Interim Group Management Report

as of March 31, 2012

- Strong start to fiscal 2012
- Significant sales growth of 15.2%
- Price adjustments more than offset slight volume decrease
- Sales gains in all regions
- EBITDA pre exceptionals substantially improved from €322 million to €369 million
- EBITDA margin stable at 15.5%
- Net income and earnings per share well above previous year at €193 million and €2.32, respectively
- Net financial liabilities down slightly to €1,503 million
- Integration of businesses acquired in 2011 remains on schedule
- Additional growth projects initiated
- Guidance for 2012: EBITDA pre exceptionals to grow by 5%–10%

Group structure

Legal structure

LANXESS AG is the parent company of the LANXESS Group and functions largely as a management holding company. LANXESS Deutschland GmbH and LANXESS International Holding GmbH are wholly owned subsidiaries of LANXESS AG and control the other subsidiaries and affiliates both in Germany and elsewhere.

A list of the principal direct and indirect subsidiaries of LANXESS AG and a description of the Group's management and control organization are provided on page 71 of the Annual Report 2011.

Key additions to the Group portfolio

During the first quarter of 2012 we made a targeted acquisition in the United States to strengthen the Group portfolio. Details are given in the Notes to the Condensed Consolidated Interim Financial Statements as of March 31, 2012.

Business and strategy

As predicted, there have been no changes to the Group's organizational structure or strategy so far this year. The LANXESS Group continues to be structured in three segments with 13 business units, each of which conducts its own operations and has global profit responsibility. These are supported by centralized services and by local organizations in the countries. Further details are given on pages 72–74 of the Annual Report 2011.

There were no material changes to the production basis, product portfolio or key customer industries in the reporting period.

Business trends and economic environment

Business conditions

General economic situation There was little change in the global economic situation in the first quarter of 2012 compared to the end of 2011. The current focus is on the ongoing development of the Chinese economy, which expanded by approximately 8.4% in the first three months of 2012. The business climate in the United States continued to improve, with economic growth of 2.1%. The European economy, however, is still being held back by the debt crisis, with marked variations from one country to another.

The raw material markets were volatile in the first quarter, with varying price trends.

Chemical industry The chemical industry continued to grow at the global level. In Europe, on the other hand, it contracted by 2.3% in the first quarter against the very strong prior-year period. Compared to the fourth quarter of 2011, however, the European chemical industry trended positive with growth of 1.5%. In North America, production was up 2.0% over the first quarter of last year. China increased production again, albeit at a lower rate of 6.1%.

Evolution of major user industries World automobile production expanded by 2.3% in the first quarter. Europe and China showed negative growth of minus 6.0% and minus 2.6%, respectively. By contrast, production in North America rose 10.8%. The tire industry got off to a sluggish start in 2012. Production volume for original equipment tires was above the prior year, but business with replacement tires for both trucks and passenger cars was weaker in the first quarter. The trend in the European construction industry remained negative overall, with the countries affected by the debt crisis contributing to an uneven picture. The United States showed a positive growth trend again, albeit against a low baseline. The market for agrochemicals was stable in the first quarter.

Sales

Group sales in the first quarter came to €2,388 million, up by a substantial €315 million, or 15.2%, from the same period a year ago. Sales were influenced by selling price adjustments made in response to rising raw material prices. There were also tangible revenue contributions from the acquisitions made in previous quarters, including, in particular, the Keltan EPDM business acquired from Dutch company Royal DSM N.V. After adjusting for currency and portfolio effects of plus 9.5%, sales grew by 5.7% due to price and volume increases. Higher raw material prices, especially in the Performance Polymers segment, were quickly passed along to the market. There was a positive price effect of 8.8% year on year across the Group, reflecting the continued success of our price-before-volume strategy. Volumes were 3.1% below the prior-year period. Positive portfolio effects of 7.1%, particularly from the Keltan EPDM business, were supported by currency effects of plus 2.4%.

Effects on Sales

%	Q1 2012
Price	8.8
Volume	(3.1)
Currency	2.4
Portfolio	7.1
	15.2

Our segment for synthetic rubber and high-tech plastics raised sales by 28.3% from the prior-year quarter, thus making the decisive contribution to the Group's positive business development. This increase was largely attributable to selling price increases, which in turn were driven by raw material costs. The Keltan EPDM business acquired from DSM also made a notable contribution to sales, helped by a slightly positive movement in exchange rates. Slightly lower volumes had the opposite effect.

Our segment for chemical intermediates achieved sales growth of 3.1% due to price increases implemented in response to the higher raw material costs. The demand for agrochemicals remained brisk, but volumes receded slightly in other market segments, resulting in a small overall decrease in volumes from the high level of the previous year. This slightly negative volume effect was offset by positive currency effects.

Our segment for application-oriented process and functional chemicals posted sales just ahead of the prior-year period. Lower product volumes for certain applications were largely offset by selling price adjustments – which were mainly driven by raw material prices – and the positive revenue contributions resulting from the previous year's acquisitions of the material protection businesses and the Darmex group. With sales improved by positive currency effects, the Performance Chemicals segment achieved modest growth of 0.4% for the quarter.

Sales by Segment

€ million	Q1 2011	Q1 2012	Change %	Proportion of Group sales %
Performance Polymers	1,084	1,391	28.3	58.2
Advanced Intermediates	416	429	3.1	18.0
Performance Chemicals	556	558	0.4	23.4
Reconciliation	17	10	(41.2)	0.4
	2,073	**2,388**	**15.2**	**100.0**

LANXESS grew sales in all regions, with increases well into double digits in some cases. The North America and Latin America regions saw the strongest growth, closely followed by Asia-Pacific. The main factor in this success was the considerable expansion in sales at Performance Polymers.

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 forward-looking statements about our capacity utilization or volumes. Our business is managed primarily on the basis of regular Group-wide forecasts of Group operating targets.

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

Gross profit

The cost of sales increased at a slightly higher rate than sales, rising by 15.8% to €1,796 million. This was due to higher raw material costs and, to a lesser extent, higher energy prices. There were also portfolio effects from the businesses acquired in the previous year, most notably the Keltan EPDM business. Currency effects also had a negative impact on the cost of sales.

Gross profit came in 13.4% ahead of the prior-year quarter, at €592 million. The gross profit margin decreased from 25.2% to 24.8%. Prices for strategic raw materials, especially butadiene, and other important raw materials rose considerably in some cases. However, we succeeded in passing these increases along to the market in all segments. Our firm adherence to the price-before-volume strategy thus supported the gross profit margin. The slight drop in demand had an adverse effect which was, however, diminished by the positive balance of currency effects reflected in the gross profit. Capacity utilization was below the level of the prior-year quarter because of the demand situation and scheduled maintenance shutdowns.

EBITDA Pre Exceptionals by Segment

€ million	Q1 2011	Q1 2012	Change %
Performance Polymers	199	255	28.1
Advanced Intermediates	75	70	(6.7)
Performance Chemicals	90	83	(7.8)
Reconciliation	(42)	(39)	7.1
	322	**369**	**14.6**

EBITDA and EBIT

The operating result before depreciation and amortization (EBITDA) pre exceptionals advanced by €47 million, or 14.6%, to €369 million in the first quarter of 2012 when compared to the same period a year ago. This increase was driven mainly by price effects in conjunction with positive portfolio effects, and supported by exchange rate developments. However, the rate of increase was held back by lower volumes and higher production costs, which in part were due to higher energy costs. Selling expenses rose by 9.4% to €186 million as a result of portfolio effects from the acquisitions made in the previous year and targeted adjustments to sales and logistics structures. There was a slight decrease in freight costs in line with the volume trend. Research expenditures came to €45 million, versus €31 million in the prior-year period, due to the planned expansion of research activities as part of the LANXESS Technology Initiative. The Performance Polymers segment accounted for a major share of these expenditures. The Group's EBITDA margin pre exceptionals was level with the previous year at 15.5%.

The Performance Polymers segment raised first-quarter EBITDA pre exceptionals by a substantial €56 million to €255 million. The continuing high rate of raw material cost inflation was offset by corresponding price adjustments. Positive currency effects, particularly relating to the U.S. dollar, and the portfolio effect from the acquisition of the Keltan EPDM business more than offset the effects of the drop in volumes and the increase in costs, the latter being partly due to the expansion of research activities. Capacity utilization in the segment was below the level of the prior-year quarter due to more extensive shutdowns for expansion work and maintenance.

EBITDA pre exceptionals of the Advanced Intermediates segment receded to €70 million against the high figure of €75 million for the same period last year. Positive price effects compensated for the higher raw material costs, but did not offset the increase in production costs or the effects of the slight decreases in volumes.

EBITDA pre exceptionals for the Performance Chemicals segment came in €7 million below the level of the prior-year quarter, at €83 million. In this segment, too, higher raw materials costs were passed along to the market in full, but earnings were held back by lower volumes in the majority of business units and by rising production costs. The acquired material protection businesses and the acquisition of Unitex Corporation in 2011 were slightly accretive to earnings.

The Group operating result (EBIT) came to €277 million in the first quarter of 2012, up from €246 million in the year-earlier quarter. The exceptional charges included in other operating expenses totaled €4 million and fully impacted EBITDA. They related mainly to expenses for the planning and implementation of IT projects. Exceptional charges in the prior-year quarter amounted to €5 million.

Financial result

The financial result amounted to minus €28 million in the first quarter of 2012, against minus €27 million in the same period last year. Interest expense rose slightly due to the acquisition-driven increase in financial liabilities compared to the previous year, capital expenditures and the business-related growth in working capital. An increase in the amount of construction-period borrowing costs that were capitalized had an offsetting effect. Most of these costs related to the major investment project in Singapore. All in all, the recognized interest expense was €3 million above the previous year. Interest income was level with the prior-year quarter. The balance of other financial income and expense improved partly because of the absence of non-recurring expenses that affected the prior-year period. The pro-rated earnings of companies accounted for in the consolidated financial statements using the equity method, mainly Currenta GmbH & Co. OHG, came to €3 million, against €5 million in the previous year.

Income before income taxes

Income before income taxes rose from €219 million to €249 million in the first quarter in line with the improvement in the operating result. The effective tax rate was 22.5%, compared with 23.7% for the prior-year quarter.

Net income and earnings per share

Non-controlling interests accounted for €0 million of income in the first quarter of 2012, against €1 million in the prior-year quarter. First-quarter net income advanced to €193 million from €166 million in the prior-year period. With the number of LANXESS shares in circulation unchanged, first-quarter earnings per share rose from €2.00 to €2.32.

Business trends by region

Sales by Market

	Q1 2011		Q1 2012		Change
	€ million	%	€ million	%	%
EMEA (excluding Germany)	642	31.0	699	29.3	8.9
Germany	398	19.2	416	17.4	4.5
North America	328	15.8	423	17.7	29.0
Latin America	244	11.8	301	12.6	23.4
Asia-Pacific	461	22.2	549	23.0	19.1
	2,073	**100.0**	**2,388**	**100.0**	**15.2**

We increased sales in the EMEA region (excluding Germany) by 8.9% in the first quarter of 2012 to €699 million. Adjusted for portfolio effects and minor currency effects, sales edged up by 0.2% from the previous year. The portfolio effects mainly related to the Keltan EPDM business, which we acquired in May 2011. The Performance Polymers segment supported the operational development with sales growth in the high single digits, though this increase was almost entirely offset by sales declines in the Performance Chemicals and Advanced Intermediates segments. The principal drivers of this region's adjusted growth were the Netherlands, Russia, Belgium and Poland, with sales receding mainly in Italy and Switzerland.

With a 29.3% share of total sales against 31.0% in the same quarter a year ago, EMEA (excluding Germany) remains the largest of the LANXESS Group's regions in terms of sales.

In Germany, our first-quarter sales advanced by 4.5% to €416 million. Adjusted for portfolio effects, mostly from the Keltan EPDM business, sales rose by 0.5%. The Performance Polymers segment drove this development, with business up by a high single-digit percentage. Sales declines in the Advanced Intermediates segment and especially in the Performance Chemicals segment had an offsetting effect.

Germany's share of Group sales came to 17.4% for the quarter, against 19.2% for the same period a year ago.

The Group's sales development in the first quarter of 2012 was driven by the North America region, where business expanded by 29.0% to €423 million. After adjustment for exchange rate and portfolio effects, sales still advanced by a clear 15.5%. The Performance Polymers segment powered this increase, too, with a double-digit growth rate and a substantial increase in absolute terms. The Advanced Intermediates segment also grew sales by a double-digit percentage compared to the prior-year period. In the Performance Chemicals segment, growth rates were in the mid-single digits. Business in the United States determined the region's performance.

LANXESS generated 17.7% of first-quarter sales in this region, compared to 15.8% in the same period of last year.

In Latin America, sales in the first quarter of 2012 climbed by 23.4% to €301 million. Adjusted for currency and portfolio effects, business advanced by 13.2%. This growth was due to the very positive development of the Performance Polymers segment in absolute terms, which was reflected in a double-digit sales increase. The Advanced Intermediates segment showed even higher percentage growth, but the increase in absolute terms was much smaller than for Performance Polymers. Sales in the Performance Chemicals segment drew nearly level with the prior-year period. Brazil was the key country in the region in terms of the absolute sales increase.

The region's share of Group sales came to 12.6% for the quarter, against 11.8% for the same period a year ago.

We lifted first-quarter sales in the Asia-Pacific region by 19.1% to €549 million. After adjustment for currency and portfolio effects, sales grew by 6.8%. Performance Polymers drove this development in both absolute and relative terms, with growth well into double digits. The performance of the Advanced Intermediates segment nearly matched the previous year, with growth in the low single digits, while the Performance Chemicals segment registered a sales decline in the high single digits. Singapore, China and Thailand accounted for a major share of this region's operational growth, while business in Hong Kong showed a slight decline.

Asia-Pacific's share of Group sales rose to 23.0% for the quarter, from 22.2% a year earlier.

Segment information

Performance Polymers

	Q1 2011		Q1 2012		Change
	€ million	Margin %	€ million	Margin %	%
Sales	1,084		1,391		28.3
EBITDA pre exceptionals	199	18.4	255	18.3	28.1
EBITDA	199	18.4	254	18.3	27.6
Operating result (EBIT) pre exceptionals	165	15.2	207	14.9	25.5
Operating result (EBIT)	165	15.2	206	14.8	24.8
Cash outflows for capital expenditures[1]	40		63		57.5
Depreciation and amortization	34		48		41.2
Employees as of March 31 (previous year: as of Dec. 31)	4,977		5,096		2.4

1) Intangible assets and property, plant and equipment

Business in our Performance Polymers segment developed positively in the first quarter of 2012. Sales rose by 28.3% from the prior-year quarter's already high level to €1,391 million. Higher prices for strategic raw materials, particularly butadiene, isobutylene and cyclohexane, were offset by timely selling price increases, giving a 14.2% positive price effect on sales. Volumes edged down by 1.2% from the very strong level of the same period a year earlier. The Keltan EPDM business, acquired in the second quarter of the previous year, yielded a portfolio effect of 12.2%. A positive currency effect of 3.1% also contributed to the increase in sales.

Demand in this segment's business units varied. The Butyl Rubber business unit posted a slight increase in volumes in light of steady demand from the tire industry, also benefiting from product mix effects. The Performance Butadiene Rubbers business unit, which likewise has close ties to the tire industry and thus to the replacement tire and original equipment manufacturer markets, held volumes at the solid level of the prior-year quarter despite scheduled production shutdowns. The High Performance Materials (formerly Semi-Crystalline Products) business unit, which has particularly close ties to the automotive and electrical/electronics industries, achieved a slight expansion in volumes compared to the same period a year ago. The Technical Rubber Products business unit benefited from a strong portfolio contribution by the Keltan EPDM business acquired in the previous year, which more than offset lower volumes for other products. From a regional viewpoint, Asia-Pacific proved to be a key growth engine, posting the largest sales gains in absolute terms. The other regions also registered growth in business.

The Performance Polymers segment's EBITDA pre exceptionals rose a significant €56 million to €255 million, demonstrating the continued strength of our market position. All business units succeeded in passing along the raw material cost increases to the market in full. Product mix effects also contributed to the earnings improvement. Capacity utilization was below the level of the prior-year quarter, due especially to the decline in demand and to scheduled production shutdowns. This good earnings development in spite of lower volumes clearly shows that our price-before-volume strategy remains intact. Earnings were supported by a tangible contribution from the Keltan EPDM business acquired last year and by positive currency effects. The EBITDA margin for the first quarter came in at 18.3%, against 18.4% a year ago.

The exceptional charges of €1 million in this segment's EBITDA arose from minor efficiency improvement measures at various Group locations.

Advanced Intermediates

	Q1 2011		Q1 2012		Change
	€ million	Margin %	€ million	Margin %	%
Sales	416		429		3.1
EBITDA pre exceptionals	75	18.0	70	16.3	(6.7)
EBITDA	75	18.0	70	16.3	(6.7)
Operating result (EBIT) pre exceptionals	59	14.2	54	12.6	(8.5)
Operating result (EBIT)	59	14.2	54	12.6	(8.5)
Cash outflows for capital expenditures [1]	13		15		15.4
Depreciation and amortization	16		16		0.0
Employees as of March 31 (previous year: as of Dec. 31)	2,883		2,882		0.0

1) Intangible assets and property, plant and equipment

Sales in the Advanced Intermediates segment rose by 3.1% in the first quarter of 2012 to €429 million. Higher raw material prices were offset by price adjustments, giving a price effect of 3.1%. Volumes decreased by 1.2% against the strong prior-year period, while positive currency effects also amounted to 1.2%.

The demand for agrochemicals remained strong in the first quarter of 2012, benefiting both business units in this segment. In the Saltigo business unit this resulted in a positive volume effect that more than offset a drop in volumes for pharmaceutical precursors. In the Advanced Industrial Intermediates business unit, volumes receded slightly against the very strong first quarter of the previous year. The demand for products from the integrated aromatics production network for agrochemicals rose, while that for products for the construction and coatings industries declined. Higher prices for raw materials, including ammonia and toluene, were offset by selling price adjustments. North America was the growth engine in this segment, posting the largest increase in business in absolute terms.

EBITDA pre exceptionals in the Advanced Intermediates segment came to €70 million, against €75 million in the prior-year quarter. This was due to the decrease in volumes compared to the high level of the same period a year ago. Higher raw material costs were passed along to the market in full. Shifts in exchange rates had no material impact on earnings. The EBITDA margin was solid at 16.3%, compared with 18.0% in the year-earlier quarter.

Performance Chemicals

	Q1 2011		Q1 2012		Change
	€ million	Margin %	€ million	Margin %	%
Sales	556		558		0.4
EBITDA pre exceptionals	90	16.2	83	14.9	(7.8)
EBITDA	90	16.2	83	14.9	(7.8)
Operating result (EBIT) pre exceptionals	72	12.9	62	11.1	(13.9)
Operating result (EBIT)	72	12.9	62	11.1	(13.9)
Cash outflows for capital expenditures [1]	14		11		(21.4)
Depreciation and amortization	18		21		16.7
Employees as of March 31 (previous year: as of Dec. 31)	5,819		5,999		3.1

1) Intangible assets and property, plant and equipment

Sales in the Performance Chemicals segment rose by 0.4% to €558 million in the first quarter, while volumes were down by 7.2%. Selling prices, which rose by 2.9% because of the increase in raw material prices, and a positive portfolio effect that also came to 2.9% offset part of this decline. The latter was attributable to the acquisitions made in the previous year. Additionally, changes in exchange rates had a positive effect of 1.8%. From a regional perspective, North America was the primary growth driver in this segment.

Volumes receded on the segment level from the high level of the prior-year quarter. However, the picture was mixed across the business units. The Ion Exchange Resins business unit raised volumes compared to the same period a year ago and experienced a positive price-volume development overall. This applied to the Rhein Chemie and Material Protection Products business units as well, with the latter additionally registering a positive portfolio effect from the biocide businesses acquired in the prior year. The Inorganic Pigments business unit – despite showing a distinct recovery compared to the fourth quarter of 2011 – posted lower volumes than a year ago. This was attributable to softer demand for pigments, particularly in the European construction industry. The Rubber Chemicals business unit also saw volumes decline. Weaker demand from the electronics industry adversely affected volumes in the Functional Chemicals business unit. The Leather business unit succeeded in keeping volumes at the level of the prior-year quarter despite production being restricted by a shortage of feedstocks.

EBITDA pre exceptionals in the Performance Chemicals segment receded by €7 million from €90 million in the prior-year period to €83 million. Raw material cost increases in the segment's various business units were passed along to the market in full. Capacity utilization, however, was below the prior-year quarter's high level, impacting earnings accordingly. The lower utilization rate resulted from the lower demand and production shutdowns. The positive portfolio effects from the acquisitions made in the previous year and favorable currency effects were accretive to earnings. The segment's EBITDA margin decreased from 16.2% to 14.9%.

Reconciliation

	Q1 2011	Q1 2012	Change
	€ million	€ million	%
Sales	17	10	(41.2)
EBITDA pre exceptionals	(42)	(39)	7.1
EBITDA	(47)	(42)	10.6
Operating result (EBIT) pre exceptionals	(45)	(42)	6.7
Operating result (EBIT)	(50)	(45)	10.0
Cash outflows for capital expenditures [1]	1	3	> 100
Depreciation and amortization	3	3	0.0
Employees as of March 31 (previous year: as of Dec. 31)	2,711	2,736	0.9

1) Intangible assets and property, plant and equipment

EBITDA pre exceptionals for the reconciliation amounted to minus €39 million, approximating to the figure of minus €42 million reported in the prior-year quarter. The scheduled expansion of our central research activities impacted both quarters. The €3 million in exceptional charges reported in the reconciliation for the first quarter related primarily to expenses for the design and implementation of IT projects.

Statement of financial position and financial condition

Structure of the statement of financial position

As of March 31, 2012, the LANXESS Group had total assets of €7,141 million, up €263 million, or 3.8%, from €6,878 million on December 31, 2011. The principal reasons for the increase were the increase in net working capital and the earnings-related growth in equity.

Non-current assets rose by €7 million to €3,496 million. The intangible assets and property, plant and equipment included in that figure decreased by €11 million to €3,041 million, mainly on account of negative currency effects. Cash outflows for purchases of property, plant, equipment and intangible assets, at €92 million, were well above the prior-year figure of €68 million due to the high level of investment activity. Depreciation and amortization in the first three months totaled €88 million against €71 million in the prior-year period. The first-time consolidation of Tire Curing Bladders, LLC, Little Rock, United States, which was acquired in March 2012, led to additions in the low single-digit million range. The increase in the carrying amount of investments accounted for using the equity method was chiefly attributable to the positive earnings of Currenta GmbH & Co. OHG in the reporting period. The change in investments in other affiliated companies was partly due to the purchase of a strategic minority interest in BioAmber, Inc., Minneapolis, United States, in February 2012. In addition, there were positive effects from the mark-to-market valuation of the interest in Gevo Inc., United States, in light of the recent development of its share price. The ratio of non-current assets to total assets was 49.0%, down slightly from 50.7% on December 31, 2011.

Current assets amounted to €3,645 million, up €256 million, or 7.6%, from December 31, 2011. Inventories rose by €60 million to €1,446 million, largely because of a business-driven inventory build-up. Trade receivables were up by a substantial €155 million to €1,301 million compared to year end 2011 in light of sales development. The balance of cash and cash equivalents and near-cash assets increased by €32 million to €560 million. The ratio of current assets to total assets was 51.0%, against 49.3% as of December 31, 2011.

The LANXESS Group has significant internally generated intangible assets that are not reflected in the statement of financial position due to accounting rules. These include the brand equity of LANXESS and the value of the Group's other brands. A variety of measures were deployed in the reporting period to continually enhance these assets. These measures contributed to the continued success in positioning the business units in the market.

Our established relationships with customers and suppliers also constitute a significant intangible asset, which cannot, however, be reflected in the statement of financial position. These long-standing partnerships with customers and suppliers, built on trust and consistent product quality, enable us to firmly adhere to our price-before-volume strategy. Our specific competence in technology and innovation, also a valuable asset, is rooted in our specific knowledge in the areas of research and development and custom manufacturing. It enables us to generate significant added value for our customers.

Our commercial success is also founded on the knowledge and experience of our employees. In addition, we have sophisticated production and business processes that create competitive advantages for us in the relevant markets.

Equity rose by €151 million from December 31, 2011 to €2,225 million, predominantly due to the net income of €193 million for the first three months of the year. The principal offsetting items were negative effects in other equity components from the measurement of pension obligations. The ratio of equity to the Group's total assets was 31.2% as of March 31, 2012, against 30.2% as of December 31, 2011.

Non-current liabilities grew by €109 million to €2,824 million as of March 31, 2012. The main reason for the increase was the €71 million increase in pension provisions to €750 million, mainly resulting from an adjustment in the interest rates used for measurement. In February 2012, we placed a bond denominated in Chinese off-shore Renminbi in Hong Kong. The bond has a volume of CNH 500 million, or €60 million, and a three-year term. We repatriated the funds from the bond issue into mainland China to finance our operating business and growth strategy in the Chinese market. With a coupon of 3.95% per year, the bond offers advantages over financing via local banks.

The ratio of non-current liabilities to total assets was 39.5%, the same as on December 31, 2011.

Current liabilities came to €2,092 million, up by €3 million, or 0.1%, from December 31, 2011. The increase in other current provisions was more than offset by lower liabilities from currency hedging contracts and the decrease in other financial liabilities, which was largely attributable to the repayment of bank liabilities. Current income tax liabilities showed a business-related increase. Trade payables declined. The ratio of current liabilities to total assets was 29.3% as of March 31, 2012, against 30.3% as of year end 2011.

Financial condition and capital expenditures

Changes in the statement of cash flows Net operating cash flow in the first three months of 2012 amounted to €129 million, against €36 million in the prior-year period. With income before income taxes amounting to €249 million, the increase in net working capital compared to December 31, 2011 resulted in a cash outflow of €244 million. The corresponding cash outflow in the prior-year period was €301 million. The development in both periods was attributable to significantly higher raw material prices as well as a business-driven increase in inventories and receivables.

There was a €9 million net cash inflow for investing activities in the first three months of 2012, compared with a €19 million net cash outflow in the same period a year ago. Cash inflows in the reporting period mainly comprised receipts of €105 million from financial assets. These were mainly attributable to the sale of near-cash assets and were partially offset by the disbursements for the purchase of the 3.4% stake in BioAmber, Inc., United States. Cash outflows for purchases of intangible assets, property, plant and equipment totaled €92 million, which was €24 million more than in the prior-year period. Depreciation and amortization came to €88 million. Cash outflows for the acquisition of subsidiaries, less acquired cash and adjusted for subsequent purchase price adjustments, amounted to €9 million. The company acquired was Tire Curing Bladders, LLC, of Little Rock, United States.

Cash provided by financing activities came to €17 million, compared with net cash of €7 million used in financing activities in the first three months of 2011. Notable among these was the issuance of the Chinese off-shore renminbi bond, which has a volume of CNH 500 million, or €60 million, and matures in 2015. The proceeds generated from this bond were offset mainly by the repayment of financial liabilities.

Financing and liquidity The principles and objectives of financial management discussed on page 92 of the Annual Report 2011 remained valid during the first quarter of 2012. They are centered on a conservative financial policy built on long-term, secured financing.

Cash and cash equivalents increased by €155 million compared with the end of 2011, to €333 million. The €227 million of instant-access investments in money market funds, down from €350 million at the end of 2011, was reported under near-cash assets. The Group thus has retained a sound liquidity position.

Net financial liabilities totaled €1,503 million as of March 31, 2012, compared with €1,515 million as of December 31, 2011.

Net Financial Liabilities

€ million	Dec. 31, 2011	March 31, 2012
Non-current financial liabilities	1,465	1,535
Current financial liabilities	633	604
less		
Liabilities for accrued interest	(55)	(76)
Cash and cash equivalents	(178)	(333)
Near-cash assets	(350)	(227)
	1,515	**1,503**

Financing instruments off the statement of financial position As of March 31, 2012, we had no material financing items not reported in the statement of financial position, such as factoring, asset-backed structures or sale-and-lease-back transactions.

Significant capital expenditure projects Significant capital expenditures in the Performance Polymers segment were related to the construction of the new butyl rubber facility in Singapore for the Butyl Rubber business unit. This facility is due on stream in the first quarter of 2013. Also in Singapore, the Performance Butadiene Rubbers business unit is building the world's largest production facility for high-performance neodymium-catalyzed polybutadiene rubber (Nd-PBR), which will have an annual capacity of 140,000 tons. This facility is due on stream in the first half of 2015. In our Technical Rubber Products business unit, we are expanding production capacities for hydrogenated acrylonitrile butadiene rubber (HNBR) at the facilities in Leverkusen, Germany, and Orange, United States, by 40%. The expansions are scheduled for completion this year. At the site in Geleen, Netherlands, 50% of production will be converted to the innovative Keltan ACE technology during the current year. Our High Performance Materials (formerly Semi-Crystalline Products) business unit has begun producing high-tech plastics for the automotive industry at a new plant in Jhagadia, India. In addition, the business unit and U.S. chemical company DuPont are doubling the capacity of their joint compounding facility for polybutylene terephthalate (PBT) in Hamm-Uentrop, Germany. The new capacity should be available to the market later this year. Capacity expansions are also taking place for glass fibers at the Antwerp site.

The Advanced Intermediates segment's Advanced Industrial Intermediates business unit is further expanding cresol production at its facility in Leverkusen. Completion is expected in mid-2013. In addition, menthol production is being expanded at the site in Krefeld-Uerdingen. This work is due for completion in the first half of 2012.

In the Performance Chemicals segment's Rhein Chemie business unit, work is underway in Argentina to increase the production capacity for vulcanization bladders used in tire production, while a production facility for rubber additives and release agents is being built at the site in Lipetsk, Russia. The latter is scheduled to go on stream in the first half of 2013. In addition, a plant for release agents and additives has been commissioned in Jhagadia, India. Also in Jhagadia, the Material Protection Products business unit built a production plant for biocides. The Leather business unit is building a production facility for leather chemicals at the site in Changzhou, China. With an annual capacity of up to 50,000 tons, this plant will feature the latest technology and eco-friendly processes and is due on stream in the first half of 2013. A further investment relates to the construction of a CO_2 concentration unit at the site in Newcastle, South Africa, which is scheduled to start up in the second half of 2013.

Significant opportunities and risks

There have been no significant changes in the opportunities or risks of the LANXESS Group compared with December 31, 2011. For more information, readers are therefore referred to the information on pages 109 to 119 of the Group management report for the 2011 fiscal year. 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.

Outlook

The macroeconomic signals from the sales regions relevant to LANXESS are very mixed at this time. Apart from the risks to economic development emanating from the world's trouble spots, partially conflicting statements about growth indicators in the principal regional markets make reliable forecasting difficult.

On the whole, we expect the global macroeconomic climate to trend somewhat more favorably in 2012 than was widely predicted at the end of last year. We thus anticipate moderate economic growth for the year. The emerging economies will be the main drivers of economic developments around the world. However, development among the different regions in which we do business is likely to vary. Overall, however, the pace of growth is expected to slow against the background of the very high economic output recorded last year.

The emerging economies of Asia and Latin America, in particular – notably China, India and Brazil – should develop positively. We also expect to see gratifying growth in the United States. Nevertheless, the economy in all of these regions is expected to grow more slowly than last year. In Europe, the persistently high debt levels in some of the established economies, along with the austerity programs launched as a result, could detract from steady economic development. Accordingly, we do not currently anticipate any significant impetus from Europe, while the risk of setbacks persists.

Even in this environment, we expect demand to remain solid in most of our customer markets in light of the megatrends of mobility, agriculture, urbanization and water. We believe automobile and tire production will show further increases. The demand for agrochemicals is likely to remain steady during the year. The chemical industry as a whole will continue to develop positively.

We expect raw material and energy costs to stay volatile this year, especially in the case of petrochemical raw materials. Our goal in this regard remains to pass on rising costs to the market by raising our selling prices and to continue the successful pursuit of our price-before-volume strategy.

Considering the factors described above and the solid contributions expected from the acquisitions made in 2011, we predict that earnings will increase compared with last year. We expect EBITDA pre exceptionals for the full year 2012 to come in 5% to 10% ahead of the €1,146 million figure for 2011.

We will continue to implement our selective growth strategy in 2012 and therefore expect cash ouflows of approximately €600 million for capital expenditures related to our organic growth projects.

Forecasts Unchanged in the Reporting Period

Information in the Annual Report 2011	Page
Future organization and corporate structure	115 ff.
Future corporate objectives and strategy	115 ff.
Future production and products	116 ff.
Future sales markets and competitive position	115 ff.
Future research and development activities	104 ff., 116
Future dividend policy	119
Future financing	119

Events after the end of the reporting period

LANXESS made two private placements under its debt issuance program at the beginning of April 2012. Each of these issues has a volume of €100 million, a term of 10 or 15 years, and a coupon of 3.5% or 3.95%, respectively. The proceeds will be used to safeguard the company's long-term liquidity position, further improve the maturity profile of its financial debt and refinance the bond that matures in June 2012.

No other events of special significance occurred after March 31, 2012 that are expected to materially affect the financial position or results of operations of the LANXESS Group.