2023

Half-Year Financial Report

January 1 to June 30, 2023

LANXESS
Energizing Chemistry

CONTENTS

LANXESS Group Key Data

€ million	Q2 2022	Q2 2023	Change %	H1 2022	H1 2023	Change %
Sales	1,999	1,778	(11.1)	3,930	3,677	(6.4)
Gross profit	484	311	(35.7)	956	747	(21.9)
Gross profit margin	24.2%	17.5%		24.3%	20.3%	
EBITDA pre exceptionals[1]	253	107	(57.7)	515	296	(42.5)
EBITDA margin pre exceptionals[1]	12.7%	6.0%		13.1%	8.1%	
EBITDA[1]	229	81	(64.6)	467	252	(46.0)
EBIT pre exceptionals[1]	122	(29)	< (100)	260	24	(90.8)
EBIT[1]	97	(56)	< (100)	210	(22)	< (100)
EBIT margin[1]	4.9%	(3.1)%		5.3%	(0.6)%	
Net income (loss)	93	1,371	> 100	191	1,327	> 100
from continuing operations	48	(145)	< (100)	114	(135)	< (100)
from discontinued operations	45	1,516	> 100	77	1,462	> 100
Weighted average number of shares outstanding	86,346,303	86,346,303	–	86,346,303	86,346,303	–
Earnings per share (€)	1.08	15.88	> 100	2.21	15.37	> 100
from continuing operations	0.56	(1.68)	< (100)	1.32	(1.56)	< (100)
from discontinued operations	0.52	17.56	> 100	0.89	16.93	> 100
Adjusted earnings per share from continuing operations (€)[2]	1.05	(0.19)	< (100)	2.30	0.44	(80.9)
Cash flow from operating activities – continuing operations	150	67	(55.3)	57	238	> 100
Depreciation and amortization	132	137	3.8	257	274	6.6
Cash outflows for capital expenditures	92	67	(27.2)	151	126	(16.6)
Total assets				11,287[5]	10,808	(4.2)
Equity (including non-controlling interests)				4,427[5]	5,613	26.8
Equity ratio[3]				39.2%[5]	51.9%	
Provisions for pensions and other post-employment benefits				367[5]	380	3.5
Net financial liabilities[4]				3,814[5]	2,863	(24.9)
Employees (as of June 30)				13,126[5]	13,136	0.1

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.
Please see "Notes on EBIT and EBITDA (Pre Exceptionals)" for details.
2) Adjusted earnings per share from continuing operations: earnings per share from continuing operations disregarding exceptional charges and income, amortization of intangible assets and attributable tax effects and income from investments accounted for using the equity method. See "Net income/earnings per share/adjusted earnings per share from continuing operations" for details.
3) Equity ratio: equity in relation to total assets.
4) Net financial liabilities: sum 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.
5) As of December 31, 2022.

LANXESS ON THE CAPITAL MARKET

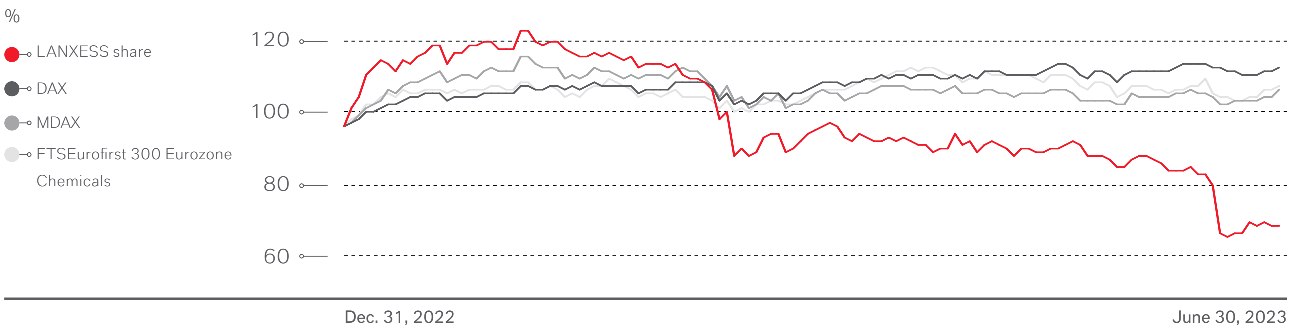
The first half of 2023 was again influenced by various challenging issues, such as the continued increase in inflation, central banks' attempts to counter this with interest rate policies, and fears of recession. The environment was also shaped by businesses' diminishing forecasts, the ongoing war in Ukraine, and international tensions.

Nevertheless, the German stock market performed positively over the first half of the year. Our LANXESS share also made an above-average start to the year. The first two months were characterized by strong price growth. The share price had grown by nearly 20% by mid-February and reached its high for the year to date of €47.83 on February 3.

In March, we presented our results for fiscal year 2022. A conservative outlook based on the weak economic environment prompted our share price to fall to the December 2022 level. In the subsequent weeks, the price primarily remained in a sideways movement.

In a persistently difficult environment, the effects of weak demand combined with customers' ongoing inventory reduction on our businesses were more severe than initially expected. On June 19, we therefore had to lower our expectations for the second quarter as well as the full-year forecast. This also had a negative effect on the price performance of the LANXESS share.

Stock Performance vs. Indices



The LANXESS share therefore closed the first half of the year at a price of €27.60, only slightly above the low for the year to date of €25.75 on June 20. In the first half of the year as a whole, the share price declined by 27%. The DAX grew by 16% and the MDAX by 10%. The FTSEurofirst 300 Eurozone Chemicals benchmark index closed with growth of 11%.

This year's Annual Stockholders' Meeting was again held in virtual form on May 24, 2023. The stockholders approved the Board of Management and Supervisory Board's dividend proposal of €1.05 per share for fiscal year 2022.

LANXESS Stock

		Q4 2022	Q1 2023	Q2 2023
Capital stock/no. of shares[1]	€/no. of shares	86,346,303	86,346,303	86,346,303
Market capitalization[1]	€ billion	3.26	3.27	2.38
High/low (intraday) for the period	€	39.72/29.19	47.83/32.98	38.75/25.75
Closing price[1]	€	37.70	37.83	27.60
Adjusted earnings per share from continuing operations[2]	€	0.44	0.63	(0.19)

1) End of quarter: Q4: December 31, 2022, Q1: March 31, 2023, Q2: June 30, 2023.
2) Adjusted earnings per share from continuing operations: earnings per share from continuing operations disregarding exceptional charges and income, amortization of intangible assets and attributable tax effects and income from investments accounted for using the equity method.

INTERIM GROUP MANAGEMENT REPORT
AS OF JUNE 30, 2023

- "FORWARD!" program launched for rapid and permanent cost reduction as well as refinement of the LANXESS business model
- Formation of Envalior completed as of April 1, 2023; funds received used to reduce net financial debt
- Second-quarter sales below the previous year's level
- Lower demand from nearly all end markets and continued customer destocking influence sales development in all segments
- Positive earnings contribution from the Microbial Control business acquired in the previous year
- Clear liquidity inflow from significant inventory reduction
- EBITDA pre exceptionals sees significant volume-driven decline year-on-year to €107 million in the second quarter
- Guidance for fiscal year 2023 adjusted: EBITDA pre exceptionals expected to be between €600 million and €650 million

GROUP STRUCTURE AND BUSINESS ACTIVITY

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 abroad.

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 97 of the Annual Report 2022 and in the "Changes in the scope of consolidation" section of the Notes to the Condensed Consolidated Interim Financial Statements as of June 30, 2023.

Reporting focus and material transactions

In response to a globally weak start to the year for the chemicals industry and a modest first quarter for LANXESS as well, the "FORWARD!" program to counteract the still strained economic situation in the short and long terms was launched in May. "FORWARD!" is a collection of measures for the prompt stabilization of earnings figures for 2023, sustainable cost reduction via structural adjustments, and the further refinement of LANXESS's business models. A number of immediate cost-reduction measures have already been initiated, and the corresponding implementation of specific structural measures is scheduled for the third and fourth quarters of this year. Following the initial cost-reduction measures, the business models will be refined and market access improved. This is intended to strengthen LANXESS's businesses in the long term in order to permanently increase the earnings level and the margin.

On April 1, 2023, LANXESS and Advent International ("Advent") established a new company for high-performance engineering polymers. The company is called Envalior and combines the Engineering Materials business of the Dutch group Royal DSM with LANXESS's High Performance Materials business unit. LANXESS holds 40.94% of the new company. LANXESS will have a first opportunity to sell its shares to Advent after three years.

Envalior represents total annual sales of approximately €4 billion and has 18 production sites, 14 research locations and around 4,000 employees.

LANXESS received a payment of around €1.27 billion, which was used primarily to reduce net financial debt. The deconsolidation of the High Performance Materials business unit resulted in a gain of approximately €1.53 billion. Starting in the second quarter of 2023, the minority interest in Envalior GmbH, Cologne, Germany, is included in the LANXESS consolidated financial statements using the equity method. As of June 30, 2023, it was valued at around €1.14 billion.

In accordance with IFRS 5, the High Performance Materials business unit was reported as a discontinued operation until March 31, 2023. The earnings contributions for 2022 and 2023 were removed from income from continuing operations in the income statement and shown in a single line item as income from discontinued operations. The High Performance Materials business unit's intangible assets and property, plant and equipment were not subject to further amortization or depreciation and were recognized at the lower of carrying amount and fair value less costs to sell.

Frederique van Baarle was appointed to the Board of Management as of April 1, 2023, and took responsibility for the Human Resources Group function and the duties of the Labor Director. Starting October 1, 2023, she will also assume Board of Management responsibility for the Americas region.

ECONOMIC ENVIRONMENT AND BUSINESS DEVELOPMENT

Business conditions

General economic situation

In the second quarter, the global economy grew by 2.4% compared with the prior-year quarter. While EMEA and the Americas fell short of the global growth at 1.0% and 1.9%, respectively, the Asia-Pacific region grew by 3.8%.

Evolution of major industries

The global chemical industry fell short of expectations with low growth, with a particularly significant decline in EMEA. The overall agrochemicals market declined sharply year-on-year, with the Americas region most affected. The construction industry also saw declines, particularly in the Americas but also in EMEA. Global automotive production in the reporting period was greater than in the prior-year quarter, but the sales figures are still well below pre-COVID levels.

Sales

Sales of the LANXESS Group in the second quarter of 2023 amounted to €1,778 million, down €221 million or 11.1% from the previous year's figure. The sales development was particularly influenced by weak demand in large parts of the industry, ongoing inventory reduction among our customers, and lower selling prices. Overall, lower volumes resulted in a sales decline of 8.6% and lower selling prices reduced sales by 5.9%. In addition, shifts in exchange rates had a negative effect and reduced sales by 1.5% in total. In contrast, the portfolio changes led to an increase in sales at Group level due to the contribution from the Microbial Control business acquired at the beginning of July 2022. Overall, there was a positive portfolio effect of 4.9% at Group level.

In the first six months of fiscal year 2023, sales decreased by €253 million, or 6.4%, to €3,677 million. In the previous year, half-year sales amounted to €3,930 million. In the first half of the year, the sales decline resulted in particular from significantly lower volumes due to continued weak demand and ongoing inventory reduction among our customers. The change in selling prices and shifts in exchange rates reduced sales only slightly. The contribution from the Microbial Control business acquired at the beginning of July 2022 had a positive effect on sales. Adjusted for currency and portfolio effects, the LANXESS Group recorded an 11.3% decline in operational sales in the first half of the year.

Effects on Sales

%	Q2 2023	H1 2023
Price	(5.9)	(0.1)
Volume	(8.6)	(11.2)
Currency	(1.5)	(0.1)
Portfolio	4.9	5.0
	(11.1)	**(6.4)**

In a recessionary business environment and due to the inventory reduction in customer industries, all segments recorded lower sales than in the previous year in both the second quarter and the first six months. The Consumer Protection segment more than compensated for this thanks to the sales contribution from the Microbial Control business acquired at the beginning of July 2022 and achieved sales growth. Please see the following table and "Segment Information" for details.

Sales by Segment

€ million	Q2 2022	Q2 2023	Change %	Proportion of Group sales %	H1 2022	H1 2023	Change %	Proportion of Group sales %
Consumer Protection	558	604	8.2	34.0	1,064	1,251	17.6	34.0
Specialty Additives	764	620	(18.8)	34.9	1,494	1,284	(14.1)	34.9
Advanced Intermediates	587	484	(17.5)	27.2	1,200	1,000	(16.7)	27.2
All other segments	90	70	(22.2)	3.9	172	142	(17.4)	3.9
	1,999	**1,778**	**(11.1)**	**100.0**	**3,930**	**3,677**	**(6.4)**	**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 decreased by 3.2% quarter-on-quarter to €1,467 million. In the prior-year quarter, it amounted to €1,515 million. The decrease resulted primarily from significantly reduced volumes and lower procurement prices for raw materials and energy in the existing business. Shifts in exchange rates also led to lower manufacturing costs. In contrast, the integration of the Microbial Control business acquired at the beginning of July 2022 resulted in a portfolio-related increase. Capacity utilization was significantly below the previous year's level. Gross profit was €311 million, down by €173 million or 35.7% from the prior-year quarter. In particular, lower selling prices, lower sales volumes, weaker capacity utilization and therefore higher idle costs, and the change in exchange rates had a negative impact on earnings performance. Reduced procurement prices for raw materials and energy and the portfolio change made a positive contribution to earnings. The gross margin of 17.5% was significantly below the previous year's figure of 24.2%.

The cost of sales also decreased by 1.5% year-on-year in the first half of the year, amounting to €2,930 million. In the prior-year period, the cost of sales amounted to €2,974 million. Gross profit declined year-on-year by €209 million, or 21.9%, to €747 million. The earnings decline resulted in particular from lower sales volumes, lower capacity utilization and therefore higher idle costs. Reduced procurement prices for raw materials and energy and the portfolio effect made a positive contribution to earnings. The gross margin of 20.3% was below the previous year's figure of 24.3%.

EBITDA pre exceptionals and operating result (EBIT)

The operating result before depreciation, amortization, write-downs and reversals (EBITDA) pre exceptionals amounted to €107 million in the second quarter of 2023, €146 million lower than the prior-year quarter's figure of €253 million. Our Consumer Protection segment saw comparatively stable business development and benefited from the contribution of the Microbial Control business acquired at the beginning of July 2022. The weaker demand and the associated reduction in sales volumes led to an earnings decline, especially in the Specialty Additives segment. All segments recorded lower procurement prices for raw materials and energy, which resulted in a decrease in selling prices. In addition, the change in exchange rates had a negative influence on earnings development in all segments. Please see the table below and "Segment Information" for details on the individual segments.

At €240 million, selling expenses were level with the prior-year quarter. The portfolio-driven increase in selling expenses was compensated for by reduced freight costs, initial cost savings, and exchange rate and volume effects. Research and development costs amounted to €25 million, compared to €26 million in the prior-year period, while general administration expenses amounted to €71 million, as in the previous year. In all functional cost areas, cost savings were offset by higher costs due to portfolio effects as a result of the acquired Microbial Control business. The Group EBITDA margin pre exceptionals came in at 6.0%, against 12.7% in the prior-year quarter.

Group EBITDA pre exceptionals amounted to €296 million in the first half of the year, €219 million lower than the previous year's figure of €515 million. Our Consumer Protection segment also saw balanced business development in the first half of the year and compensated for the effect of reduced volumes thanks to the contribution from the Microbial Control business acquired at the beginning of July 2022. The Specialty Additives and Advanced Intermediates segments recorded an earnings decline. This development was driven in particular by lower volumes, also due to ongoing inventory reduction among our customers. Partially reduced procurement prices for raw materials and energy resulted in a decrease in selling prices. The change in exchange rates had a slightly positive effect at Group level. Owing mainly to portfolio-related factors, selling expenses rose by €39 million year-on-year to €516 million. In contrast, the lower sales volumes resulted in an improvement. Research and development costs amounted to €52 million, compared to €50 million in the prior-year period, while general administration expenses increased by €1 million to €142 million, partly due to portfolio effects.

The Group operating result (EBIT) amounted to minus €56 million in the second quarter. In the previous year, Group EBIT amounted to €97 million. Depreciation, amortization and write-downs rose by €5 million, or 3.8%, compared with the figure for the prior-year quarter to €137 million, primarily due to the acquisition of the Microbial Control business. The depreciation, amortization and write-downs include write-downs of €1 million. Impairment losses of €3 million were recognized in the prior-year quarter. Net negative exceptional items of €27 million included in other operating income and expenses in the reporting quarter affected EBITDA by a total of €26 million and resulted primarily from expenses in connection with strategic IT projects and digitalization projects. In the prior-year quarter, negative exceptional items of €25 million were incurred, €24 million of which impacted EBITDA. Please see “Notes on EBIT and EBITDA (Pre Exceptionals)” for details.

In the first half of the year, LANXESS posted EBIT of minus €22 million, compared with €210 million a year earlier. Depreciation, amortization and write-downs also rose by €17 million from €257 million to €274 in the first half of the year, primarily due to the acquisition of the Microbial Control business. The depreciation, amortization and write-downs of the first half of this year and of the previous year include write-downs of €3 million in both cases. Net negative exceptional items of €46 million included in the first half of the year’s other operating income and expenses affected EBITDA by a total of €44 million and here too resulted primarily from expenses in connection with strategic IT projects and digitalization projects. In the prior-year period, net negative exceptional items of €50 million were incurred, €48 million of which impacted EBITDA. Please see “Notes on EBIT and EBITDA (Pre Exceptionals)” for details.

EBITDA Pre Exceptionals by Segment

€ million	Q2 2022	Q2 2023	Change %	H1 2022	H1 2023	Change %
Consumer Protection	90	82	(8.9)	176	176	0.0
Specialty Additives	134	37	(72.4)	270	135	(50.0)
Advanced Intermediates	74	23	(68.9)	161	67	(58.4)
All other segments	(45)	(35)	22.2	(92)	(82)	10.9
	253	**107**	**(57.7)**	**515**	**296**	**(42.5)**

Reconciliation of EBITDA Pre Exceptionals to EBIT

€ million	Q2 2022	Q2 2023	Change %	H1 2022	H1 2023	Change %
EBITDA pre exceptionals	**253**	**107**	**(57.7)**	**515**	**296**	**(42.5)**
Depreciation and amortization	(132)	(137)	(3.8)	(257)	(274)	(6.6)
Exceptional items in EBITDA	(24)	(26)	(8.3)	(48)	(44)	8.3
Operating result (EBIT)	**97**	**(56)**	**< (100)**	**210**	**(22)**	**< (100)**

Financial result

The financial result amounted to minus €101 million in the second quarter of 2023. In the prior-year quarter, the financial result was minus €30 million. Income from the investment accounted for using the equity method in Envalior GmbH, Cologne, Germany, and in Viance LLC, Wilmington, U.S., came to minus €78 million in total. The income from Envalior was negatively affected in particular by high interest expenses and effects of the purchase price allocation. The net interest result was minus €14 million, compared with minus €15 million in the prior-year quarter. The other financial result was minus €9 million, compared with minus €15 million in the prior-year quarter.

The financial result for the first half of 2023 was minus €122 million, against minus €52 million a year earlier. Income from the investment accounted for using the equity method in Envalior GmbH and in Viance LLC came to minus €77 million in total. In the first half of the year, the income from Envalior was also negatively affected in particular by high interest expenses and effects of the purchase price allocation. In total, the net interest result deteriorated by €9 million compared with the previous year to minus €40 million. The other financial result was minus €5 million in the reporting period, compared with minus €21 million in the prior-year period.

Income before income taxes

Income before income taxes and the effective tax rate were lower than the respective prior-year figures in both the quarter and the half-year. This was primarily due to the income from investments accounted for using the equity method, which was negatively affected in particular by high interest expenses and effects of the purchase price allocation at Envalior.

In the second quarter, income before income taxes came to minus €157 million, compared with €67 million. Particularly because the income from investments accounted for using the equity method is not offset by income taxes at LANXESS level, the effective tax rate of 7.6% was considerably lower than the prior-year quarter's 28.4%.

In a half-year comparison, income before income taxes decreased from €158 million to minus €144 million. The recognition of income from investments accounted for using the equity method also affected the effective tax rate in the first half of the year. This amounted to 6.3%, compared with 27.8% for the previous year.

Net income/earnings per share/adjusted earnings per share from continuing operations

Due especially to the gain on the deconsolidation of the High Performance Materials business unit in connection with the formation of Envalior, net income and net income from discontinued operations were significantly higher than in the previous year in both the second quarter and the first half of the year. Net income in the second quarter came to €1,371 million, of which minus €145 million was attributable to continuing operations. Net income from discontinued operations amounted to €1,516 million in the second quarter. In the prior-year quarter, €48 million of the net income of €93 million was attributable to continuing operations, and €45 million was attributable to the discontinued operations of the High Performance Materials business unit. At €1,327 million in the first half of the year, net income was €1,136 million higher than the net income of €191 million of the previous year. Net income of minus €135 million was attributable to continuing operations; in the previous year, this figure was €114 million. Net income of €1,462 million was attributable to discontinued operations in the first half of the year. In the previous year, net income of €77 million was attributable to discontinued operations in the first half of the year.

Earnings per share are calculated by dividing net income by the weighted average number of LANXESS shares outstanding during the reporting period. Earnings per share amounted to €15.88, which was higher than the prior-year figure of €1.08. Earnings per share from continuing operations were minus €1.68

against €0.56 in the prior-year quarter. In the first half of the year, earnings per share were €15.37 compared with €2.21 in the previous year. Earnings per share from continuing operations were minus €1.56 against €1.32 in the prior-year period.

Earnings per Share

	Q2 2022	Q2 2023	H1 2022	H1 2023
Net income (€ million)	**93**	**1,371**	**191**	**1,327**
from continuing operations (€ million)	48	(145)	114	(135)
from discontinued operations (€ million)	45	1,516	77	1,462
Weighted average number of shares outstanding	86,346,303	86,346,303	86,346,303	86,346,303
Earnings per share (€)	**1.08**	**15.88**	**2.21**	**15.37**
from continuing operations (€)	0.56	(1.68)	1.32	(1.56)
from discontinued operations (€)	0.52	17.56	0.89	16.93

We also calculate adjusted earnings per share from continuing operations, which are not defined by International Financial Reporting Standards. This value was calculated from the earnings per share from continuing operations adjusted for exceptional items, amortization of intangible assets and attributable tax effects. As a result of our minority stakes, our influence on the operational business of investments accounted for using the equity method is limited. From now on, therefore, we will also adjust earnings per share for income from investments accounted for using the equity method, especially with regard to our investment in Envalior GmbH, Cologne, Germany, which was recognized for the first time in the second quarter of 2023. Overall, earnings per share adjusted in this way are more suitable for assessing and comparing our company's performance over time. Corresponding adjustments were also made for prior reporting periods.

Adjusted earnings per share from continuing operations came in at minus €0.19 in the second quarter and €0.44 in the first half of 2023. In the second quarter and in the first half of the previous year, they amounted to €1.05 and €2.30, respectively.

Reconciliation to Adjusted Earnings per Share from Continuing Operations

€ million	Q2 2022	Q2 2023	H1 2022	H1 2023
Net income from continuing operations	**48**	**(145)**	**114**	**(135)**
Exceptional items[1]	25	27	50	46
Amortization of intangible assets[1]	34	41	66	82
Income taxes[1]	(16)	(17)	(31)	(32)
Income from investments accounted for using the equity method	–	78	–	77
Adjusted net income from continuing operations	**91**	**(16)**	**199**	**38**
Weighted average number of shares outstanding	86,346,303	86,346,303	86,346,303	86,346,303
Adjusted earnings per share from continuing operations (€)	**1.05**	**(0.19)**	**2.30**	**0.44**

1) Excluding items attributable to non-controlling interests.

BUSINESS DEVELOPMENT BY REGION

Sales by Market

	Q2 2022		Q2 2023		Change	H1 2022		H1 2023		Change
	€ million	%	€ million	%	%	€ million	%	€ million	%	%
EMEA (excluding Germany)	572	28.6	537	30.2	(6.1)	1,180	30.0	1,120	30.5	(5.1)
Germany	332	16.6	299	16.8	(9.9)	673	17.1	627	17.1	(6.8)
Americas	663	33.2	607	34.2	(8.4)	1,237	31.5	1,237	33.6	0.0
Asia-Pacific	432	21.6	335	18.8	(22.5)	840	21.4	693	18.8	(17.5)
	1,999	**100.0**	**1,778**	**100.0**	**(11.1)**	**3,930**	**100.0**	**3,677**	**100.0**	**(6.4)**

Sales in the **EMEA** region (excluding Germany) decreased by €35 million, or 6.1%, to €537 million in the second quarter of 2023. Adjusted for minor negative currency effects and for portfolio effects, sales declined by 8.9% across all segments. The Specialty Additives and Consumer Protection segments, where sales declined by a low double-digit and a high single-digit percentage, respectively, made the largest contribution to this development.

Sales in the first half of 2023 in the EMEA region (excluding Germany) decreased by €60 million, or 5.1%, to €1,120 million. Adjusted for minor negative currency effects and for portfolio effects, sales declined by 7.9% across all segments. The Specialty Additives and Advanced Intermediates segments in particular contributed to this development with a sales decline of a low double-digit and a high single-digit percentage, respectively.

Sales in **Germany** in the second quarter were down €33 million, or 9.9%, year on year at €299 million. After adjustment for minor currency and portfolio effects, the decline across all segments amounted to 10.3%. The Advanced Intermediates and Specialty Additives segments, where sales declined by a low double-digit percentage, made by far the largest contribution to this business development, while sales in the Consumer Protection segment were at the previous year's level.

In the first half of 2023, sales in Germany decreased by €46 million, or 6.8%, to €627 million. After adjustment for minor currency and portfolio effects, the decline was 7.5%. The declining business was mainly due to the Advanced Intermediates and Specialty Additives segments with sales a low double-digit percentage below the previous year's level, whereas sales in the Consumer Protection segment grew by a similar percentage.

Sales in the **Americas** region decreased by €56 million, or 8.4%, to €607 million in the second quarter of 2023. After adjustment for negative currency effects and significant portfolio changes, sales declined by 15.8% across all segments. This development was influenced mainly by the Advanced Intermediates and Specialty Additives segments and, to a lesser extent, the Consumer Protection segment. The first two segments saw low double-digit percentage declines, whereas sales in the Consumer Protection segment dropped by a high single-digit percentage.

In the first half of 2023, sales in the Americas were in line with the previous year's figure and amounted to €1,237 million. After adjustment for low positive currency effects and significant portfolio changes, sales decreased by 11.0%. This development was influenced mainly by the Advanced Intermediates and Specialty Additives segments, where business declined by a low double-digit percentage, whereas sales in the Consumer Protection segment increased slightly year-on-year.

Second-quarter sales in the **Asia-Pacific** region declined by €97 million, or 22.5%, to €335 million. After adjustment for negative currency and portfolio effects, sales decreased by 22.9% across all segments. The sales of all segments declined by a low double-digit percentage.

In the first half of 2023, sales in this region fell by €147 million, or 17.5%, to €693 million. After adjustment for negative currency and portfolio effects, sales decreased by 19.8% across all segments. All segments recorded sales declines of low double-digit percentages.

SEGMENT INFORMATION

Consumer Protection

	Q2 2022		Q2 2023		Change	H1 2022		H1 2023		Change
	€ million	Margin %	€ million	Margin %	%	€ million	Margin %	€ million	Margin %	%
Sales	558		604		8.2	1,064		1,251		17.6
EBITDA pre exceptionals	90	16.1	82	13.6	(8.9)	176	16.5	176	14.1	0.0
EBITDA	90	16.1	81	13.4	(10.0)	175	16.4	174	13.9	(0.6)
Operating result (EBIT) pre exceptionals	54	9.7	36	6.0	(33.3)	103	9.7	84	6.7	(18.4)
Operating result (EBIT)	54	9.7	35	5.8	(35.2)	102	9.6	82	6.6	(19.6)
Cash outflows for capital expenditures	36		19		(47.2)	59		36		(39.0)
Depreciation and amortization	36		46		27.8	73		92		26.0
Employees as of June 30 (previous year: as of Dec. 31)	3,566		3,590		0.7	3,566		3,590		0.7

In our **Consumer Protection** segment, sales amounted to €604 million in the reporting quarter of 2023, 8.2% higher than the previous year's figure. This was especially due to the portfolio change in the Material Protection Products business unit. Sales in this business unit increased due to the integration of the Microbial Control business acquired as of July 1, 2022. Overall, there was a positive portfolio effect of 17.5% at segment level. In contrast, lower selling prices reduced sales in the segment by 5.2%. While the Liquid Purification Technologies business unit achieved higher selling prices in tandem with stable sales volumes, the segment's other business units registered weaker demand than expected for the respective end markets. In addition, lower capacity utilization, especially due to limited availability of raw materials as a result of a supplier's production difficulties, led to lower sales volumes in the Flavors & Fragrances business unit. At segment level, sales decreased by 2.7% due to lower volumes. Shifts in exchange rates also reduced sales in all business units, leading to an overall decrease in sales of 1.4% at segment level. Sales in the Americas region were above, in all other regions at the level of the prior-year quarter.

EBITDA pre exceptionals in the Consumer Protection segment decreased by €8 million, or 8.9%, to €82 million, compared with the previous year's figure of €90 million. Lower selling prices and the change in exchange rates had a negative effect on earnings development. In addition, the lower sales volumes in the Material Protection Products and Flavors & Fragrances business units, particularly due to weaker demand, had a negative impact on earnings and the margin. A positive earnings contribution resulted from the integration of the Microbial Control business acquired at the beginning of July 2022 into the Material Protection Products business unit. The EBITDA margin pre exceptionals was 13.6%, against 16.1% in the prior-year quarter.

The Consumer Protection segment posted sales of €1,251 million in the first half of 2023, up 17.6% from the same period a year ago. As in the quarterly comparison, this was especially due to the portfolio change in the Material Protection Products business unit. Sales in this business unit increased due to the integration of the Microbial Control business acquired as of July 1, 2022. Overall, there was a positive portfolio effect of 18.6% at segment level. In addition, nearly all business units achieved higher or stable selling prices, which pushed up sales in the segment by 1.6%. The Saltigo and Liquid Purification Technologies business units achieved higher sales volumes. Good demand from the agrochemicals industry had a particularly positive impact in the Saltigo business unit. In contrast, lower capacity utilization, also due to limited availability of raw materials as a result of a supplier's production difficulties, led to lower sales volumes in the Flavors & Fragrances business unit. At segment level, sales decreased by 2.3% due to lower volumes.

As in the previous year, the segment achieved EBITDA pre exceptionals of €176 million in the first half of 2023. The EBITDA margin pre exceptionals was 14.1%, against 16.5% in the prior-year period.

In the second quarter, negative exceptional items that impacted EBITDA in the segment amounted to €1 million. In the first half of the year, negative exceptional items totaling €2 million were incurred, which impacted EBITDA. The segment recorded no exceptional items that impacted EBITDA in the segment in the second quarter of the previous year. In the first half of the previous year, negative exceptional items that impacted EBITDA amounted to €1 million. Please see "Notes on EBIT and EBITDA (Pre Exceptionals)" for details.

Specialty Additives

	Q2 2022		Q2 2023		Change	H1 2022		H1 2023		Change
	€ million	Margin %	€ million	Margin %	%	€ million	Margin %	€ million	Margin %	%
Sales	764		620		(18.8)	1,494		1,284		(14.1)
EBITDA pre exceptionals	134	17.5	37	6.0	(72.4)	270	18.1	135	10.5	(50.0)
EBITDA	134	17.5	37	6.0	(72.4)	270	18.1	135	10.5	(50.0)
Operating result (EBIT) pre exceptionals	85	11.1	(8)	(1.3)	< (100)	177	11.8	45	3.5	(74.6)
Operating result (EBIT)	85	11.1	(8)	(1.3)	< (100)	177	11.8	45	3.5	(74.6)
Cash outflows for capital expenditures	24		25		4.2	37		48		29.7
Depreciation and amortization	49		45		(8.2)	93		90		(3.2)
Employees as of June 30 (previous year: as of Dec. 31)	2,985		2,988		0.1	2,985		2,988		0.1

Sales in our **Specialty Additives** segment decreased by 18.8% in the second quarter of 2023 to €620 million. Particularly due to weaker demand from the construction, electronics and automotive industries, all business units of the segment posted lower sales. Volumes fell short of the prior-year quarter and reduced sales by 13.0% at segment level. Only the aviation industry developed relatively stably. The Lubricant Additives business unit slightly increased its selling prices, while the lower selling prices of the segment's other two business units led to a sales decline totaling 3.9% at segment level. In addition, shifts in exchange rates had a negative effect on all business units and reduced the segment's sales by 1.9%. Sales in all regions were below the level of the prior-year quarter.

EBITDA pre exceptionals in the Specialty Additives segment decreased by €97 million, or 72.4%, to €37 million. In particular, lower volumes due to weaker demand had a negative impact on earnings. Compared with strong earnings development in the prior-year quarter, primarily due to price recoveries as a result of higher raw material and energy prices, the segment and especially the Polymer Additives business unit saw lower selling prices in the second quarter of the current year. Lower selling prices and low capacity utilization, also due to targeted inventory reduction, had a negative impact on earnings and the margin. Adverse exchange rate effects also reduced earnings. The EBITDA margin pre exceptionals decreased to 6.0%, against 17.5% a year ago.

In the first half of 2023, the Specialty Additives segment generated sales of €1,284 million, a year-on-year drop of 14.1%. As in the quarterly comparison, at 13.6% the sales decline particularly resulted from lower volumes, which fell short of the first half of the previous year in all business units of the segment due to weaker demand from the construction, electronics and automotive industries. Sales were also reduced by the lower selling prices in the Polymer Additives business unit. At segment level, there was a price-driven sales decline of 0.4%. Overall, shifts in exchange rates also had a slightly negative effect on sales at segment level.

The segment's EBITDA pre exceptionals decreased by 50.0% to €135 million in the first half of 2023. The EBITDA margin pre exceptionals came in at 10.5%, against 18.1% in the previous year.

Advanced Intermediates

	Q2 2022		Q2 2023		Change	H1 2022		H1 2023		Change
	€ million	Margin %	€ million	Margin %	%	€ million	Margin %	€ million	Margin %	%
Sales	587		484		(17.5)	1,200		1,000		(16.7)
EBITDA pre exceptionals	74	12.6	23	4.8	(68.9)	161	13.4	67	6.7	(58.4)
EBITDA	74	12.6	21	4.3	(71.6)	161	13.4	65	6.5	(59.6)
Operating result (EBIT) pre exceptionals	44	7.5	(4)	(0.8)	< (100)	103	8.6	14	1.4	(86.4)
Operating result (EBIT)	44	7.5	(6)	(1.2)	< (100)	103	8.6	12	1.2	(88.3)
Cash outflows for capital expenditures	19		17		(10.5)	37		33		(10.8)
Depreciation and amortization	30		27		(10.0)	58		53		(8.6)
Employees as of June 30 (previous year: as of Dec. 31)	3,010		3,050		1.3	3,010		3,050		1.3

Our **Advanced Intermediates** segment recorded sales of €484 million in the second quarter of 2023, down 17.5%, or €103 million, compared to the prior-year period. Both selling prices and sales volumes of the segment's two business units were below the previous year's level. The lower procurement prices for raw materials and energy resulted in a reduction in selling prices and had a negative effect on sales of 9.4% at segment level. The sales decline was also particularly influenced by the lower sales volumes in both business units, which were below the prior-year quarter as a result of weaker demand, especially from the construction and chemical industries. Overall, there was a negative volume effect of 7.3% at segment level. Shifts in exchange rates likewise had a negative effect on both business units and reduced the segment's sales by 0.8% in total. Sales in all regions were below the level of the prior-year quarter.

EBITDA pre exceptionals in the Advanced Intermediates segment decreased by 68.9% to €23 million, compared with the previous year's figure of €74 million, with lower volumes in both business units due to generally weak demand and lower capacity utilization negatively affecting earnings and the margin. In addition, the change in exchange rates had a negative influence on earnings development. Reduced procurement prices for raw materials and energy resulted in a decrease in selling prices. The segment's EBITDA margin pre exceptionals declined to 4.8% after 12.6% in the prior-year period.

The Advanced Intermediates segment generated half-year sales in 2023 of €1,000 million, a year-on-year decrease of 16.7%. In a half-year comparison, sales development in both business units was also shaped by the significant decline in volumes due to weak demand in all end industries. This reduced sales by 15.1% at segment level. In addition, selling prices in the Advanced Industrial Intermediates business unit were below the previous year's level and resulted in a negative sales effect of 1.5% at segment level. Shifts in exchange rates had a slightly negative effect on sales in both business units.

The segment's EBITDA pre exceptionals decreased by 58.4% to €67 million in the first half of 2023. The EBITDA margin pre exceptionals came in at 6.7%, against 13.4% in the previous year.

All Other Segments

€ million	Q2 2022	Q2 2023	Change %	H1 2022	H1 2023	Change %
Sales	90	70	(22.2)	172	142	(17.4)
EBITDA pre exceptionals	(45)	(35)	22.2	(92)	(82)	10.9
EBITDA	(69)	(58)	15.9	(139)	(122)	12.2
Operating result (EBIT) pre exceptionals	(61)	(53)	13.1	(123)	(119)	3.3
Operating result (EBIT)	(86)	(77)	10.5	(172)	(161)	6.4
Cash outflows for capital expenditures	13	6	(53.8)	18	9	(50.0)
Depreciation and amortization	17	19	11.8	33	39	18.2
Employees as of June 30 (previous year: as of Dec. 31)	3,565	3,508	(1.6)	3,565	3,508	(1.6)

The sales reported in **All other segments** for the second quarter and first half of the fiscal year and the prior-year periods mainly relate to the business of the Urethane Systems business unit. EBITDA pre exceptionals came to minus €35 million and minus €82 million in the second quarter and first half of the year, respectively, compared with minus €45 million and minus €92 million in the corresponding prior-year period, and resulted mainly from expenses for the business activities of the corporate functions. In the second quarter, negative exceptional items of €24 million were incurred, €23 million of which impacted EBITDA. In the first six months of the fiscal year, net negative exceptional items of €42 million were incurred, €40 million of which impacted EBITDA. The exceptional items resulted primarily from expenses in connection with strategic IT projects and digitalization projects. In the previous year, net negative exceptional items came to €25 million in the quarter and €49 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.

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.

Reconciliation to EBIT/EBITDA

€ million	EBIT Q2 2022	EBIT Q2 2023	EBITDA Q2 2022	EBITDA Q2 2023	EBIT H1 2022	EBIT H1 2023	EBITDA H1 2022	EBITDA H1 2023
EBIT/EBITDA pre exceptionals	**122**	**(29)**	**253**	**107**	**260**	**24**	**515**	**296**
Consumer Protection	**0**	**(1)**	**0**	**(1)**	**(1)**	**(2)**	**(1)**	**(2)**
Strategic realignment	0	(1)	0	(1)	(1)	(2)	(1)	(2)
Specialty Additives	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Advanced Intermediates	**–**	**(2)**	**–**	**(2)**	**–**	**(2)**	**–**	**(2)**
Adjustment of the production network	–	(2)	–	(2)	–	(2)	–	(2)
All other segments	**(25)**	**(24)**	**(24)**	**(23)**	**(49)**	**(42)**	**(47)**	**(40)**
Strategic IT projects (SAP S/4HANA and other IT applications)	(15)	(10)	(15)	(10)	(25)	(16)	(25)	(16)
Digitalization, M&A expenses and other	(10)	(14)	(9)	(13)	(24)	(26)	(22)	(24)
Total exceptional items	**(25)**	**(27)**	**(24)**	**(26)**	**(50)**	**(46)**	**(48)**	**(44)**
EBIT/EBITDA	**97**	**(56)**	**229**	**81**	**210**	**(22)**	**467**	**252**

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 expenses for strategic projects in the fields of IT and digitalization, 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 (target) planning process, targets are set for this benchmark of our company's success, which are then taken into account in determining variable income components for the Board of Management, senior executives and the rest of the workforce.

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, 2023, the LANXESS Group's total assets stood at €10,808 million, down €479 million, or 4.2%, from €11,287 million on December 31, 2022. The equity ratio at the end of the second quarter was 51.9%, after 39.2% as of December 31, 2022.

Non-current assets increased by €1,115 million to €7,552 million as of June 30, 2023. This increase is primarily due to the first-time inclusion of the minority interest in Envalior GmbH, Cologne, Germany, using the equity method. As of the end of the reporting period, it was valued at €1,141 million. At €2,669 million, the carrying amount of property, plant and equipment was €81 million lower than the prior-year figure of €2,750 million. In the first half of 2023, additions to non-current assets through purchases of intangible assets and property, plant and equipment amounted to €154 million, compared with €169 million in the prior-year period. Depreciation, amortization and write-downs in the first six months amounted to €274 million, which was above the figure of €257 million for the prior-year period, primarily due to the acquisition of the Microbial Control business. Deferred tax assets amounted to €64 million, compared with €54 million as of December 31, 2022. Other investments increased from €20 million as of December 31, 2022, to €28 million as of June 30, 2023, particularly due to the price performance of the share of Standard Lithium Ltd., Vancouver, Canada. Other non-current financial assets amounted to €243 million, compared with €77 million as of December 31, 2022. This change was largely due to a shareholder loan granted to Envalior GmbH, Cologne, Germany, in connection with the formation of Envalior. The ratio of non-current assets to total assets was 69.9%, up from 57.0% on December 31, 2022.

Current assets decreased by €1,594 million, or 32.9%, compared with December 31, 2022, to €3,256 million. The decline resulted primarily from the completion of the full transaction for the formation of Envalior and the resulting disposal of assets from the "Assets held for sale and discontinued operations" item. In addition, inventories decreased by €174 million from €1,861 million to €1,687 million as of June 30, 2023. The decline was particularly attributable to weak demand and the associated lower capacity utilization and active inventory management. Trade receivables fell by €67 million, from €858 million to €791 million.

Cash and cash equivalents decreased by €155 million, from €324 million to €169 million. Near-cash assets increased from €79 million to €148 million as of June 30, 2023. In the first six months of the year, other current financial assets increased by €7 million to €179 million, while other current assets decreased by €4 million to €224 million. The ratio of current assets to total assets was 30.1%, compared with 43.0% as of December 31, 2022.

Equity increased to €5,613 million against €4,427 million on December 31, 2022, primarily due to the net income influenced by the gain on the deconsolidation of the High Performance Materials business unit.

Non-current liabilities declined by €562 million to €3,872 million as of June 30, 2023. Provisions for pensions and other post-employment benefits increased by €13 million to €380 million. At €294 million, other non-current provisions were roughly level with the figure of €296 million as of December 31, 2022. Other non-current financial liabilities decreased by €491 million to €2,926 million. The decline primarily resulted from the repayment of the hybrid bond of €500 million utilizing the first redemption option on June 6, 2023. The ratio of non-current liabilities to total assets was 35.8%, against 39.3% as of December 31, 2022.

Current liabilities came to €1,323 million, down by €1,103 million, or 45.5%, compared with December 31, 2022. Trade payables decreased by a total of €98 million to €611 million, mainly as a result of the demand-driven decline in production. Other current provisions fell from €388 million to €286 million as of June 30, 2023. The decrease is primarily attributable to lower personnel-related provisions and provisions for trade-related commitments. Other current financial liabilities decreased from €830 million to €265 million, primarily due to the repayment of various bilateral bank loans. The borrowing of two bilateral bank loans totaling €200 million had the opposite effect. Another material effect resulted from the completion of the full transaction for the formation of Envalior and the associated disposal of liabilities from the "Liabilities directly related to assets held for sale and discontinued operations" item. The ratio of current liabilities to total assets was 12.2% as of June 30, 2023, against 21.5% at the end of 2022.

Financial condition and capital expenditures

Changes in the statement of cash flows

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

In the first six months of 2023, there was a net cash inflow of €238 million from operating activities, against €57 million in the prior-year period. Income before income taxes declined from €158 million to minus €144 million. In the first half of 2023, this was adjusted for income from investments accounted for using the equity method of minus €77 million, among other things. In addition, non-cash depreciation, amortization and write-downs also increased from €257 million to €274 million, primarily due to the acquisition of the Microbial Control business. The change in net working capital also made an impact with a cash inflow of €123 million after a cash outflow of €473 million in the previous year. The cash inflow resulted in particular from the reduction in inventories. There was net cash outflow for the payment of income taxes of €32 million, whereas reimbursed income taxes resulted in a net cash inflow of €65 million in the prior-year period.

There was an €808 million net cash inflow from investing activities in the first six months of 2023, compared with an €803 million net cash outflow in the same period a year ago. The net cash inflow in the first half of 2023 resulted in particular from payments of €1,267 million received in connection with founding Envalior. The direct reinvestment in shares of money market funds that can be sold at any time and a shareholder loan granted to Envalior GmbH, Cologne, Germany, resulted in cash outflows for financial and other assets held for investment purposes. Cash inflows from financial and other assets held for investment purposes had the opposite effect due to the sale of units of money market funds that can be sold at any time. Cash outflows for purchases of intangible assets and property, plant and equipment amounted to €126 million, compared with €151 million in the prior-year period.

Net cash used for financing activities came to €1,215 million, compared with net cash provided by financing activities of €660 million in the prior-year period. The net cash used in the reporting period was particularly due to the repayment of various bilateral bank loans and the repayment of the hybrid bond of €500 million utilizing the first redemption option on June 6, 2023. Further cash outflows resulted from the dividend payment of €91 million to LANXESS shareholders as well as interest paid and other financial disbursements. This was countered mainly by the borrowing of bilateral bank loans.

Financing and liquidity

The principles and objectives of financial management discussed on page 124 of the Annual Report 2022 remained valid during the first half of the year. They are centered on a conservative financial policy built on long-term, secured financing.

Compared with the consolidated financial statements for 2022, cash and cash equivalents dropped by €155 million to €169 million as of June 30, 2023, while near-cash assets increased from €79 million to €148 million. The Group's liquidity position remains sound overall.

Net financial liabilities are the total of current and non-current financial liabilities less liabilities for accrued interest, cash, cash equivalents and near-cash assets and decreased significantly to €2,863 million as of June 30, 2023, compared with €3,814 million as of December 31, 2022.

The decrease in net financial liabilities as of June 30, 2023, resulted primarily from the payment received in connection with the formation of Envalior. The cash received was used in particular for the repayment of various bilateral bank loans and the repayment of the hybrid bond utilizing the first redemption option on June 6, 2023. Among other things, the borrowing of two bilateral bank loans totaling €200 million and the dividend payment to LANXESS shareholders of €91 million had the opposite effect.

Net Financial Liabilities

€ million	Dec. 31, 2022	June 30, 2023
Non-current financial liabilities	3,417	2,926
Current financial liabilities	830	265
Less		
Liabilities for accrued interest	(30)	(11)
Cash and cash equivalents	(324)	(169)
Near-cash assets	(79)	(148)
Net financial liabilities	**3,814**	**2,863**

As of June 30, 2023, we had a small amount of financing items that were not reported in the statement of financial position in the form of short-term leases and leases of low value. Since the end of June 2022, LANXESS has been a contractual partner to a factoring agreement for the revolving sale of trade receivables. The previously agreed maximum volume of €200 million was lowered to €150 million as of July 1, 2023. Under this program, substantially all the risks and rewards of ownership of the receivables are transferred to the buyer.

Capital expenditures

In light of the strained economic situation, we have reviewed our planned investment projects again. Therefore, we currently assume that the cash outflows for capital expenditures will fall short of the €400 million stated in the guidance in the Annual Report 2022. Our capital expenditures will be primarily directed toward the maintenance of existing plants at various locations as well as the targeted optimization and expansion of plants. In the first six months of 2023, capital expenditures included, for example, cash outflows in connection with the expansion of production capacity for light sulfur carriers by several kilotons initiated in recent years at the site in Mannheim, Germany. The Lubricant Additives business unit's Additin® EP light sulfur carriers are mainly used in lubricants for metal processing. To meet the generally growing demand, LANXESS is investing a sum in the low double-digit millions in euros. The additional volumes are to be available from the second half of 2023.

FUTURE PROSPECTS, OPPORTUNITIES AND RISKS

Outlook

On the basis of the noticeable effects of weaker demand in the first half of 2023 and as a result of customer destocking – also in businesses with otherwise stable consumer products – we had to lower our expectations for the fiscal year in June.

In light of the persistently weak demand, especially in the construction and electrical/electronics industries but also from nearly all other end markets, we now no longer expect demand to recover in the remaining part of the year.

The global supply chain situation has generally improved, but the positive momentum initially expected as a result of the easing of COVID policies in China and the associated economic recovery are not in sight for fiscal year 2023.

Should the demand situation not improve, we now expect EBITDA pre exceptionals of €600 million to €650 million in fiscal year 2023.

We expect earnings in the Consumer Protection segment to be on the previous year's level, supported by the contribution from the Microbial Control business acquired in the previous year.

For our Specialty Additives segment, we expect business development in 2023 to be significantly lower than the very good prior-year level. This is primarily due to a weakness in the construction and electrical/electronics industries.

For our Advanced Intermediates segment, we now also expect earnings to be significantly below the previous year's level in the current fiscal year. In particular, sluggish demand in the construction industry will affect our inorganic pigments business here. The development of energy costs means continued uncertainty, especially with regard to the fourth quarter.

In "All other segments," we still expect earnings to improve significantly year-on-year.

Significant opportunities and risks

Compared with December 31, 2022, the LANXESS Group's risk situation remains strained. The development of the global economy is still highly uncertain. Risks reported for fiscal year 2023 with regard to weaker demand have, in part, already materialized and resulted in a significant earnings decline in the second quarter and in the forecast for fiscal year 2023. The repercussions of the war in Ukraine and changes in raw material and energy prices, partly as a result thereof, also remain sources of uncertainty.

Otherwise, there have been no significant changes compared with the account of the LANXESS Group's opportunities and risks in the Annual Report 2022. Further information on this topic is provided in the combined management report for LANXESS AG and the LANXESS Group for fiscal year 2022 on pages 137 to 152 of the Annual Report 2022. 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, 2023

STATEMENT OF FINANCIAL POSITION
LANXESS GROUP

€ million	Dec. 31, 2022	June 30, 2023
ASSETS		
Intangible assets[1]	3,331	3,219
Property, plant and equipment	2,750	2,669
Investments accounted for using the equity method	71	1,214
Investments in other affiliated companies	20	28
Non-current derivative assets	14	5
Other non-current financial assets	77	243
Non-current income tax receivables	57	53
Deferred taxes	54	64
Other non-current assets	63	57
Non-current assets	**6,437**	**7,552**
Inventories	1,861	1,687
Trade receivables[1]	858	791
Cash and cash equivalents	324	169
Near-cash assets	79	148
Current derivative assets	18	30
Other current financial assets	172	179
Current income tax receivables	35	28
Other current assets	228	224
Assets held for sale and discontinued operations	1,275	–
Current assets	**4,850**	**3,256**
Total assets	**11,287**	**10,808**

€ million	Dec. 31, 2022	June 30, 2023
EQUITY AND LIABILITIES		
Capital stock and capital reserves	1,317	1,317
Other reserves	2,955	3,108
Net income	250	1,327
Other equity components	(101)	(145)
Equity attributable to non-controlling interests	6	6
Equity	**4,427**	**5,613**
Provisions for pensions and other post-employment benefits	367	380
Other non-current provisions	296	294
Non-current derivative liabilities	1	0
Other non-current financial liabilities	3,417	2,926
Non-current income tax liabilities	28	30
Other non-current liabilities	41	39
Deferred taxes	284	203
Non-current liabilities	**4,434**	**3,872**
Other current provisions[1]	388	286
Trade payables	709	611
Current derivative liabilities	18	14
Other current financial liabilities	830	265
Current income tax liabilities	38	33
Other current liabilities	125	114
Liabilities directly related to assets held for sale and discontinued operations	318	–
Current liabilities	**2,426**	**1,323**
Total equity and liabilities	**11,287**	**10,808**

1) Prior-year figures restated.

INCOME STATEMENT
LANXESS GROUP

€ million	Q2 2022	Q2 2023	H1 2022	H1 2023
Sales	**1,999**	**1,778**	**3,930**	**3,677**
Cost of sales	(1,515)	(1,467)	(2,974)	(2,930)
Gross profit	**484**	**311**	**956**	**747**
Selling expenses	(241)	(240)	(477)	(516)
Research and development expenses	(26)	(25)	(50)	(52)
General administration expenses	(71)	(71)	(141)	(142)
Other operating income	5	19	14	31
Other operating expenses	(54)	(50)	(92)	(90)
Operating result (EBIT)	**97**	**(56)**	**210**	**(22)**
Income from investments accounted for using the equity method	–	(78)	–	(77)
Interest income	3	2	4	6
Interest expense	(18)	(16)	(35)	(46)
Other financial income and expense	(15)	(9)	(21)	(5)
Financial result	**(30)**	**(101)**	**(52)**	**(122)**
Income before income taxes	**67**	**(157)**	**158**	**(144)**
Income taxes	(19)	12	(44)	9
Income after income taxes from continuing operations	**48**	**(145)**	**114**	**(135)**
Income after income taxes from discontinued operations	**45**	**1,516**	**77**	**1,462**
Income after income taxes	**93**	**1,371**	**191**	**1,327**
of which attributable to non-controlling interests	0	0	0	0
of which attributable to LANXESS AG stockholders (net income)	93	1,371	191	1,327
Earnings per share (basic/diluted) (€)				
from continuing operations	0.56	(1.68)	1.32	(1.56)
from discontinued operations	0.52	17.56	0.89	16.93
from continuing and discontinued operations	**1.08**	**15.88**	**2.21**	**15.37**

STATEMENT OF COMPREHENSIVE INCOME
LANXESS GROUP

€ million	Q2 2022	Q2 2023	H1 2022	H1 2023
Income after income taxes	**93**	**1,371**	**191**	**1,327**
Items that will not be reclassified subsequently to profit or loss				
Remeasurements of the net defined benefit liability for post-employment benefit plans	275	26	406	(7)
Financial instruments fair value measurement	(25)	4	(30)	8
Income taxes	(73)	(9)	(110)	(1)
	177	**21**	**266**	**0**
Items that may be reclassified subsequently to profit or loss if specific conditions are met				
Exchange differences on translation of operations outside the eurozone	236	34	329	(50)
Financial instruments fair value measurement	35	(2)	82	5
Financial instruments cost of hedging	4	1	3	1
Other comprehensive income (net of income tax) attributable to investments accounted for using the equity method	–	(5)	–	(5)
Income taxes	(11)	1	(25)	(1)
	264	**29**	**389**	**(50)**
Other comprehensive income, net of income tax	**441**	**50**	**655**	**(50)**
Total comprehensive income	**534**	**1,421**	**846**	**1,277**
of which attributable to non-controlling interests	0	0	0	0
of which attributable to LANXESS AG stockholders	534	1,421	846	1,277
Total comprehensive income attributable to LANXESS AG stockholders	**534**	**1,421**	**846**	**1,277**
from continuing operations	476	(95)	744	(192)
from discontinued operations	58	1,516	102	1,469

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				
						Fair value measurement	Cost of hedging			
Dec. 31, 2021	**86**	**1,231**	**2,401**	**267**	**(257)**	**28**	**0**	**3,756**	**6**	**3,762**
Allocations to retained earnings			267	(267)				0		0
Dividend payments			(91)					(91)		(91)
Total comprehensive income			289	191	329	35	2	846	0	846
Income after income taxes				*191*				*191*	*0*	*191*
Other comprehensive income, net of income tax			*289*		*329*	*35*	*2*	*655*	*0*	*655*
June 30, 2022	**86**	**1,231**	**2,866**	**191**	**72**	**63**	**2**	**4,511**	**6**	**4,517**
Dec. 31, 2022	**86**	**1,231**	**2,955**	**250**	**(103)**	**3**	**(1)**	**4,421**	**6**	**4,427**
Allocations to retained earnings			250	(250)				0		0
Dividend payments			(91)					(91)		(91)
Total comprehensive income			(6)	1,327	(55)	10	1	1,277	0	1,277
Income after income taxes				*1,327*				*1,327*	*0*	*1,327*
Other comprehensive income, net of income tax			*(6)*		*(55)*	*10*	*1*	*(50)*	*0*	*(50)*
Other changes			0					0		0
June 30, 2023	**86**	**1,231**	**3,108**	**1,327**	**(158)**	**13**	**0**	**5,607**	**6**	**5,613**

STATEMENT OF CASH FLOWS
LANXESS GROUP

€ million	Q2 2022	Q2 2023	H1 2022	H1 2023
Income before income taxes	**67**	**(157)**	**158**	**(144)**
Amortization, depreciation and write-downs of intangible assets and property, plant and equipment	132	137	257	274
Gains on disposals of intangible assets and property, plant and equipment	(1)	(1)	(1)	(1)
Income from investments accounted for using the equity method	–	78	–	77
Financial losses (gains)	29	15	49	39
Income taxes refunded/paid	27	(22)	65	(32)
Changes in inventories	(152)	167	(368)	156
Changes in trade receivables	79	46	(92)	63
Changes in trade payables	(13)	(98)	(13)	(96)
Changes in other assets and liabilities	(18)	(98)	2	(98)
Net cash provided by operating activities – continuing operations	**150**	**67**	**57**	**238**
Net cash provided by (used in) operating activities – discontinued operations	**3**	**(1)**	**(85)**	**(11)**
Net cash provided by (used in) operating activities – total	**153**	**66**	**(28)**	**227**
Cash outflows for purchases of intangible assets and property, plant and equipment	(92)	(67)	(151)	(126)
Cash inflows from sales of intangible assets and property, plant and equipment	3	2	4	2
Cash outflows for financial and other assets held for investment purposes	(1)	(201)	(893)	(1,595)
Cash inflows from financial and other assets held for investment purposes	135	1,328	235	1,328
Cash outflows for the acquisition of subsidiaries and other businesses, less acquired cash and cash equivalents	–	–	(3)	0
Cash inflows from the sale of subsidiaries and other businesses, less divested cash and cash equivalents	–	(73)	–	1,194

€ million	Q2 2022	Q2 2023	H1 2022	H1 2023
Interest and dividends received	2	1	5	5
Net cash provided by (used in) investing activities – continuing operations	**47**	**990**	**(803)**	**808**
Net cash used in investing activities – discontinued operations	**(6)**	**–**	**(10)**	**(6)**
Net cash provided by (used in) investing activities – total	**41**	**990**	**(813)**	**802**
Proceeds from borrowings	22	100	932	367
Repayments of borrowings	(129)	(1,210)	(143)	(1,437)
Interest paid and other financial disbursements	(36)	(37)	(38)	(54)
Dividend payments	(91)	(91)	(91)	(91)
Net cash used in (provided by) financing activities – continuing operations	**(234)**	**(1,238)**	**660**	**(1,215)**
Net cash used in financing activities – discontinued operations	**0**	**–**	**(1)**	**(1)**
Net cash used in (provided by) financing activities – total	**(234)**	**(1,238)**	**659**	**(1,216)**
Change in cash and cash equivalents – continuing operations	**(37)**	**(181)**	**(86)**	**(169)**
Change in cash and cash equivalents – discontinued operations	**(3)**	**(1)**	**(96)**	**(18)**
Change in cash and cash equivalents – total	**(40)**	**(182)**	**(182)**	**(187)**
Cash and cash equivalents at beginning of period – total	503	351	643	360
of which continuing operations	468	277	632	324
of which discontinued operations	35	74	11	36
Exchange differences and other changes in cash and cash equivalents – total	2	0	4	(4)
Cash and cash equivalents at end of period – total	**465**	**169**	**465**	**169**
of which continuing operations	457	169	457	169
of which discontinued operations	8	–	8	–

SEGMENT AND REGION DATA

Key Data by Segment Second Quarter

	Consumer Protection		Specialty Additives		Advanced Intermediates		All other segments		LANXESS	
€ million	Q2 2022	Q2 2023	Q2 2022	Q2 2023	Q2 2022	Q2 2023	Q2 2022	Q2 2023	Q2 2022	Q2 2023
External sales	558	604	764	620	587	484	90	70	1,999	1,778
Inter-segment sales	13	18	3	4	6	11	(22)	(33)	0	0
Segment/Group sales	571	622	767	624	593	495	68	37	1,999	1,778
Segment result/EBITDA pre exceptionals	90	82	134	37	74	23	(45)	(35)	253	107
EBITDA margin pre exceptionals (%)	16.1	13.6	17.5	6.0	12.6	4.8			12.7	6.0
EBITDA	90	81	134	37	74	21	(69)	(58)	229	81
EBIT pre exceptionals	54	36	85	(8)	44	(4)	(61)	(53)	122	(29)
EBIT	54	35	85	(8)	44	(6)	(86)	(77)	97	(56)
Segment capital expenditures	37	21	26	27	21	19	13	13	97	80
Depreciation and amortization	36	46	49	45	30	27	17	19	132	137
Employees as of June 30 (previous year: as of Dec. 31)	3,566	3,590	2,985	2,988	3,010	3,050	3,565	3,508	13,126	13,136

Key Data by Segment First Half

	Consumer Protection		Specialty Additives		Advanced Intermediates		All other segments		LANXESS	
€ million	H1 2022	H1 2023	H1 2022	H1 2023	H1 2022	H1 2023	H1 2022	H1 2023	H1 2022	H1 2023
External sales	1,064	1,251	1,494	1,284	1,200	1,000	172	142	3,930	3,677
Inter-segment sales	31	45	6	9	17	23	(54)	(77)	0	0
Segment/Group sales	1,095	1,296	1,500	1,293	1,217	1,023	118	65	3,930	3,677
Segment result/EBITDA pre exceptionals	176	176	270	135	161	67	(92)	(82)	515	296
EBITDA margin pre exceptionals (%)	16.5	14.1	18.1	10.5	13.4	6.7			13.1	8.1
EBITDA	175	174	270	135	161	65	(139)	(122)	467	252
EBIT pre exceptionals	103	84	177	45	103	14	(123)	(119)	260	24
EBIT	102	82	177	45	103	12	(172)	(161)	210	(22)
Segment capital expenditures	64	42	42	51	43	38	20	23	169	154
Depreciation and amortization	73	92	93	90	58	53	33	39	257	274
Employees as of June 30 (previous year: as of Dec. 31)	3,566	3,590	2,985	2,988	3,010	3,050	3,565	3,508	13,126	13,136

Key Data by Region Second Quarter

€ million	EMEA (excluding Germany)		Germany		Americas		Asia-Pacific		LANXESS	
	Q2 2022	Q2 2023	Q2 2022	Q2 2023	Q2 2022	Q2 2023	Q2 2022	Q2 2023	Q2 2022	Q2 2023
External sales by market	572	537	332	299	663	607	432	335	1,999	1,778
Proportion of Group sales %	28.6	30.2	16.6	16.8	33.2	34.2	21.6	18.8	100.0	100.0

Key Data by Region First Half

€ million	EMEA (excluding Germany)		Germany		Americas		Asia-Pacific		LANXESS	
	H1 2022	H1 2023	H1 2022	H1 2023	H1 2022	H1 2023	H1 2022	H1 2023	H1 2022	H1 2023
External sales by market	1,180	1,120	673	627	1,237	1,237	840	693	3,930	3,677
Proportion of Group sales %	30.0	30.5	17.1	17.1	31.5	33.6	21.4	18.8	100.0	100.0
Employees as of June 30 (previous year: as of Dec. 31)	1,306	1,272	7,099	7,199	2,975	2,930	1,746	1,735	13,126	13,136

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

as of June 30, 2023

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, 2022, particularly with respect to the recognition and valuation principles. Changes in this respect are explained in the following section.

RECOGNITION AND VALUATION PRINCIPLES

The condensed consolidated interim financial statements as of June 30, 2023, 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, 2023, were considered in preparing the interim financial statements.

The mandatory first-time application of the following financial reporting standards and interpretations in fiscal year 2023 currently has no impact, or no material impact, on the LANXESS Group yet:

› IAS 1 – Amendments to IAS 1 – Disclosure of Accounting Policies
› IAS 8 – Amendments to IAS 8 – Definition of Accounting Estimates
› IAS 12 – Amendments to IAS 12 – Deferred Tax related to Assets and Liabilities arising from a Single Transaction
› IFRS 17 – Insurance Contracts – including Amendments to IFRS 17
› IFRS 17 – Amendments to IFRS 17 – Initial Application of IFRS 17 and IFRS 9

In fiscal year 2023, the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee issued financial reporting standards whose application is not yet mandatory for that year and which the LANXESS Group thus did not yet apply. The application of these standards and interpretations is partly still contingent upon their endorsement by the E.U. and, with the exception of the amendments to IAS 12, the impact of which is still being determined, they currently have no material impact on the LANXESS Group:

› IAS 1 – Amendments to IAS 1 – Non-current Liabilities with Covenants
› IFRS 16 – Amendments to IFRS 16 – Lease Liability in a Sale and Leaseback
› IAS 7/IFRS 7 – Amendments to IAS 7 and IFRS 7 – Supplier Finance Arrangements
› IAS 12 – Amendments to IAS 12 – International Tax Reform – Pillar Two Model Rules

Preparation of the consolidated interim financial statements in accordance with IFRS 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 consistent with those applied in the consolidated financial statements for 2022. Assumptions and estimates that could alter these estimates are reviewed continually. The actual figures may differ from the assumptions or estimates if the underlying conditions develop differently than predicted at the reporting date.

The first half of 2023 was still dominated by the strained geopolitical situation over the war in Ukraine. Because the further course of the war remains difficult to predict, the future effects are associated with a high level of uncertainty. Another business uncertainty factor is the currently challenging macroeconomic environment, characterized among other things by increased interest and inflation rates, growing volatility in energy, raw material and selling prices in particular, and a gloomy economic outlook. In addition, the remaining effects of the coronavirus pandemic, or rather the endemic disease, global climate change and the transition to a low-carbon economy can also entail potential uncertainties for LANXESS. These developments may give rise to uncertainties with regard to the plannability of certain revenue and cost components in financial planning and thus may affect the determination of the various values stated in the financial statements. As a result, it cannot be ruled out that the assumptions and estimates made in the interim financial statements may have to be adjusted in the future and that these adjustments may have an impact on the financial position or results of operations.

The assumptions and estimates used are updated and reviewed on an ongoing basis (see "Estimation Uncertainties and the Exercise of Discretion" in the consolidated financial statements as of December 31, 2022).

The carrying amount of the investment in Envalior GmbH, Cologne, Germany, initially accounted for using the equity method as of April 1, 2023, in connection with the formation of Envalior and the effects on earnings for the income statement and the other comprehensive income net of income tax resulting from its subsequent measurement are based among other things on preliminary assumptions regarding the final valuation of the business contributed by LANXESS and the provisional purchase price allocation underlying the newly established company. As a result, it cannot be ruled out that the assumptions and estimates made in the consolidated interim financial statements may have to be adjusted in the future and especially within the restatement period of the purchase price allocation, and that these adjustments may have an impact on the financial position or results of operations.

Within financial instruments, there are estimation uncertainties regarding the accounting valuation of LANXESS's possibility to sell its shares in Envalior to Advent for the first time three years after its formation. The main parameter affecting the valuation is the further business performance of the associate in the coming years. There are therefore uncertainties resulting in particular from the assumptions made as of the reporting date and the management's expectations regarding the medium- and long-term financial performance of Envalior.

The shareholder loan issued in connection with the formation of Envalior is measured at fair value. Associated uncertainties result among other things from the management's assumptions regarding the amount and timing of the underlying cash flows and the determination of the discount rate by selecting and accounting for observed market interest rates.

As a result of the reduced earnings forecast for fiscal year 2023, the affected cash-generating units were tested for impairment, taking the adjusted forecast for 2023 into account and based on a discount rate after taxes of 8.0% (8.1% as of December 31, 2022). The impairment test showed no need for the recognition of impairment charges. Sensitivity analyses were also performed for the relevant cash-generating units. Apart from the Flavors & Fragrances and Lubricant Additives Business cash-generating units, these would not result in the need for the recognition of impairment charges. For the Flavors & Fragrances business unit, the recoverable amount would match the carrying amount of the cash-generating unit as of June 30, 2023, if the discounted net cash flows were €97 million lower or the weighted average cost of capital 0.5 percentage points higher. For the Lubricant Additives business unit, the recoverable amount would match the carrying amount of the cash-generating unit as of June 30, 2023, if the discounted net cash flows were €61 million lower, the weighted average cost of capital 0.4 percentage points higher, or the long-term growth rate 0.6 percentage points lower. The assumptions and estimates made here are based on management's expectations and take into account the information and knowledge available as of the time of preparing the half-year financial statements. Because the market environment remains volatile and difficult, all relevant valuation parameters for the impairment test will be continuously monitored and their effects remeasured.

The business of the LANXESS Group as a whole is not typically subject to pronounced seasonality. Because of their business activity, individual business units regularly see a seasonal effect in sales and earnings. In the past reporting period, however, this was significantly influenced by the currently challenging macroeconomic situation around the chemical industry and the persistent fears of recession. Additional information on the current economic situation is provided under "Economic Environment and Business Development" in the Interim Group Management Report as of June 30, 2023.

Since the end of June 2022, LANXESS has been a contractual partner to a factoring agreement for the revolving sale of trade receivables. The previously agreed maximum volume of €200 million was lowered to €150 million as of July 1, 2023. Under this program, substantially all the risks and rewards of ownership of the receivables are transferred to the buyer. All receivables sold as of the reporting date have been derecognized in full.

For accounting purposes, the Republic of Turkey is classified as a hyperinflationary economy for reporting periods ending on or after June 30, 2022. An adjustment of non-monetary items in the statement of financial position, components of equity and items of the statement of comprehensive income to the actual price level using an appropriate price index is not made in the interim consolidated financial statements for reasons of materiality. The need for a possible price adjustment will be reassessed at the next reporting date.

COMPANIES CONSOLIDATED

The consolidated financial statements of the LANXESS Group include the parent company LANXESS AG and all domestic and foreign affiliates.

	EMEA (excl. Germany)	Germany	Americas	Asia-Pacific	Total
Fully consolidated companies (incl. parent company)					
Jan. 1, 2023	51	14	25	36	126
Additions	–	–	–	–	0
Retirements	(6)	(2)	(4)	(5)	(17)
Changes to companies consolidated	–	(1)	–	–	(1)
June 30, 2023	**45**	**11**	**21**	**31**	**108**
Associates and joint operations					
Jan. 1, 2023	0	1	2	0	3
Additions	–	–	–	–	0
Retirements	–	(1)	–	–	(1)
Changes to companies consolidated	–	1	–	–	1
June 30, 2023	**0**	**1**	**2**	**0**	**3**
Non-consolidated companies					
Jan. 1, 2023	2	3	2	3	10
Additions	–	–	–	–	0
Retirements	–	–	–	–	0
June 30, 2023	**2**	**3**	**2**	**3**	**10**
Total					
Jan. 1, 2023	53	18	29	39	139
Additions	–	–	–	–	0
Retirements	(6)	(3)	(4)	(5)	(18)
Changes to companies consolidated	–	–	–	–	0
June 30, 2023	**47**	**15**	**25**	**34**	**121**

LANXESS and the private equity investor Advent International ("Advent") completed the formation of Envalior as of April 1, 2023. Envalior GmbH, Cologne, Germany, is included in the LANXESS consolidated financial statements as an associate accounted for using the equity method.

In the EMEA region, the companies LANXESS N.V., Antwerp, Belgium; LANXESS Performance Materials S.R.L., Milan, Italy; LANXESS Performance Materials s.r.o., Bratislava, Slovakia; and LANXESS Performance Materials UK Ltd., Manchester, Great Britain, were deconsolidated in connection with the transaction. In Germany, Bond-Laminates GmbH, Brilon, and LANXESS Performance Materials GmbH, Cologne, were deconsolidated.

In the Americas region, the companies LANXESS Industria de Materiais de Performance Ltda., São Paulo, Brazil; LANXESS Performance Materials Holding Corp., Wilmington, U.S.; LANXESS Performance Materials LLC, Wilmington, U.S.; and LANXESS Performance Materials S.A. de C.V., Mexico City, Mexico, were also deconsolidated. In the Asia-Pacific region, the companies LANXESS (Changzhou) Co., Ltd., Changzhou, China; LANXESS (Wuxi) High Performance Composite Materials Company Limited, Wuxi, China; LANXESS Performance Materials (HK) Limited, Hong Kong, Hong Kong; LANXESS Performance Materials (India) Private Limited, Thane, India; and LANXESS Performance Materials (Korea) Limited, Seoul, Republic of Korea, were deconsolidated.

OOO LANXESS, Moscow, Russia, and OOO LANXESS Lipetsk, Lipetsk, Russia, were disposed of in the first half of 2023.

DIVESTMENTS

In the second quarter of 2023, LANXESS terminated its activities in Russia with the sale of the companies OOO Lanxess, Moscow, Russia, and OOO LANXESS Lipetsk, Lipetsk, Russia, to Nortex LLC, Moscow, Russia. The impaired assets and liabilities to be disposed of had a net asset value of €1.9 million. After offsetting against a loan receivable due from LANXESS, the final purchase price amounted to €1.6 million. The loss on the disposal of the business in Russia amounted to €0.3 million.

DISCONTINUED OPERATION AND TRANSITION TO INVESTMENT ACCOUNTED FOR USING THE EQUITY METHOD

On May 31, 2022, LANXESS and Advent agreed on a strategic alliance. In addition to signing an agreement to acquire the engineering materials business of the Dutch group Royal DSM, LANXESS also agreed to contribute its High Performance Materials business unit from the Engineering Materials segment to the strategic alliance with Advent.

From June 1, 2022, the High Performance Materials business unit was reported as a discontinued operation in accordance with IFRS 5. Under IFRS 5, intangible assets and property, plant and equipment of the High Performance Materials business unit were not subject to further depreciation or amortization and were recognized at the lower of carrying amount as of June 1, 2022, and fair value less costs to sell. Intra-Group receivables and liabilities between LANXESS companies and the discontinued operation were eliminated in full. No adjustments have been made to the statement of financial position for reporting dates prior to June 30, 2022.

In its presentation, the LANXESS Group's income statement focuses on the determination of the result from continuing operations. The result of the discontinued operation is only shown in a single line, which is explained in more detail in this section. The earnings contributions for 2022 and 2023 have been restated accordingly in the income statement.

The cash flows of continuing operations are shown separately from the cash flows of the High Performance Materials business unit. The cash flows of the High Performance Materials business unit are shown combined in one line per business unit. The prior-year figures have been restated accordingly.

The carrying amounts of the assets and liabilities of the High Performance Materials business unit disposed of are shown in the following table:

Carrying Amounts of Assets and Liabilities Disposed Of

€ million	April 1, 2023
Property, plant and equipment and intangible assets	556
Inventories and trade receivables	610
Other assets	159
Total assets	**1,325**
Provisions	98
Trade payables	173
Other liabilities	128
Total liabilities	**399**

In detail, earnings from discontinued operations are as follows:

Income Statement from Discontinued Operations (High Performance Materials Business Unit)

€ million	H1 2022	H1 2023
Sales	**1,012**	**396**
Other income and expenses	(911)	1,141
Income before income taxes	**101**	**1,537**
Income taxes	(24)	(67)
Income after income taxes	**77**	**1,470**

As a result of the deconsolidation of the High Performance Materials business unit as of April 1, the sales recognized in the income statement from discontinued operations for the first half of 2023 relate exclusively to the first quarter of fiscal year 2023. The gain on the deconsolidation is included under “Other income and expenses.”

As part of the transaction, LANXESS received a payment of €1,267 million on March 31, 2023. The cash and cash equivalents disposed of in this context amounted to €74 million. The income from income taxes to be considered at the time of the transition to an investment accounted for using the equity method amounted to €2 million. In total, an income tax expense of €90 million was incurred in connection with the transaction. Further information on the shareholder loan issued in connection with the formation of Envalior and the possibility to sell the LANXESS shares in Envalior to Advent can be found in the “Financial Instruments” section.

€ million	H1 2023
Total consideration received	**1,267**
Net assets sold	(926)
Other effects	(41)
Fair value of the minority interest in Envalior	**1,226**
Gain on the disposal before income taxes	**1,526**
Income taxes	2
Gain on the disposal	**1,528**

The transaction resulted in a gain of €1,528 million. It is reported in the LANXESS Group income statement under “Income after income taxes from discontinued operations.” The gain on the disposal is recognized in income from discontinued operations.

LANXESS and Advent completed the formation of their company for high-performance engineering materials as of April 1, 2023. As of June 30, 2023, LANXESS held a minority interest of 40.94%. The investment is included in the LANXESS consolidated financial statements using the equity method. As of April 1, 2023, the carrying amount of the investment equaled the pro rata fair value of Envalior and was recognized at €1,226 million. The amount of the investment is subject to the final valuation of the business contributed by LANXESS.

ADDITIONS FROM ACQUISITIONS IN THE PREVIOUS YEAR

With effect from January 1, 2022, LANXESS acquired the distribution business of a German distribution partner with around ten employees for the product Velcorin®. With this acquisition, LANXESS is expanding its distribution of cold sterilization and preservation agents for the beverage industry in Europe. The business was integrated into the Material Protection Products business unit of the Consumer Protection segment. The acquired distribution business generated sales in the low double-digit millions in euros in 2021. The purchase price amounts to around €21 million and is mainly attributable to acquired distribution rights and customer relationships. The acquisition results in goodwill of around €7 million.

On July 1, 2022, LANXESS completed the acquisition of the Microbial Control business from U.S. corporation International Flavors & Fragrances Inc. The Microbial Control business is one of the leading providers of antimicrobial active ingredients and formulations for material protection, preservatives and disinfectants. The products are used in numerous applications, especially in personal care and household products, in industrial water treatment, and in paints and coatings. Microbial Control has around 240 employees and runs two production plants of its own in St. Charles, Louisiana, and Institute, West Virginia, U.S. The business also has a large network of partners including active ingredient manufacturers and formulators. The business was integrated into the Material Protection Products business unit of the Consumer Protection segment. The purchase price amounted to €1,161 million and 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 completed within its measurement period and is considered final as of June 30, 2023. The intangible assets are mainly customer relationships, product registrations, and other intangible assets. On the basis of new information and findings, other non-current liabilities have increased by €14 million and the purchase price has decreased by €8 million. Finally, goodwill increased by €6 million.

The following table shows the effects of the acquisition of Microbial Control on the Group's financial position:

Additions from Acquisitions (Previous Year)

€ million	Fair values at first-time consolidation
Intangible assets	365
Property, plant and equipment	82
Inventories	147
Trade receivables	72
Cash and cash equivalents	47
Other assets	102
Total assets	**815**
Provisions for pensions and other post-employment benefits	1
Other non-current liabilities	57
Trade payables	49
Other current financial liabilities	2
Other current liabilities	13
Total liabilities (excl. equity)	**122**
Net acquired assets (excl. goodwill)	**693**
Cost of acquisition	**1,161**
Goodwill	**468**

EARNINGS PER SHARE

Earnings per share for the second quarter and first half of 2023 and 2022 were calculated on the basis of the weighted average number of shares outstanding during each reporting period. They resulted 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, 2022.

Earnings per Share

	Q2 2022	Q2 2023	H1 2022	H1 2023
Net income (€ million)	93	1,371	191	1,327
from continuing operations	48	(145)	114	(135)
from discontinued operations	45	1,516	77	1,462
Weighted average number of shares outstanding	86,346,303	86,346,303	86,346,303	86,346,303
Earnings per share (basic/diluted) (€)	**1.08**	**15.88**	**2.21**	**15.37**
from continuing operations	0.56	(1.68)	1.32	(1.56)
from discontinued operations	0.52	17.56	0.89	16.93

DIVIDEND DISTRIBUTION FOR FISCAL YEAR 2022

Pursuant to the resolution of the Annual Stockholders' Meeting on May 24, 2023, the amount of €91 million out of the distributable profit of €518 million reported in the annual financial statements of LANXESS AG as of December 31, 2022, was distributed to the stockholders on May 30, 2023. The dividend per eligible no-par share was €1.05. The remaining amount of €427 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 measurement inputs were categorized.

Assets and Liabilities Measured at Fair Value

	Dec. 31, 2022			June 30, 2023		
€ million	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Non-current assets						
Investments in other affiliated companies	17	–	–	26	–	–
Non-current derivative assets	–	14	–	–	5	–
Other non-current financial assets	–	1	4	–	169	4
Current assets						
Current derivative assets	–	18	–	–	30	–
Other current financial assets	–	–	12	–	–	–
Trade receivables	–	–	29	–	–	40
Near-cash assets	79	–	–	148	–	–
Non-current liabilities						
Non-current derivative liabilities	–	1	–	–	0	–
Current liabilities						
Current derivative liabilities	–	18	–	–	14	–

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).

As of June 30, 2023, €148 million (December 31, 2022: €79 million) of near-cash assets were assigned to Level 1 of the measurement hierarchy. These relate to shares of money market funds that can be sold at any time.

Investments in other affiliated companies of €26 million (December 31, 2022: €17 million), which are assigned to Level 1 of the measurement hierarchy, relate to shares in the listed company Standard Lithium Ltd., Vancouver, Canada. These shares were received in fiscal year 2021 as a result of the conversion of the loan originally provided to Standard Lithium Ltd. In accordance with the exercise of the option, the shares are recognized at fair value through other comprehensive income. The corresponding measurements increased other comprehensive income in the current fiscal year by €9 million (previous year: reduced by €30 million). In addition to the shares mentioned, stock warrants were received in connection with the loan conversion. In the amount of €11 million (December 31, 2022: €6 million in non-current derivative assets), these form part of the current derivative assets at Level 2 of the measurement hierarchy. The fair value of the warrants was calculated on the basis of a warrant pricing model.

Other non-current financial assets at Level 2 of the measurement hierarchy include €168 million (December 31, 2022: €0 million) for a shareholder loan granted to Envalior GmbH, Cologne, Germany, in connection with the formation of Envalior. The nominal amount of the loan is €200 million. The fair value is calculated using discounted cash flows, taking observed market interest rates into account. The earnings effect from the difference between the issue amount and the initial carrying amount of an expense of €26 million is recognized in income from discontinued operations. The subsequent measurement as of June 30, 2023, resulted in expenses of €6 million, which are part of the other financial result.

The accounting treatment of the possibility to sell the shares in Envalior to Advent is allocated to non-current derivative assets at Level 3. The earliest possible date for the sale is defined as three years after the formation of Envalior. The valuation of the agreement is based on the one hand on the purchase price of the LANXESS stake following a contractually pre-defined mechanism and on the other hand on the pro rata enterprise value of Envalior on the valuation date. A value can be attributed to the possibility to sell the shares if LANXESS is better off under the contractual agreement than it would be in a comparable arm's length transaction at customary conditions based on fair value. The fair value of the contractual agreement, or rather the derivative to be recognized, was €0 million as of June 30, 2023, and thus unchanged compared to its first valuation date.

As of December 31, 2022, other current financial assets of €12 million were assigned to Level 3 of the measurement hierarchy. This figure related to outstanding conditional purchase price payments in connection with the sale of the organic leather chemicals business and was based on the achievement of performance indicators by fiscal year 2023 and a potential profit participation if the acquirer sells on the business disposed of. The determination of fair value was based on planned performance indicators, and their achievement was weighted by probability. The reassessment of the planned performance indicators results in a measurement of €0 million in the statement of financial position as of June 30, 2023. The expense from the reduction of €12 million is recognized in income from discontinued operations. Simulated 10% higher performance indicators would result in no further change in the value, nor would 10% lower performance indicators.

The trade receivables of €40 million (December 31, 2022: €29 million) at Level 3 of the measurement hierarchy are receivables intended for sale on the basis of a factoring agreement.

Other non-current financial assets assigned to Level 3 also include investments in High-Tech Gründerfonds, which are measured based on the amount of the equity interests held. The fair values amount to €4 million (December 31, 2022: €4 million).

Except for the above-mentioned stock warrants, 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.

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 €2,791 million, amounted to €2,458 million as of June 30, 2023. The carrying amount of the bonds as of December 31, 2022, was €3,297 million and their fair value €2,975 million. Fair value measurement of the bonds is allocated to Level 1 of the hierarchy although, as of June 30, 2023, one bond with a fair value of €101 million was allocated to Level 2 as there was no liquid market for it (December 31, 2022: €102 million). The fair value of liabilities allocated to Level 2 is calculated using discounted cash flows, taking observed market interest rates into account.

Expected credit losses of financial instruments

Expected credit losses, taking reversals into account, of €0 million (previous year: €1 million) are reported in other operating expenses in relation to trade receivables and contract assets. The loss allowances amount to €12 million (December 31, 2022: €15 million).

The expected losses on other financial assets to be taken into account in the financial result amount to €0 million (December 31, 2022: €5 million).

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, 2022.

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. Sales are recognized over time in the business model of manufacturing customer-specific products on the basis of long-term sales contracts with contractually defined minimum purchase requirements in the Consumer Protection segment and for services. Segment sales include €331 million (previous year: €331 million) of sales recognized over time. Of these, €279 million (previous year: €263 million) relate to the Consumer Protection segment, €2 million (previous year: €4 million) to the Specialty Additives segment, €38 million (previous year: €49 million) to the Advanced Intermediates segment and €12 million (previous year: €15 million) to all other segments.

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

Reconciliation of Segment Results

€ million	Q2 2022	Q2 2023	H1 2022	H1 2023
Total segment results	**253**	**107**	**515**	**296**
Depreciation and amortization	(132)	(137)	(257)	(274)
Exceptional items affecting EBITDA	(24)	(26)	(48)	(44)
Net interest expense	(15)	(14)	(31)	(40)
Income from investments accounted for using the equity method	0	(78)	0	(77)
Other financial income and expense	(15)	(9)	(21)	(5)
Income before income taxes	**67**	**(157)**	**158**	**(144)**

Additional information is provided in “Notes on EBIT and EBITDA (Pre Exceptionals)” in the Interim Group Management Report as of June 30, 2023.

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.

Since Envalior was founded as of April 1, 2023, Envalior GmbH, Cologne, Germany, has been included in the consolidated financial statements using the equity method. In connection with the formation of Envalior, Envalior GmbH received a shareholder loan at a nominal amount of €200 million from LANXESS at arm’s length conditions.

On the basis of trade relationships with Envalior GmbH and its affiliated companies, purchased services in the first half of 2023 amounted to €4 million. The LANXESS Group generated sales of €6 million from transactions with Envalior GmbH and its affiliated companies.

As of June 30, 2023, these trade relationships as well as leasing, financing, and other transactions resulted in receivables of €186 million and liabilities of €6 million.

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 2023.

EMPLOYEES

As of June 30, 2023, the number of employees in the LANXESS Group’s continuing operations around the world was 13,136 (December 31, 2022: 13,126).

In the EMEA region (excluding Germany), the number of employees decreased by 34 to 1,272. In Germany, the number of employees rose from 7,099 to 7,199. The number of employees in the Americas region came to 2,930, against 2,975 as of the end of 2022. The number of employees in the Asia-Pacific region decreased from 1,746 to 1,735.

In addition, no employees (December 31, 2022: 2,051) were employed in discontinued operations as of June 30, 2023.

EVENTS AFTER THE REPORTING PERIOD

No events of special significance took place after June 30, 2023, 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 26, 2023

LANXESS Aktiengesellschaft

The Board of Management

Matthias Zachert	Dr. Anno Borkowsky
Frederique van Baarle	Dr. Hubert Fink
Michael Pontzen	

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, 2023, 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) and additionally in accordance with the International Standard on Review Engagements "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" (ISRE 2410). 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 28, 2023

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Folker Trepte	ppa. Daniel Deing
Wirtschaftsprüfer	Wirtschaftsprüfer
[German public auditor]	[German public auditor]

Financial Calendar 2023

AUG

AUGUST 4

Half-Year Financial Report
H1 2023
Conference Call

NOV

NOVEMBER 8

Quarterly Statement
Q3 2023
Conference Call

JAN FEB MAR APR MAY JUN JUL SEP OCT DEC

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