptionals and **EBITDA pre exceptionals** are EBIT and EBITDA before exceptional items. The latter are effects that, by nature or extent, have a significant impact on the earnings position, but for which inclusion in the evaluation of business performance over several reporting periods does not seem to be appropriate. Exceptional items may include write-downs, reversals of impairment charges or the proceeds from the disposal of assets, certain IT expenses, restructuring expenses and income from the reversal of provisions established in this connection, and reductions in earnings resulting from portfolio adjustments or purchase price allocations. Grants and subsidies

from third parties for the acquisition and construction of property, plant and equipment are accounted for as deferred income using the gross method. In this respect, no adjustments other than for gross depreciation and amortization are made when calculating EBITDA pre exceptionals.

Every operational decision or achievement is judged in the short and long term by its sustainable impact on EBITDA pre exceptionals. As part of the annual budget and planning process, targets are set for this benchmark of our company's success, which are then taken into account in determining employees' variable income components.

The **earnings margins** are calculated from the ratios of the respective earnings indicators to sales. For example, the EBITDA margin (pre exceptionals) is calculated as the ratio of EBITDA (pre exceptionals) to sales and serves as an indicator of relative earning power at Group level and for the individual segments.

STATEMENT OF FINANCIAL POSITION AND FINANCIAL CONDITION

Structure of the statement of financial position

As of June 30, 2018, the LANXESS Group's total assets stood at €10,540 million, up €129 million, or 1.2%, from €10,411 million on December 31, 2017. Effective April 1, 2018, LANXESS is required to report the ARLANXEO business as discontinued operations according to IFRS 5. Assets and liabilities, which are assigned to the discontinued operation, were reclassified to "Assets from discontinued operations" and "Liabilities directly attributable to assets from discontinued operations". The impact of the reclassifications is apparent in almost all balance sheet items. The equity ratio at the end of the second quarter was 32.5%, after 32.8% in the prior year.

Non-current assets decreased by €1,766 million to €4,688 million as of June 30, 2018. Property, plant and equipment decreased as a result of the reclassification from €4,059 million to €2,436 million as of June 30, 2018. Deferred taxes were €60 million lower than at December 31, 2017, amounting to €442 million. Cash outflows for purchases of intangible assets and property, plant and equipment totaled €143 million, compared with €117 million in the prior-year period. Depreciation and amortization in the first six months amounted to €205 million, which was above the figure of €175 million for the prior-year period. The increase resulted primarily from the depreciation and amortization of the former Chemtura businesses for six months, while depreciation and amortization only had to be taken into account from the acquisition date, April 21, 2017, in the prior year. Since discontinued operations are not subject to depreciation and amortization according to the rules of IFRS 5, no depreciation and amortization were incurred for ARLANXEO in the second quarter of 2018. The ratio of non-current assets to total assets was 44.5%, down from 62.0% on December 31, 2017.

Current assets increased by €1,895 million, or 47.9%, compared with December 31, 2017, to €5,852 million. This increase was largely the result of the reclassification of non-current assets associated with the discontinued operations of ARLANXEO into current assets. Inventories and trade receivables were down, falling by €395 million to €1,285 million and by €368 million to €948 million, respectively. Cash and cash equivalents decreased by €408 million to €130 million. Due to the inclusion of contract assets for the first time in the reporting year required by the introduction of IFRS15, other current financial assets rose by €53 million to €60 million as of June 30, 2018. The ratio of current assets to total assets was 55.5%, compared with 38.0% on December 31, 2017.

Equity amounted to €3,429 million against €3,413 million on December 31, 2017.

Non-current liabilities rose by €186 million to €4,726 million as of June 30, 2018. The increase was mainly driven by the issue of a new Eurobond of €500 million maturing on May 16, 2025, refinancing the €500 million bond that matured in the second quarter. By contrast, provisions for pensions and other post-employment benefits and other non-current provisions decreased mainly because of the reclassification of the ARLANXEO business. Provisions for pensions and other post-employment benefits declined by €161 million to €1,329 million, while other non-current provisions decreased by €94 million to €366 million. Non-current derivative liabilities totaled €5 million, after €2 million on December 31, 2017. In addition, other non-current financial liabilities rose by €441 million to €2,683 million. The ratio of non-current liabilities to total assets was 44.8%, against 43.6% as of December 31, 2017.

Current liabilities came to €2,385 million, down by €73 million, or 3.0%, compared with December 31, 2017. In May 2018, LANXESS repaid the €500 million Eurobond issued in 2011. This effect was overcompensated for by the reclassification of the ARLANXEO business into "Liabilities directly associated with assets from discontinued operations." The ratio of current liabilities to total assets was 22.6% as of June 30, 2018, against 23.7% at the end of 2017.

Financial condition and capital expenditures

Changes in the statement of cash flows

The following notes to the statement of cash flows relate to LANXESS's continuing operations.

In the first six months of 2018 there was a net cash inflow of €65 million from operating activities, against €66 million in the prior-year period. Income before income taxes improved from €129 million to €258 million. Depreciation, amortization and write-downs on intangible assets and property, plant and equipment rose from €175 million to €205 million. This effect was countered by the increase in net working capital, which amounted to €273 million after €155 million in the previous year. At €61 million, income taxes paid were slightly lower than the prior-year figure of €70 million.

There was a €194 million net cash outflow from investing activities in the first six months of 2018, compared with a €316 million net cash inflow in the same period a year ago. The net cash outflow in the reporting period particularly resulted from cash outflows for purchases of intangible assets and property, plant and equipment of €143 million, compared with €117 million in

the prior-year period. In the previous year, the net cash inflow was influenced by cash flows upon maturity of time deposits and from the sale of securities. There was also a cash outflow of €1,782 million (after adjustment for acquired cash and cash equivalents) for the acquisition of Chemtura in the prior-year period. During the reporting period, there was a cash outflow of €54 million for the acquisition of a production site in Charleston, U.S., where the Additives business unit acquired the phosphorus additives business from the Belgian chemicals group Solvay on February 7, 2018.

Net cash used in financing activities came to €36 million compared to €35 million in the prior-year period. The net outflow in the reporting period resulted mainly from the repayment of borrowings and dividend payments. The proceeds from borrowings had an opposing effect.

The cash change in the LANXESS Group's cash and cash equivalents in the first half of 2018 comprises the above changes and a cash change from discontinued operations of minus €122 million. In total, this results in a cash change of minus €287 million for continuing and discontinued operations.

Financing and liquidity

The principles and objectives of financial management discussed on page 88 of the Annual Report 2017 remained valid during the first half of 2017. They are centered on a conservative financial policy built on long-term, secured financing.

Cash and cash equivalents decreased by €408 million compared with the end of 2017 to €130 million. The Group's liquidity position remains sound overall.

Net financial liabilities totaled €2,633 million as of June 30, 2018, compared with €2,252 million as of December 31, 2017.

Net Financial Liabilities

€ million	Dec. 31, 2017	June 30, 2018
Non-current financial liabilities	2,242	2,683
Current financial liabilities	633	147
Less:		
Liabilities for accrued interest	(35)	(17)
Cash and cash equivalents	(538)	(130)
Near-cash assets	(50)	(50)
Net financial liabilities	2,252	2,633

The increase in net financial liabilities as of June 30, 2018 was largely the result of the reclassification of the assets and liabilities attributable to ARLANXEO to the items "Assets from discontinued operations" and "Liabilities directly attributable to assets from discontinued operations". In addition, the amount of net financial liabilities was affected by the dividend payment to LANXESS shareholders in the amount of €73 million in the first half of 2018.

Financing instruments off the statement of financial position

As of June 30, 2018, we had no material financing items that were not reported in the statement of financial position, such as factoring, asset-backed structures or sale-and-lease-back transactions.

Significant capital expenditure projects

LANXESS continues to focus on growth and is investing in various sites. At the German site in Leverkusen, capacity for specialty amine production is being expanded for the Advanced Industrial Intermediates business unit. This intermediate product is required for the production of high-performance elastomers, which are chiefly used in the automotive industry. Expansion of production of trimethylolpropane, hexandiole and menthols for the Advanced Industrial Intermediates business unit in response to increasing demand on global markets is also envisaged at the German site in Krefeld-Uerdingen. The expansion measures at both German sites are to be completed by 2020 and will require a total investment volume of about €80 million.

LANXESS will also invest around €20 million in a new plant for high-performance plastics in Changzhou, China, in the course of the year. The new compounding facility of the High Performance Materials business unit is to produce up to 25,000 metric tons of high-tech plastics of the Durethan and Pocan brands per year for the automotive sector and the electrical and electronics industry from the second quarter of 2019.

LANXESS is also investing about €40 million in the three businesses in El Dorado, U.S. The majority of the investment in the Additives business unit will be used to modernize bromine production as well as the site infrastructure and pipelines.

FUTURE PROSPECTS, OPPORTUNITIES AND RISKS

Outlook

The political and economic risks have not changed substantially compared with our original full-year forecast for 2018 published in the Annual Report 2017. Expectations for the development of the global economy as well as the Americas, EMEA (including Germany) and Asia/Pacific regions likewise remain in line with the original assessment.

Our expectations for trends in the global chemical industry and the individual user industries are almost unchanged against our last assessment. After expectations of a weak first six months in our agrochemicals business, we expect a gradual improvement in the second half of the year.

As in the Annual Report 2017, our earnings forecast relates to New LANXESS. Since April 1, 2018, ARLANXEO has been classified as a discontinued operation in accordance with IFRS 5. Accordingly, both the reported and forecast EBITDA pre exceptionals for the LANXESS Group reported in the reporting periods contain no EBITDA contributions from ARLANXEO.

For our Advanced Intermediates segment, we expect business in 2018 to be slightly above the previous year's level overall. The segment will continue to benefit from wide diversification in end markets. We expect stable demand from our customers in the agricultural industry in the second half of the year, albeit at a fairly low level.

The Specialty Additives segment should perform significantly above the prior-year level as a result of the Chemtura businesses acquired in the prior year and the expected synergies.

For our Performance Chemicals segment, we now expect business performance to be lower than in the previous year. In particular, the weaker U.S. dollar and the decrease in chrome ore prices as compared to the previous year will have a negative impact on the segment's earnings.

For our Engineering Materials segment, we are anticipating performance slightly above the prior-year level. Growth is based on the ongoing success of business with high-performance plastics as well as the earnings contribution of the urethanes business acquired in the prior year.

Against the backdrop of a strong second quarter and the anticipated development of the New LANXESS segments, we expect earnings to increase by 5% to 10% for fiscal year 2018 compared with the EBITDA pre exceptionals of 2017 of around €925 million.

Further information on this topic is provided in the combined management report for LANXESS AG and the LANXESS Group on pages 104 and 105 of the Annual Report 2017.

Significant opportunities and risks

There have been no significant changes in the opportunities or risks for the LANXESS Group compared with December 31, 2017. Further information on this topic is provided in the combined management report for LANXESS AG and the LANXESS Group on pages 106 to 116 of the Annual Report 2017. Based on an overall evaluation of risk management information, the Board of Management at the present time cannot identify any sufficiently likely risks or risk combinations that would jeopardize the continued existence of LANXESS.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

as of June 30, 2018

STATEMENT OF FINANCIAL POSITION LANXESS GROUP

€ million	Dec. 31, 2017	June 30, 2018
Assets		
Intangible assets ¹⁾	1,784	1,737
Property, plant and equipment	4,059	2,436
Investments accounted for using the equity method	0	0
Investments in other affiliated companies	9	1
Non-current derivative assets	7	3
Other non-current financial assets	20	25
Non-current income tax receivables	20	11
Deferred taxes	442	382
Other non-current assets	113	93
Non-current assets	6,454	4,688
Inventories	1,680	1,285
Trade receivables	1,316	948
Cash and cash equivalents	538	130
Near-cash assets	50	50
Current derivative assets	45	10
Other current financial assets	7	60
Current income tax receivables	47	17
Other current assets	274	225
Assets held under discontinued operations	–	3,127
Current assets	3,957	5,852
Total assets	10,411	10,540
EQUITY AND LIABILITIES		
Capital stock and capital reserves	1,317	1,317
Other reserves	1,381	1,324
Net income	87	222
Other equity components	(498)	(528)
Equity attributable to non-controlling interests	1,126	1,094
Equity	3,413	3,429
Provisions for pensions and other post-employment benefits	1,490	1,329
Other non-current provisions	460	366
Non-current derivative liabilities	2	5
Other non-current financial liabilities	2,242	2,683
Non-current income tax liabilities ¹⁾	134	105
Other non-current liabilities	99	88
Deferred taxes	113	150
Non-current liabilities	4,540	4,726
Other current provisions	525	391
Trade payables	1,048	698
Current derivative liabilities	12	36
Other current financial liabilities	633	147
Current income tax liabilities	61	42
Other current liabilities	179	150
Liabilities directly related to assets from discontinued operations	–	921
Current liabilities	2,458	2,385
Total equity and liabilities	10,411	10,540

1) Prior-year figures restated. For details, refer to chapter "Additions from acquisitions in the prior year"

INCOME STATEMENT LANXESS GROUP

€ million	Q2 2017	Q2 2018	H1 2017	H1 2018
Sales	1,712	1,829	3,185	3,645
Cost of sales	(1,233)	(1,332)	(2,317)	(2,674)
Gross profit	479	497	868	971
Selling expenses	(196)	(212)	(360)	(411)
Research and development expenses	(29)	(28)	(52)	(58)
General administration expenses	(83)	(69)	(141)	(146)
Other operating income	50	22	81	53
Other operating expenses	(192)	(51)	(250)	(96)
Operating result (EBIT)	29	159	146	313
Income from investments accounted for using the equity method	0	0	0	0
Interest income	3	1	5	3
Interest expense	(26)	(18)	(47)	(38)
Other financial income and expense	30	(4)	25	(20)
Financial result	7	(21)	(17)	(55)
Income before income taxes	36	138	129	258
Income taxes	(33)	(41)	(74)	(81)
Income after income taxes from continuing operations	3	97	55	177
Income after income taxes from discontinued operations	11	59	62	88
Income after income taxes	14	156	117	265
of which attributable to non-controlling interests	11	30	36	43
of which attributable to LANXESS AG stockholders [net income]	3	126	81	222
Earnings per share (undiluted/diluted) (€)				
from continuing operations	0.02	1.05	0.59	1.94
from discontinued operations	0.02	0.33	0.30	0.49
from continuing and discontinued operations	0.04	1.38	0.89	2.43

STATEMENT OF COMPREHENSIVE INCOME

LANXESS GROUP

€ million	Q2 2017	Q2 2018	H1 2017	H1 2018
Income after income taxes	14	156	117	265
Items that will not be reclassified subsequently to profit or loss				
Remeasurements of the net defined benefit liability for post-employment benefit plans	80	(60)	28	(87)
Income taxes	(26)	19	(9)	28
	54	(41)	19	(59)
Items that may be reclassified subsequently to profit or loss if specific conditions are met				
Exchange differences on translation of operations outside the eurozone	(251)	64	(252)	(7)
Financial instruments	28	(86)	32	(77)
Income taxes	(8)	24	(9)	22
	(231)	2	(229)	(62)
Other comprehensive income, net of income tax	(177)	(39)	(210)	(121)
Total comprehensive income	(163)	117	(93)	144
of which attributable to non-controlling interests	(32)	19	(23)	15
of which attributable to LANXESS AG stockholders	(131)	98	(70)	129

STATEMENT OF CHANGES IN EQUITY

LANXESS GROUP

€ million	Capital stock	Capital reserves	Other reserves	Net income (loss)	Other equity components		Equity attributable to LANXESS AG stockholders	Equity attributable to non-controlling interests	Equity
					Currency translation adjustment	Financial instruments			
Dec. 31, 2016	91	1,226	1,257	192	(199)	(15)²⁾	2,552	1,176	3,728
Allocations to retained earnings			192	(192)			0		0
Transactions with owners							-	11	11
Dividend payments			(64)				(64)	(3)	(67)
Total comprehensive income			31	81	(202)	20	(70)	(23)	(93)
<i>Income after income taxes</i>				81			81	36	117
<i>Other comprehensive income, net of income tax</i>			31		(202)	20	(151)	(59)	(210)
June 30, 2017	91	1,226	1,416	81	(401)	5²⁾	2,418	1,161	3,579
Dec. 31, 2017	91	1,226	1,381	87	(509)	11²⁾	2,287	1,126	3,413
Allocations to retained earnings			87	(87)			0		0
Change in accounting policies			(9)			1	(8)	(7)	(15)
Jan. 1, 2018	91	1,226	1,459	0	(509)	12	2,279	1,119	3,398
Dividend payments			(73)				(73)	(40)	(113)
Total comprehensive income			(62)	222	6	(37)	129	15	144
<i>Income after income taxes</i>				222			222	43	265
<i>Other comprehensive income, net of income tax</i>			(62)		6	(37)	(93)	(28)	(121)
June 30, 2018	91	1,226	1,324	222	(503)¹⁾	(25)^{1) 2)}	2,335	1,094¹⁾	3,429

1) Thereof total cumulated other equity of discontinued operations of minus €289 million.

2) Thereof cost of hedging as of June 30, 2018 of €54 million, as of December 31, 2017 of €11 million, as of June 30, 2017 of €6 million, as of December 31, 2016/ January 1, 2017 of €0 million.

STATEMENT OF CASH FLOWS

LANXESS GROUP

€ million	Q2 2017	Q2 2018	H1 2017	H1 2018
Income before income taxes	36	138	129	258
Amortization, depreciation, write-downs and reversals of impairment charges of intangible assets, property, plant and equipment	108	104	175	205
Financial losses (gains)	(22)	8	(3)	25
Income taxes paid	(23)	(30)	(70)	(61)
Changes in inventories	22	(58)	21	(84)
Changes in trade receivables	33	6	(113)	(143)
Changes in trade payables	(50)	(15)	(63)	(46)
Changes in other assets and liabilities	(28)	(116)	(10)	(89)
Net cash provided by operating activities – continuing operations	76	37	66	65
Net cash (used in) provided by operating activities – discontinued operations	80	(25)	100	(30)
Net cash provided by operating activities – total	156	12	166	35
Cash outflows for purchases of intangible assets and property, plant and equipment	(77)	(83)	(117)	(143)
Cash inflows from sales of intangible assets and property, plant and equipment	1	0	1	1
Cash outflows for financial assets	–	–	(110)	–
Cash inflows from financial assets	2,126	1	2,276	1
Cash outflows for the acquisition of subsidiaries and other businesses, less acquired cash and cash equivalents	(1,782)	(10)	(1,782)	(65)
Interest and dividends received	47	11	48	12
Net cash (used in) provided by investing activities – continuing operations	315	(81)	316	(194)
Net cash used in investing activities – discontinued operations	(26)	(34)	(42)	(54)
Net cash (used in) provided by investing activities – total	289	(115)	274	(248)
Proceeds from borrowings	63	611	84	626
Repayments of borrowings	–	(532)	(10)	(534)
Interest paid and other financial disbursements	(42)	(52)	(45)	(54)
Dividend payments	(64)	(74)	(64)	(74)
Net cash used in financing activities – continuing operations	(43)	(47)	(35)	(36)
Net cash provided by (used in) financing activities – discontinued operations	(26)	(40)	18	(38)
Net cash used in financing activities – total	(69)	(87)	(17)	(74)
Change in cash and cash equivalents from continuing operations	348	(91)	347	(165)
Change in cash and cash equivalents from discontinued operations	28	(99)	76	(122)
Change in cash and cash equivalents – total	376	(190)	423	(287)
Cash and cash equivalents at beginning of period – total	404	438	355	538
Exchange differences and other changes in cash and cash equivalents – total	(21)	(3)	(19)	(6)
Cash and cash equivalents at end of period – total	759	245	759	245
of which continuing operations	609	130	609	130
of which discontinued operations	150	115	150	115

SEGMENT AND REGION DATA

Key Data by Segment/Second Quarter

€ million	Advanced Intermediates		Specialty Additives		Performance Chemicals		Engineering Materials		Reconciliation		LANXESS	
	Q2 2017	Q2 2018	Q2 2017	Q2 2018	Q2 2017	Q2 2018	Q2 2017	Q2 2018	Q2 2017	Q2 2018	Q2 2017	Q2 2018
External sales	505	546	441	508	367	356	361	399	38	20	1,712	1,829
Inter-segment sales	13	14	2	3	0	1	0	0	(15)	(18)	0	0
Segment/Group sales	518	560	443	511	367	357	361	399	23	2	1,712	1,829
Segment result/ EBITDA pre exceptionals	97	97	75	91	80	58	72	81	(44)	(37)	280	290
EBITDA margin pre exceptionals (%)	19.2	17.8	17.0	17.9	21.8	16.3	19.9	20.3			16.4	15.9
EBITDA	94	97	24	89	16	58	60	81	(57)	(62)	137	263
EBIT pre exceptionals	68	65	50	57	61	39	58	67	(51)	(41)	186	187
EBIT	65	65	(7)	55	(9)	39	45	66	(65)	(66)	29	159
Segment capital expenditures	36	31	16	28	16	17	10	10	2	1	80	87
Depreciation and amortization/reversals of impairment charges	29	32	31	34	25	19	15	15	8	4	108	104

Key Data by Segment/First Half

€ million	Advanced Intermediates		Specialty Additives		Performance Chemicals		Engineering Materials		Reconciliation		LANXESS	
	H1 2017	H1 2018	H1 2017	H1 2018	H1 2017	H1 2018	H1 2017	H1 2018	H1 2017	H1 2018	H1 2017	H1 2018
External sales	1,024	1,111	680	1,008	735	692	676	791	70	43	3,185	3,645
Inter-segment sales	26	29	5	6	0	1	0	0	(31)	(36)	0	0
Segment/Group sales	1,050	1,140	685	1,014	735	693	676	791	39	7	3,185	3,645
Segment result/ EBITDA pre exceptionals	188	199	119	172	139	110	120	154	(93)	(75)	473	560
EBITDA margin pre exceptionals (%)	18.4	17.9	17.5	17.1	18.9	15.9	17.8	19.5			14.9	15.4
EBITDA	185	199	68	170	75	109	108	154	(115)	(114)	321	518
EBIT pre exceptionals	133	136	87	107	101	72	95	125	(104)	(84)	312	356
EBIT	130	136	30	105	31	71	82	124	(127)	(123)	146	313
Segment capital expenditures	56	57	23	45	27	29	15	16	4	4	125	151
Depreciation and amortization/reversals of impairment charges	55	63	38	65	44	38	26	30	12	9	175	205
Employees as of June 30 (previous year: as of Dec. 31)	3,661	3,700	2,936	3,024	3,880	3,829	1,976	2,037	2,830	2,859	15,283	15,449

Key Data by Region/Second Quarter

€ million	EMEA (excl. Germany)		Germany		North America		Latin America		Asia-Pacific		LANXESS	
	Q2 2017	Q2 2018	Q2 2017	Q2 2018	Q2 2017	Q2 2018	Q2 2017	Q2 2018	Q2 2017	Q2 2018	Q2 2017	Q2 2018
Sales by market	532	577	316	363	370	385	114	105	380	399	1.712	1.829
Proportion of Group sales (%)	31.1	31.6	18.4	19.8	21.6	21.1	6.7	5.7	22.2	21.8	100.0	100.0

Key Data by Region/First Half

€ million	EMEA (excl. Germany)		Germany		North America		Latin America		Asia-Pacific		LANXESS	
	H1 2017	H1 2018	H1 2017	H1 2018	H1 2017	H1 2018	H1 2017	H1 2018	H1 2017	H1 2018	H1 2017	H1 2018
Sales by market	1,024	1,180	637	723	603	758	210	194	711	790	3,185	3,645
Proportion of Group sales (%)	32.2	32.4	20.0	19.8	18.9	20.8	6.6	5.3	22.3	21.7	100.0	100.0
Employees as of June 30 (previous year: as of Dec. 31)	2,582	2,592	7,312	7,463	1,929	2,022	850	810	2,610	2,562	15,283	15,449

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

as of June 30, 2018

In compliance with IAS 34, the company opted for a condensed scope of reporting in the interim financial statements compared with the consolidated annual financial statements. Reference should be made in principle and as appropriate to the notes to the consolidated financial statements as of December 31, 2017, particularly with respect to the recognition and valuation principles which are generally applied. Changes in this respect are explained in the following section.

RECOGNITION AND VALUATION PRINCIPLES

The unaudited, condensed consolidated interim financial statements as of June 30, 2018, were prepared in accordance with the International Financial Reporting Standards (IFRS) and related interpretations of the International Accounting Standards Board (IASB) applicable to interim financial reporting, required to be applied in the European Union. The standards and interpretations already mandatory as of January 1, 2018, were considered in preparing the interim financial statements. The effects of the first-time application of IFRS 9 and IFRS 15 are indicated below.

Financial Instruments Following the application of IFRS 9, the rules governing the classification and measurement of financial assets and financial liabilities, the provisions on the impairment of financial instruments and the rules on hedge accounting have changed. The LANXESS Group utilized the exemption from retrospective application of the standard and applies it prospectively from January 1, 2018, for the classification, measurement and impairment of financial instruments. In contrast, the new requirements for hedge accounting will be applied retrospectively.

The conversion to the new IFRS 9 requirements had the following effects as of January 1, 2018:

Following the introduction of new rules on the **classification and measurement of financial assets and liabilities**, the classification and measurement categories for financial assets, in particular, changed as of January 1, 2018. They are based on the company's business model and the characteristics of the cash flows of the respective financial instruments. For equity instruments in the portfolio as of January 1, 2018, which are not held for trading purposes, the option was exercised irrevocably at the level of the individual equity instrument to recognize future changes in fair value and disposal gains or losses in other comprehensive income or in profit or loss. Following the conversion to IFRS 9, two financial instruments were reclassified from the balance sheet item investments in other affiliated companies into the balance sheet item other non-current financial assets in the amount of €6 million. The two equity instruments previously accounted for at cost are now classified as debt instruments and measured at fair value through profit or loss. The measurement category for another non-current financial asset also changed from outside profit or loss to at fair value through profit or loss. This led, as of January 1, 2018, to a reclassification from other equity components to other reserves taking deferred taxes of €1 million into account.

The reconciliation of classification and measurement categories for financial assets from IAS 39 to IFRS 9 are shown in the following table:

Reconciliation of Classification and Measurement Categories for Financial Assets from IAS 39 to IFRS 9 as of January 1, 2018

	Category IAS 39	Measurement IAS 39	Measurement category IFRS 9
Non-current assets			
Investments in other affiliated companies	AfS	AC/FV OCI	FV OCI/P&L
Non-current derivative assets (excl. hedge accounting)	FAHfT	FV P&L	FV P&L
Other non-current financial assets	AfS/LaR	FV OCI/AC	AC/FV P&L
Current assets			
Trade receivables	LaR	AC	AC
Cash and cash equivalents	LaR	AC	AC
Near-cash assets	AfS	FV OCI	FV P&L
Current derivative assets (excl. hedge accounting)	FAHfT	FV P&L	FV P&L
Other current financial assets			
Other financial receivables	LaR	AC	AC
Other available-for-sale financial assets	AfS	FV OCI	FV OCI
Contract assets	–	–	AC

LaR	Loans and Receivables
AfS	Available-for-Sale Financial Assets
FAHfT	Financial Assets Held for Trading
FV OCI	Fair Value Other Comprehensive Income
FV P&L	Fair Value Profit and Loss
AC	At amortized cost

The introduction of the new rules on the **impairment of financial instruments** required the estimation of expected credit losses based on historical losses and future loss expectations. The conversion relates to the balance sheet items trade receivables, cash and cash equivalents as well as other current and non-current financial assets, which include contract assets in particular as well as external loans. The introduction of the expected loss model reduced the balance sheet item trade receivables and contract assets by less than €1 million as of January 1, 2018. The expected credit losses on trade receivables of €17 million recognized as of December 31, 2017, rose accordingly as of January 1, 2018. The balance sheet items cash and cash equivalents as well as other current and non-current financial assets changed by less than €1 million in total as of January 1, 2018. Other reserves and non-controlling interests in equity were each impacted by less than €1 million through the application of the new rules taking deferred taxes into account.

The introduction of the new requirements for **hedge accounting** relates in particular to the separate designation and measurement of individual components of forward rates and the exclusion of individual components of currency hedges. Costs of hedging in particular are treated separately. After taking account of deferred taxes, these amounted to €7 million in total as of December 31, 2017. Of this figure, €4 million is to be assigned to other equity components and €3 million to non-controlling interests. In the statement of comprehensive income, costs of hedging are recognized in financial instruments under the items that are subsequently reclassified to profit or loss. Reclassification to profit or loss occurs at the end of the hedging relationship. Both within the balance sheet items and the statement of comprehensive income item, there is only a shift between the fair value measurement of derivatives in hedge accounting (cash flow hedges) and the costs of hedging.

Revenue from Contracts with Customers Following the introduction of IFRS 15, basic principles for revenue recognition were changed by the introduction of a five-step model. These basic principles relate, in particular, to the allocation of revenues to the distinct performance obligations and the associated revenues and rules on the timing of revenue recognition. Revenue recognition has changed for the following business models:

With the business model of manufacturing products on the basis of **long-term sales contracts with a contractually defined minimum purchase requirement**, the total revenue expected in the future from sale of the minimum amount is estimated for the full term of the contract and allocated to the individual deliveries. The changes will result in a periodic shift in the timing of revenues, which are recognized as contract assets or liabilities.

In the business model of manufacturing **customer-specific products on the basis of long-term supply agreements with a contractually defined minimum purchase requirement**, within the meaning of the rules of IFRS 15, the LANXESS Group has no alternative use for the products manufactured under these contracts. Moreover, it has a contractually enforceable right to payment for the minimum amount under the purchase requirement. In addition to estimating the total revenue from sale of the minimum order quantity over the full term of the contract

and allocating it to the individual deliveries, the revenue attributable to the minimum purchase requirements is recognized on the basis of current contractual clauses over the manufacturing period meaning that it is recognized earlier. Contract assets will be recognized for the corresponding receivables until the products are delivered. The relevant inventories are derecognized when revenue is recognized.

For the business model **sale of products including organizing freight services**, recognition of revenue over time or at a point in time is based on the transfer of control to the customer. At LANXESS, the IFRS 15 criteria regarding the transfer of control to be assessed for this purpose primarily lead to a periodic shift in the timing of revenue recognition to the completion of the freight service due to the agreed delivery conditions. In this respect, the freight service is, in principle, not treated as a separate performance obligation.

The contract assets and liabilities are disclosed under other financial assets and other liabilities, respectively. Advance payments from customers are recognized as current or non-current contract liabilities or netted off with current or non-current contract assets.

The effects of the application of the modified retrospective method on the opening balance sheet as of January 1, 2018 can be found in the following table:

Statement of financial position LANXESS Group – IFRS 15 Accounting Changes as per January 1, 2018

€ million	Dec. 31, 2017	Change in presentation	Change in timing of revenue recognition	Jan. 1, 2018
ASSETS				
Other non-current financial assets	20		20	40
Deferred taxes	442		10	452
Non-current assets	6,454	0	30	6,484
Inventories	1,680		124	1,804
Trade receivables	1,316		(196)	1,120
Other current financial assets	7	(7)	43	43
Current assets	3,957	(7)	(29)	3,921
Total assets	10,411	(7)	1	10,405
EQUITY AND LIABILITIES				
Other reserves	1,381		(7)	1,374
Equity attributable to non-controlling interests	1,126		(7)	1,119
Equity	3,413	0	(14)	3,399
Other non-current liabilities	99	(7)	7	99
Deferred taxes	113		5	118
Non-current liabilities	4,540	(7)	12	4,545
Other current liabilities	179		3	182
Current liabilities	2,458	0	3	2,461
Total equity and liabilities	10,411	(7)	1	10,405

The mandatory first-time application of the following financial reporting standards and interpretations in fiscal year 2018 currently has no impact, or no material impact, on the LANXESS Group yet:

- › IFRS 2 – Share-based Payment – Classification and Measurement
- › IFRS 4 – Insurance Contracts – Applying IFRS 9 “Financial Instruments” with IFRS 4 “Insurance Contracts”
- › Various IAS and IFRS – Annual Improvements to the International Financial Reporting Standards, 2014–2016 Cycle (IFRS 1 and IAS 28)
- › IFRIC 22 – Foreign Currency Transactions and Advance Consideration
- › IAS 40 – Investment Property – Amendments to IAS 40 – Transfers of Investment Property

With regard to accounting standards and interpretations which have been published but are not yet applicable in fiscal year 2018, the statements given in the consolidated financial statements for 2017 generally continue to apply. The continuation of the project related to the introduction of IFRS 16 (Leasing) has not resulted in any additional information about material effects on future accounting measures compared with the statements given in the consolidated financial statements for 2017. The project is currently in the stage of inventory of contracts and implementing the system. It will only be possible to reliably quantify these effects once these project phases have been completed.

Preparation of the consolidated interim financial statements requires that assumptions and estimates are made that have an impact on the amount and recognition of assets and liabilities in the statement of financial position, income and expenses, and contingent liabilities. All assumptions and estimates are made on the basis of conditions prevailing at the reporting date, using methods broadly consistent with those applied in the consolidated financial statements for 2017. The actual figures may differ from the assumptions or estimates if the underlying conditions develop differently than predicted at the reporting date.

The business of the LANXESS Group as a whole is not subject to pronounced seasonality. However, in light of the business activities of the individual segments, sales and earnings tend to be stronger in the first half of the year. For example, volumes of agrochemical products in the Advanced Intermediates segment tend to be higher in the first six months of the year because of the growing seasons. The businesses with products for the construction industry in the Advanced Intermediates and Performance Chemicals segments are also seasonal in that sales are higher in the summer than in the winter months, when construction activity is lower.

CHANGES IN THE SCOPE OF CONSOLIDATION

The consolidated interim financial statements of the LANXESS Group include the parent company LANXESS AG along with all of its domestic and foreign subsidiaries.

	EMEA (excl. Germany)	Germany	North America	Latin America	Asia-Pacific	Total
Fully consolidated companies (incl. parent company)						
Jan. 1, 2018	40	12	13	8	30	103
Additions						0
Retirements	(2)					(2)
June 30, 2018	38	12	13	8	30	101
Consolidated associates and jointly controlled entities						
Jan. 1, 2018	0	2	1	0	0	3
Changes						0
June 30, 2018	0	2	1	0	0	3
Non-consolidated companies						
Jan. 1, 2018	2	3	1	4	2	12
Changes						0
June 30, 2018	2	3	1	4	2	12
Total						
Jan. 1, 2018	42	17	15	12	32	118
Additions						0
Retirements	(2)					(2)
June 30, 2018	40	17	15	12	32	116

The companies Chemours Jersey Ltd., Jersey, Great Britain, and LANXESS Solutions Belgium N.V., Antwerp, Belgium, were liquidated during the reporting period.

DISCONTINUED OPERATIONS

As part of its realignment, on April 1, 2016, LANXESS and Saudi Aramco formed a strategic alliance for the synthetic rubber business named ARLANXEO in which each party holds a 50% interest. ARLANXEO is included in the first three years in the consolidated financial statements of the LANXESS Group and is fully consolidated because the casting vote of the chairman of the Shareholders' Committee of ARLANXEO, who is appointed by LANXESS, gives LANXESS the opportunity to determine key aspects of its financial and business policy. Since April 1, 2018, i. e. a year before the end of full consolidation, ARLANXEO must be treated as discontinued operations according to IFRS 5 and reported accordingly.

The relevant assets and liabilities are each shown in a separate line item in the statement of financial position with no adjustment to reporting dates before April 1, 2018. As part of the accounting in accordance with IFRS 5, the intangible assets and property, plant and equipment of ARLANXEO are not subject to any further scheduled depreciation and amortization and are accounted for at the lower of their carrying amount as of April 1, 2018, and fair value less the costs of disposal. Intra-Group receivables and liabilities between LANXESS Group entities and ARLANXEO Group entities are eliminated in full.

The presentation of the LANXESS Group's income statement focuses on the calculation of earnings from continuing operations. Earnings from discontinued operations are only shown in a single

line, but this is explained in more detail in this section. Intra-Group deliveries and services, which are continued either with ARLANXEO or with third parties following the deconsolidation of ARLANXEO, are shown in continuing operations. The elimination entries as part of the consolidation of expenditure and income are assigned fully to discontinued operations. The prior-year periods in the income statement are adjusted accordingly.

The cash flows of the continuing operations are shown separately from the cash flows of ARLANXEO in the cash flow statement. The cash flows of ARLANXEO are shown combined in one line per area. The previous year's figures are restated accordingly.

The main items of the statement of financial position from discontinued operations are as follows:

Major Classes of Assets and Liabilities from Discontinued Operations

€ million	June 30, 2018
ASSETS	
Property, plant and equipment	1,700
Inventories and trade receivables	1,080
Other assets	347
Total assets	3,127
Provisions	356
Trade payables	285
Other liabilities	280
Total liabilities	921

In detail, earnings from discontinued operations are as follows:

Income Statement from Discontinued Operations

€ million	Q2 2017	Q2 2018	H1 2017	H1 2018
Sales	810	776	1,738	1,525
Cost of sales	(723)	(587)	(1,494)	(1,211)
Gross profit	87	189	244	314
Other functional costs	(54)	(80)	(136)	(155)
Operating result (EBIT)	33	109	108	159
Financial result	(8)	(8)	(14)	(16)
Income before income taxes	25	101	94	143
Income taxes	(14)	(42)	(32)	(55)
Income after income taxes	11	59	62	88

Additions from acquisitions in the prior year

LANXESS acquired the U.S. company Chemtura on April 21, 2017. It was included in the consolidated financial statements of LANXESS for the first time as of this date. The business involving flame retardant and lubricant additives acquired was assigned to the Additives segment, while the organometallics business was integrated in the Advanced Intermediates segment. The urethanes division of Chemtura constitutes a separate business unit in the Engineering Materials segment.

The acquisition was accounted for as a business combination in accordance with IFRS 3. For the purchase price allocation, the identifiable assets, liabilities and contingent liabilities of the business acquired were recognized at fair value. IFRS 3 permits adjustment of the purchase price allocation within one year after the acquisition date on the basis of new knowledge and information. The purchase price allocation for Chemtura was completed in April 2018. Compared with the information disclosed in the Notes to the Consolidated Financial Statements for fiscal year 2017, non-current income tax liabilities and goodwill have finally risen by €15 million. The figures in the consolidated balance sheet as at December 31, 2017 were adjusted accordingly.

Intangible assets of €769 million were established in the context of the purchase price allocation, comprising €536 million for customer relationships, €105 million for trademarks and €128 million in other intangible assets.

The goodwill of €698 million resulting from the acquisition mainly reflects additional sales opportunities arising with new customers primarily in the European and North American markets. The goodwill also reflects an improvement in the cost structure and the procurement of raw materials, as well as higher capacity utilization in production. The goodwill is distributed among the business units as follows: €531 million at Additives, €159 million at Urethane Systems and €8 million at Advanced Industrial Intermediates.

The goodwill is not tax-deductible.

The following table shows the effects of the acquisition on the Group's assets:

Additions from the Chemtura Acquisition in the prior year

€ million	Fair values at first-time consolidation
Intangible assets	769
Property, plant and equipment	847
Inventories	349
Trade receivables	219
Cash and cash equivalents	215
Other assets	246
Total assets	2,645
Provisions for pensions and other post-employment benefits	217
Other non-current liabilities	354
Trade payables	169
Other current financial liabilities	461
Other current liabilities	128
Total liabilities (excl. equity)	1,329
Net acquired assets (excl. goodwill)	1,316
Cost of acquisition	2,014
Goodwill	698

On December 18, 2017, LANXESS acquired all shares in the biotech startup IMD Natural Solutions GmbH, Dortmund, Germany, and thus expanded its expertise in biotechnology. With regard to the purchase price allocation, there have been no changes compared with the information disclosed in the Notes to the Consolidated Financial Statements for fiscal year 2017 up to June 30, 2018. The contingent consideration of €11 million included in other financial liabilities at the end of 2017 was paid out in the first six months of fiscal year 2018.

Additions from acquisitions in the current fiscal year

On February 7, 2018, LANXESS acquired the phosphorus additives business from Belgian chemicals group Solvay including its U.S. production site in Charleston. The site manufactures phosphorus additives and numerous derived products such as flame retardant additives and intermediates for agrochemicals. The production facility augments the global production network for phosphorus- and bromine- based flame retardants, especially on the U.S. market. The business was integrated in the Additives business unit in the Specialty Additives segment. The purchase price of €54 million was paid out of existing liquidity.

The acquisition was accounted for as a business combination in accordance with IFRS 3. For the purchase price allocation, the identifiable assets, liabilities and contingent liabilities of the business acquired were recognized at fair value. The purchase price allocation was performed on the basis of the information available on and immediately after the acquisition date. IFRS 3 permits adjustment of the purchase price allocation within one year after the acquisition date on the basis of new knowledge and information. This can especially affect items based on assumptions and estimates. These are primarily provisions and contingent liabilities. Changes in other items also cannot be ruled out, but there are currently no indications of this.

The acquired business has contributed €23 million to sales since the acquisition date and did not have any material effect on earnings of the LANXESS Group. Group earnings were impacted by charges as a result of the purchase price allocation. If the

business had been already acquired as of January 1, 2018, the contribution to LANXESS Group sales and to net income would have changed only slightly.

In connection with this acquisition, transaction costs of €2 million were recognized in other operating expenses in the prior year.

The goodwill of €10 million resulting from the acquisition mainly primarily reflects synergy effects and additional production capacity. Some customers and the chemical properties of the products and the transport routes associated therewith require geographical proximity. This local advantage of the production site is reflected in goodwill.

The goodwill is tax-deductible.

Additions from Acquisition

€ million	Fair values at first-time consolidation
Intangible assets	14
Property, plant and equipment	24
Inventories	6
Trade receivables	–
Total assets	44
Other current financial liabilities	–
Other current liabilities	0
Total liabilities (excl. equity)	0
Net acquired assets (excl. goodwill)	44
Cost of acquisition	54
Goodwill	10

EARNINGS PER SHARE

Earnings per share for the second quarter and first half of 2017 and 2018 were calculated on the basis of the number of shares in circulation during each reporting period. They are derived from continuing operations and discontinued operations. Since there are currently no equity instruments in issue that could dilute earnings

per share, basic and diluted earnings per share are identical. For more information about equity instruments that could dilute earnings per share in the future, readers are referred to the notes to the consolidated financial statements as of December 31, 2017.

Earnings per Share

	Q2 2017	Q2 2018	Change %	H1 2017	H1 2018	Change %
Net income (€ million)	3	126	> 100	81	222	> 100
from continuing operations	2	97	> 100	54	178	> 100
from discontinued operations	1	29	> 100	27	44	63.0
Number of shares outstanding	91,522,936	91,522,936	–	91,522,936	91,522,936	–
Earnings per share in € (undiluted/diluted)	0.04	1.38	> 100	0.89	2.43	> 100
from continuing operations	0.02	1.05	> 100	0.59	1.94	> 100
from discontinued operations	0.02	0.33	> 100	0.30	0.49	63.0

PAYMENT OF THE DIVIDEND FOR FISCAL YEAR 2017

Pursuant to the resolution of the Annual Stockholders' Meeting on May 15, 2018, the sum of €73 million out of the distributable profit of €116 million reported in the annual financial statements of LANXESS AG as of December 31, 2017, was distributed to the stockholders on May 18, 2018. The dividend per eligible no-par share was €0.80. The remaining amount of €43 million was carried forward to new account.

FINANCIAL INSTRUMENTS

Fair value measurement

The following table shows the volumes of assets and liabilities that were measured at fair value on a recurring basis as of the end of the reporting period and the levels of the fair value hierarchy into which the inputs used in valuation techniques were categorized.

Assets and Liabilities Measured at Fair Value

€ million	Dec. 31, 2017		
	Level 1	Level 2	Level 3
Non-current assets			
Investments in other affiliated companies ¹⁾	1	–	–
Non-current derivative assets	–	5	2
Other non-current financial assets	–	1	–
Current assets			
Near-cash assets	50	–	–
Current derivative assets	–	45	–
Other current financial assets	1	–	–
Non-current liabilities			
Non-current derivative liabilities	–	2	–
Current liabilities			
Current derivative liabilities	–	12	–

¹⁾ As per December 31, 2017, €9 million of investments in other affiliated companies valued at cost are not included in this overview

Assets and Liabilities Measured at Fair Value

€ million	June 30, 2018		
	Level 1	Level 2	Level 3
Non-current assets			
Investments in other affiliated companies ¹⁾	0	–	0
Non-current derivative assets	–	1	2
Other non-current financial assets	–	6	–
Current assets			
Near-cash assets	50	–	–
Current derivative assets	–	10	–
Other current financial assets	–	–	–
Non-current liabilities			
Non-current derivative liabilities	–	5	–
Current liabilities			
Current derivative liabilities	–	36	–

1) As per December 31, 2017, €9 million of investments in other affiliated companies valued at cost are not included in this overview

According to the fair value hierarchy, quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date are given the highest priority (Level 1). Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, are assigned to Level 2. Unobservable inputs for the asset or liability are given the lowest priority (Level 3).

The investments in other affiliated companies measured at fair value (Level 1) pertain to shares in the listed company BioAmber Inc., Minneapolis, U.S., and unlisted equity instruments (Level 3), which were recognized at cost in the prior year. In the prior year, investments in other affiliated companies contained €1 million of non-consolidated 100% subsidiaries classified as available for sale, which are not accounted for in accordance with IFRS 9. The investments in other affiliated companies of ARLANXEO accounted for at fair value are assigned to Level 3 of the fair value hierarchy and reported in the amount of €2 million at the reporting date under “assets from discontinued operations”. There are currently no plans to dispose of investments.

The derivative financial instruments used by LANXESS are primarily traded in an active, liquid market. The fair values as of the end of the reporting period pertain mainly to forward exchange contracts and are derived from their trading or listed prices using the “forward method” or “spot method”. Where no market price is available, values are determined using recognized capital market pricing methods based on observable market data. In determining the fair values, adjustments for LANXESS's own credit risk and counterparty credit risk are made on the basis of the respective net positions.

The non-current derivative asset allocated to Level 3 relates to a derivative not designated as a hedging instrument from a right of use contract, which due to its economic characteristics is not closely related to the host contract. The carrying amount is essentially unchanged, at €2 million, as of December 31, 2017.

The increase in other non-current financial assets results from the reclassification of the investments in High-Tech-Gründerfonds, which were previously classified as investments in other affiliated companies at amortized cost and are now measured at fair value at €6 million.

The near-cash assets comprise units of money market funds that can be sold at any time and are expected to be realized within twelve months after the end of the reporting period.

In the case of financial instruments accounted for using valuation principles other than fair value measurement, the fair value – when reliably determined – is normally the carrying amount. The fair value of the bonds, which have a carrying amount of €2,666 million, amounted to €2,776 million as of June 30, 2018. The carrying amount of the bonds as of December 31, 2017, was €2,674 million and their fair value €2,855 million. Fair value measurement of the bonds is allocated to Level 1 of the hierarchy although, as of June 30, 2018, two bonds with a fair value of €232 million were allocated to Level 2 as there was no liquid market for them. As of December 31, 2017, two bonds with a fair value of €239 million were allocated to Level 2 of the hierarchy. The fair value of liabilities allocated to Level 2 is calculated using discounted cash flows, taking observed market interest rates into account.

Additional information about the measurement of fair value and about financial instruments is provided in the notes to the consolidated financial statements as of December 31, 2017.

Repayment and issue of new bonds

In May 2018, the maturing €500 million bond was repaid and a new bond of the same amount was issued at a nominal interest rate of 1.125%. The carrying amount of the new bond was €491 million as of June 30, 2018.

Impairment of financial instruments

Impairment expenses, taking value recoveries into account, of €0 million are reported in other operating expenses in relation to trade receivables and contract assets. The expected losses on other financial assets to be taken into account in the financial result amount to €0 million. The impairment of financial instruments for discontinued operations amounts to €0 million.

Accounting for hedging instruments that qualify for hedge accounting

Both measurement at fair value and the changes in costs of hedging for derivatives that qualify for hedge accounting (cash flow hedges) are included in financial instruments under the items that are subsequently reclassified to profit or loss in the statement of comprehensive income. Costs of hedging consist of the components to be excluded to create the hedging relationship. The measurement at fair value of interest rate hedges are also depicted in the item financial instruments.

For derivatives that qualify for hedge accounting, expenses of €34 million (previous year: income of €35 million) for measurement at fair value and expenses for costs of hedging of €43 million (previous year: €6 million) are included in financial instruments in the statement of comprehensive income. Of the measurements at fair value, expenses of €15 million (previous year: income of €11 million) and expenses for costs of hedging of €33 million (previous year: €5 million) must be assigned to discontinued operations. The year-on-year increase in costs of hedging mainly results from the movement in the Brazilian real. Income of €3 million from the measurement of interest rate hedges at fair value is also included in the previous year.

SEGMENT REPORTING

Reported sales are predominantly achieved through the sale of products. Other types of sales only make an immaterial contribution to total sales. In the LANXESS Group, revenue is recognized in principle at the time at which control of the products passes physically to the customer. The business model of manufacturing customer-specific products on the basis of long-term supply agreements with a contractually defined minimum purchase requirement is only to be found in the Advanced Intermediates segment. For this business model, revenue is recognized over the period in which the products are manufactured. Revenue from the contracts affected by this amounted to €123 million in the first half of 2018.

Since April 1, 2018, the business activities of ARLANXEO have been run as a discontinued operation (see "Discontinued operations"). Since this date, financial reporting has not included the earnings and key data of the former ARLANXEO segment, meaning that it is no longer actively managed by the senior management level, which is responsible for the LANXESS Group. Since the management approach has fundamentally changed accordingly, segment reporting no longer reports on ARLANXEO either.

The reconciliation of EBITDA pre exceptionals to income before income taxes is presented in the following table.

Reconciliation of Segment Results

€ million	Q2 2017	Q2 2018	H1 2017	H1 2018
Total segment results	324	327	566	635
Depreciation and amortization/reversals of impairment charges	(108)	(104)	(175)	(205)
Other/Consolidation	(44)	(37)	(93)	(75)
Exceptional items affecting EBITDA	(143)	(27)	(152)	(42)
Net interest expense	(23)	(17)	(42)	(35)
Income from investments accounted for using the equity method	0	0	0	0
Other financial income and expense	30	(4)	25	(20)
Income before income taxes	36	138	129	258

Additional information is provided in “Notes on EBIT and EBITDA (Pre Exceptionals)” in the Interim Group Management Report as of June 30, 2018.

CHANGES IN THE BOARD OF MANAGEMENT AND SUPERVISORY BOARD

Dr. Rolf Stomberg ended his term as member and Chairman of the Supervisory Board as of the end of the Annual Stockholders' Meeting on May 15, 2018. Dr. Matthias L. Wolfgruber was elected as the new Chairman. Dr. Wolfgruber has been a member of the Supervisory Board of LANXESS AG since 2015. Ms. Pamela Knapp was also elected to the Supervisory Board as a shareholder representative by the Annual Stockholders' Meeting on May 15, 2018.

Following the successful operational integration of Chemtura, Stephen C. Forsyth left the Board of Management of LANXESS AG, as planned, on May 31, 2018.

RELATED PARTIES

In the course of its operations, the LANXESS Group sources materials, inventories and services from a large number of business partners around the world. These include companies in which LANXESS AG has a direct or indirect interest. Transactions with these companies are carried out on an arm's-length basis.

Transactions with Currenta GmbH & Co. OHG, Leverkusen, Germany, which is accounted for in the consolidated financial statements using the equity method, and its subsidiaries mainly comprised the purchase of site services in the fields of utilities, infrastructure and logistics. These services amounted to €114 million in the second quarter and €233 million in the first half of 2018, compared with €126 million and €232 million in the respective prior-year periods. As of June 30, 2018, these business relationships resulted in receivables of €5 million

(December 31, 2017: €3 million) and liabilities of €122 million (December 31, 2017: €108 million). There are also payment obligations to Currenta GmbH & Co. OHG, Leverkusen, Germany, and its subsidiaries amounting to €6 million (December 31, 2017: €6 million) under operating leases and obligations of €12 million (December 31, 2017: €0 million) under purchase agreements. In addition, the other financial result includes the payment of a dividend by Currenta GmbH & Co. OHG, Leverkusen, Germany. This amounted to €9 million for fiscal year 2017 after €45 million in the previous year.

No material business transactions were undertaken with other related parties. As in the previous year, no loans were granted to members of the Board of Management or the Supervisory Board in the first six months of 2018.

EMPLOYEES

The LANXESS Group had 19,197 employees worldwide as of June 30, 2018, which was 168 more than on December 31, 2017 (19,029). 3,748 (previous year: 3,746) of these employees belong to discontinued operations.

The number of employees in the EMEA (excluding Germany) region rose by 7 to 3,737. Headcount in Germany came to 8,216, against 8,036 as of December 31, 2017. The workforce in North America increased by 94 to 2,736. In Latin America, headcount decreased by 51 employees compared with December 31, 2017, from 1,419 to 1,368. The number of employees in the Asia-Pacific region decreased from 3,202 to 3,140.

EVENTS AFTER THE END OF THE REPORTING PERIOD

No events of special significance took place after June 30, 2018, that are expected to materially affect the financial position or results of operations of the LANXESS Group.

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group in line with generally accepted accounting standards, and the interim management report of the group includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group for the remaining months of the fiscal year.

Cologne, July 24, 2018

LANXESS Aktiengesellschaft

The Board of Management

Matthias Zachert

Dr. Hubert Fink

Michael Pontzen

Dr. Rainier van Roessel

REVIEW REPORT TO LANXESS AKTIENGESELLSCHAFT, COLOGNE

We have reviewed the condensed consolidated interim financial statements – comprising the statement of financial position, income statement and statement of comprehensive income, statement of changes in equity, statement of cash flows and selected explanatory notes – and the interim group management report of LANXESS Aktiengesellschaft, Cologne, for the period from January 1 to June 30, 2018, which are part of the half-year financial report pursuant to Section 115 WpHG (“Wertpapierhandelsgesetz”: German Securities Trading Act). The preparation of the condensed consolidated interim financial statements in accordance with the IFRS applicable to interim financial reporting as adopted by the E.U. and of the interim group management report in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports is the responsibility of the parent company's Board of Management. Our responsibility is to issue a review report on the condensed consolidated interim financial statements and on the interim group management report based on our review.

We conducted our review of the condensed consolidated interim financial statements and the interim group management report in accordance with German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the review so that we can preclude through critical evaluation, with moderate assurance, that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the E.U. and that the interim

group management report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports. A review is limited primarily to inquiries of company personnel and analytical procedures and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot express an audit opinion.

Based on our review, no matters have come to our attention that cause us to presume that the condensed consolidated interim financial statements have not been prepared, in all material-respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the E.U. nor that the interim group management report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports.

Cologne, July 27, 2018

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

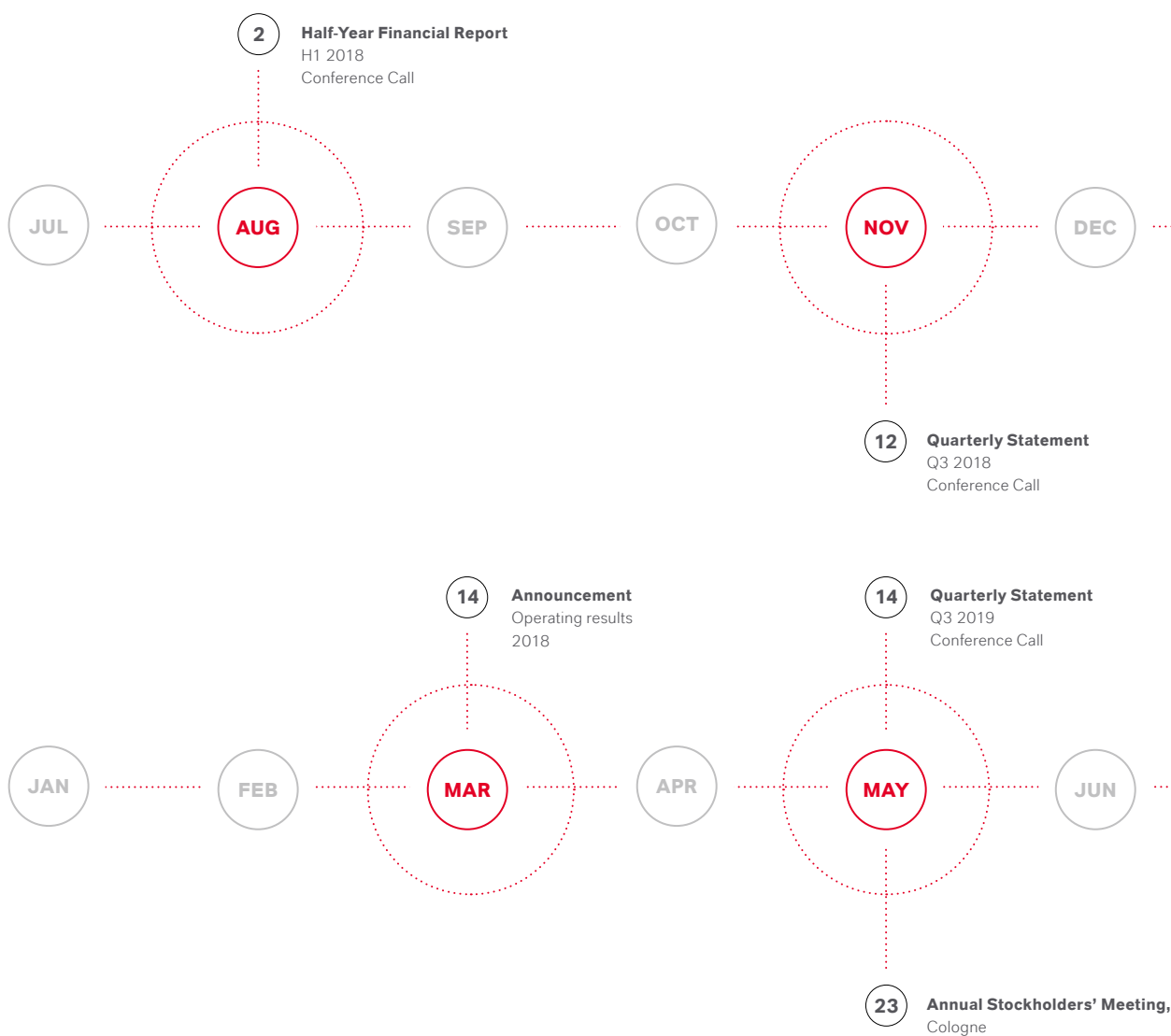
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