Interim Group Management Report

as of June 30, 2012

- Sales growth of 8.1% against strong prior-year quarter
- Price adjustments almost fully offset drop in volumes
- Substantial sales growth in Asia/Pacific and North America
- EBITDA pre exceptionals improves from €339 million to €362 million
- EBITDA margin steady at 14.9%
- Net income and earnings per share level with previous year at €176 million and €2.11, respectively
- Business-related increase in net financial liabilities to €1,738 million
- Additional growth projects initiated
- Second-half EBITDA pre exceptionals expected to be on the level of the prior-year period
- Guidance for 2012 confirmed: EBITDA pre exceptionals to grow by 5%–10% compared to 2011

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 half 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 June 30, 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 Against the backdrop of the European sovereign debt crisis and the risks in the international financial sector, global economic growth slowed in the second quarter of 2012. Europe's economic development suffered in particular from the further escalation of the euro debt crisis. Growth in the U.S. economy slowed against the first quarter to 1.4%. China's growth was also below the preceding quarter at 7.6%.

Chemical industry The global chemical industry continued to grow in the second quarter of 2012. The positive trend stabilized in Germany, with production rising compared with the first quarter. Against the same period a year ago, however, production was down by 3%. The picture for the European Union as a whole was similar, with production 2% below the prior-year period. By contrast, the North American chemical industry raised production by 2%.

Evolution of major user industries World automobile production expanded considerably in the reporting period. North America and Asia-Pacific were the main drivers of growth, with gains of 23% and 21%, respectively, from same period of 2011. Production in Europe fell by 9% because of the economic situation in some countries. Second-quarter production in South America decreased by 4%. The tire industry presented a mixed picture. European tire production for trucks was down 20% against the previous year due to weaker demand for replacement tires. A comparable trend in North America was offset by brisk demand for original equipment tires. Europe's car tire market experienced softer-than-expected demand in both the original equipment and replacement segments, while demand for original equipment tires in North America was augmented by the growth in car production.

Demand for construction waned further in Europe, especially in the crisis countries. Construction output in the United States rose a modest 1%. Developments in the market for agrochemicals were positive on the whole. However, the drought in the United States led to lower-than-expected demand for agrochemicals.

Sales

Group sales in the second quarter rose by €181 million, or 8.1%, to €2,424 million. We continued to successfully pursue our price-before-volume strategy, quickly passing along the substantial raw material price increases, especially in the Performance Polymers segment, to the market. A tangible currency effect of 6.1%, mainly due to the appreciation of the U.S. dollar, contributed to the higher sales figure. A positive portfolio effect of 2.5% ensued from recent acquisitions, especially that of the Keltan EPDM business. Adjusted for these currency and portfolio effects, which totaled 8.6%, sales were at about the previous year's level (minus 0.5%) in light of prices and volumes. Selling prices rose by 4.2% year on year across the Group, while volumes declined by 4.7%.

Sales in the first six months of 2012 climbed by 11.5% to €4,812 million. After adjusting for positive currency and portfolio effects, the LANXESS Group posted operational sales growth of 2.4% for the half-year. This increase, too, was due to higher selling prices, which were up by 6.4%, mainly driven by raw material costs. Volumes decreased by 4.0% against a strong level of demand in the prior-year period. Acquisitions gave a portfolio effect of 4.8% for the half-year. The main factor in the positive currency effects, which raised sales by 4.3%, was the performance of the U.S. dollar.

Effects on Sales

%	Q2 2012	H1 2012
Price	4.2	6.4
Volume	(4.7)	(4.0)
Currency	6.1	4.3
Portfolio	2.5	4.8
	8.1	**11.5**

The raw material prices relevant to our Performance Polymers segment rose sharply in both the quarter and the half, but the timely adjustment of our selling prices offset the effects of these higher costs and led to tangible sales growth. The Keltan EPDM business acquired in the previous year also made a positive contribution to sales. The decline in volumes was compensated by positive currency effects. With sales up by 11.4% for the quarter and 19.2% for the first half, Performance Polymers posted the strongest growth of all our reporting segments.

Sales in our Advanced Intermediates segment increased by 1.0% for the quarter and 2.1% for the half. The business situation in agrochemicals remained positive, but lower demand in other market segments caused volumes to decline against the previous year's high level. Positive exchange rate effects and price adjustments made in response to higher raw material prices made up for the lower volumes.

Our Performance Chemicals segment also raised sales, with growth of 4.3% for the quarter and 2.3% for the half. Declining volumes in both the first and second quarters of 2012 were considerably more than offset by the recent acquisitions in our Rhein Chemie, Functional Chemicals and Material Protection Products business units and by positive currency effects. Price adjustments contributed to the rise in sales.

Sales by Segment

€ million	Q2 2011	Q2 2012	Change %	Proportion of Group sales %	H1 2011	H1 2012	Change %	Proportion of Group sales %
Performance Polymers	1,281	1,427	11.4	58.9	2,365	2,818	19.2	58.6
Advanced Intermediates	395	399	1.0	16.5	811	828	2.1	17.2
Performance Chemicals	561	585	4.3	24.1	1,117	1,143	2.3	23.7
Reconciliation	6	13	> 100	0.5	23	23	0.0	0.5
	2,243	**2,424**	**8.1**	**100.0**	**4,316**	**4,812**	**11.5**	**100.0**

LANXESS grew sales in nearly all of its regions, with increases well into double digits in some cases. Asia-Pacific and North America made particularly notable contributions to the growth in business. Sales in the Performance Polymers segment were the main factor in this success.

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 with respect to 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 in the second quarter rose at a slightly lower rate than sales, increasing by 7.6% to €1,833 million. The main reasons for the increase were higher manufacturing costs, higher raw material prices and, to a lesser extent, higher energy prices, along with negative effects from currency translation. There were also portfolio effects from the recent acquisitions, most notably the Keltan EPDM business. Decreases in the price of the key raw material butadiene at the end of the quarter necessitated write-downs of inventories. In the previous year, effects from the remeasurement of inventories to allocate the purchase price of the Keltan business had an adverse effect.

Gross profit came in at €591 million, which was 9.6% above the prior-year quarter. The gross profit margin improved from 24.0% to 24.4%.

Prices for strategic raw materials, particularly butadiene and isobutylene, and some other important raw materials remained substantially higher than a year ago despite a downward trend toward the end of the quarter. However, we were able to pass these increases along to the market in full in all segments. Thus our price-before-volume strategy remained intact, contributing significantly to the gross profit. While the drop in demand had a negative impact, exchange rates continued to have a positive effect overall. Capacity utilization was below the level of the prior-year quarter because of the demand situation and scheduled maintenance shutdowns.

In the first half, the cost of sales rose in proportion to sales, increasing by 11.5% to €3,629 million. Gross profit came in at €1,183 million, or €122 million above the first half of the previous year, boosted by essentially the same factors as for the second quarter. The gross profit margin therefore came in level with the same period of last year at 24.6%.

EBITDA and EBIT

The operating result before depreciation and amortization (EBITDA) pre exceptionals advanced by €23 million, or 6.8%, to €362 million in the second quarter of 2012 compared to the same period a year ago. This increase was driven mainly by price effects in conjunction with positive currency and portfolio effects. A larger earnings improvement was prevented by the lower volumes and by higher production costs, which were partly due to the increase in energy prices. Selling expenses rose by 4.3% to €195 million, mostly because of currency effects, portfolio effects from the acquisitions made in 2011 and targeted adjustments to sales and logistics structures. A decrease in freight costs in line with the volume development had a positive effect. Research expenditures rose significantly, from €34 million to €53 million, due to the expansion of research activities as part of

EBITDA Pre Exceptionals by Segment

€ million	Q2 2011	Q2 2012	Change %	H1 2011	H1 2012	Change %
Performance Polymers	229	257	12.2	428	512	19.6
Advanced Intermediates	65	79	21.5	140	149	6.4
Performance Chemicals	95	78	(17.9)	185	161	(13.0)
Reconciliation	(50)	(52)	(4.0)	(92)	(91)	1.1
	339	**362**	**6.8**	**661**	**731**	**10.6**

our LANXESS Technology Initiative, with the Performance Polymers segment accounting for the largest share of the increase. The Group EBITDA margin pre exceptionals was about level with the prior-year quarter (15.1%) at 14.9%.

The Performance Polymers segment raised its second-quarter EBITDA pre exceptionals by a tangible €28 million to €257 million. The persistently high raw material cost inflation compared to the prior-year period was offset by timely price adjustments. Positive currency effects, particularly relating to the U.S. dollar, and a final modest portfolio effect from the acquisition of the Keltan EPDM business offset the effects of the drop in volumes and increase in costs, the latter being partly due to the expansion of research activities.

EBITDA pre exceptionals in our Advanced Intermediates segment surpassed the prior-year quarter's €65 million and amounted to €79 million. Positive price effects offset the higher raw material costs and the increased energy costs.

EBITDA pre exceptionals for the Performance Chemicals segment receded from €95 million a year ago to €78 million. In this segment, too, higher raw material costs were passed along to the market in full. Earnings were held back by declining volumes, additional expenses for maintenance shutdowns in the majority of business units along with the related decrease in capacity utilization, and by rising production costs. The acquisitions in the Rhein Chemie, Functional Chemicals and Material Protection Products business units yielded modest positive portfolio effects.

EBITDA pre exceptionals for the half-year increased by €70 million to €731 million. Selling expenses moved up by 6.7% to €381 million, chiefly for the same reasons as in the second quarter. Research expenditures rose significantly, from €65 million to €98 million, due to the expansion of research activities. The Group's EBITDA margin came in at 15.2%, drawing level with the previous year's 15.3%.

Earnings of the Performance Polymers segment improved tangibly, especially because of price increases and also on account of favorable portfolio and currency effects. EBITDA pre exceptionals rose from €428 million to €512 million. Earnings in Advanced Intermediates advanced from €140 million in the prior-year period to €149 million, mainly in light of price effects. Earnings in the Performance Chemicals segment declined, from €185 million a year ago to €161 million, with positive price and currency effects failing to offset the drop in volumes and the increase in functional costs.

The Group operating result (EBIT) came to €251 million in the second quarter of 2012, down from €255 million in the year-earlier quarter. Higher depreciation charges for newly commissioned facilities had a slightly negative effect on earnings. The exceptional charges included in other operating expenses totaled €20 million, of which €18 million impacted EBITDA. They related mainly to facility consolidations in our Performance Chemicals segment. Exceptional charges in the prior-year quarter came to €5 million, the whole amount of which impacted EBITDA.

For the half-year, LANXESS achieved an improved operating result (EBIT) of €528 million, compared with €501 million the year before. The exceptional charges included in other operating expenses amounted to €24 million, of which €22 million impacted EBITDA. They related partly to the measures already described for the quarter and partly to the planning and implementation of IT projects. The exceptional charges of €10 million in the prior-year period, which fully impacted EBITDA, related primarily to efficiency improvement measures and expenses for corporate transactions.

Financial result

The financial result of minus €23 million for the second quarter of 2012 matched the prior-year period. While interest expense rose due to the growth in financial liabilities compared to the previous year, an increase in the amount of capitalized construction-period borrowing costs had an offsetting effect. Most of these costs related to the major investment project in Singapore. Thus only slightly higher interest expense was recognized than in the prior-year period. Interest income remained largely unchanged. The balance of other financial income and expense was not weighed down by non-recurring expenses, as it was in the same period a year ago. 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 €7 million in the previous year.

The financial result for the first half was minus €51 million, against minus €50 million a year ago. The substantial increase in interest expense attributable to higher financial liabilities was offset by a larger amount of capitalized construction-period borrowing costs. In addition, the balance of other financial income and expense was not adversely affected by non-recurring expenses, as was the case in the previous year.

Income before income taxes

Income before income taxes for the second quarter of 2012 came to €228 million, compared with €232 million for the prior-year period. The effective tax rate was 22.4%, against 22.0% for the same period of last year.

Income before income taxes for the first half increased due to the improvement in the operating result, advancing from €451 million to €477 million. The effective tax rate was 22.4%, against 22.8% a year ago.

Net income and earnings per share

Non-controlling interests accounted for €1 million of income in the second quarter of 2012, against zero a year ago. For the half, non-controlling interests accounted for €1 million of income in both 2012 and 2011. Net income for the second quarter amounted to €176 million, compared with €181 million in the prior-year period. Net income for the first half rose from €347 million to €369 million. With the number of LANXESS shares in circulation unchanged, earnings per share dropped slightly from €2.17 to €2.11 for the second quarter but rose from €4.17 to €4.43 for the half.

Business trends by region

Sales in the EMEA region (excluding Germany) receded by 2.3% in the second quarter of 2012 to €650 million. Adjusted for portfolio changes and minor currency effects, sales were down by 5.4%. The portfolio effects related mostly to the Keltan EPDM business acquired in the previous year. Sales of the Performance Chemicals segment were down by a high single-digit percentage. The Performance Polymers segment saw sales decline by a mid-single-digit percentage. In Advanced Intermediates, sales held close to the previous year's level, advancing by a low single-digit percentage. The negative sales development in the region mainly affected Italy, Switzerland, Spain and Austria. Hungary and Russia, by contrast, registered modest growth.

First-half sales in the EMEA region (excluding Germany) climbed by 3.2% to €1,349 million. Adjusted for currency and portfolio effects, there was a 2.6% decrease. Sales in the Performance Polymers segment remained at the previous year's level, but business in Performance Chemicals and Advanced Intermediates declined, in some cases by a significant single-digit percentage. The deteriorating business climate mainly affected Italy, Switzerland and Spain. Clearly positive impetus came from the Netherlands.

With a 26.8% share of total sales for the quarter and a 28.0% share for the half, EMEA (excluding Germany) remains the largest of the LANXESS Group's regions in terms of sales.

In Germany, our second-quarter sales shrank by 3.6% to €396 million. Adjusted for portfolio effects, mostly from the Keltan EPDM business, sales decreased by 5.4%. The Performance Chemicals and Advanced Intermediates segments were the most affected, with sales declining by high-single-digit percentages. The Performance Polymers segment escaped the downward trend in some areas and posted only a low single-digit percentage decrease overall.

In the first half of 2012, we increased business in Germany by 0.4% to €812 million. Adjusted for portfolio effects, sales showed a 2.5% decline. The decrease was attributable to the Performance Chemicals and Advanced Intermediates segments, where business was down by a single-digit percentage in each case. Performance Polymers posted modest, single-digit growth, which therefore did not fully offset the lower revenues in the other two segments.

Germany's share of Group sales came to 16.3% for the second quarter and 16.9% for the first half, both figures being slightly down from the prior-year period.

Sales by Market

	Q2 2011		Q2 2012		Change	H1 2011		H1 2012		Change
	€ million	%	€ million	%	%	€ million	%	€ million	%	%
EMEA (excluding Germany)	665	29.7	650	26.8	(2.3)	1,307	30.3	1,349	28.0	3.2
Germany	411	18.3	396	16.3	(3.6)	809	18.7	812	16.9	0.4
North America	368	16.4	439	18.1	19.3	696	16.1	862	17.9	23.9
Latin America	307	13.7	331	13.7	7.8	551	12.8	632	13.2	14.7
Asia-Pacific	492	21.9	608	25.1	23.6	953	22.1	1,157	24.0	21.4
	2,243	**100.0**	**2,424**	**100.0**	**8.1**	**4,316**	**100.0**	**4,812**	**100.0**	**11.5**

The sales trend in the North America region was clearly positive in the second quarter of 2012, with business up by 19.3% to €439 million before adjusting for currency and portfolio effects. On an adjusted basis, sales were up by 1.7% from the prior-year period. All segments posted growth rates in the low single digits. Our business in the United States determined the region's performance.

In the first half of 2012, sales in North America climbed by 23.9% to €862 million. On a currency- and portfolio-adjusted basis, sales growth came to 8.3%. The increase was driven by the Advanced Intermediates segment, where business expanded by a low double-digit percentage. Performance Chemicals and Performance Polymers, by contrast, posted growth rates in the mid to high single digits.

LANXESS generated 18.1% of its second-quarter sales and 17.9% of its first-half sales in this region. These were slightly higher proportions than the year before.

We raised sales in Latin America by 7.8% to €331 million in the second quarter of 2012. Adjusted for currency and portfolio changes, sales fell by 5.1%, chiefly because of the drop in sales in Performance Polymers. Although Advanced Intermediates and Performance Chemicals posted double-digit sales growth in some areas, this was insufficient to offset the negative effect described. Brazil was the key country in the region in terms of the absolute sales increase.

In the first half-year, LANXESS increased its sales in Latin America by 14.7% to €632 million. Adjusted for portfolio and currency effects, sales were up by 3.1%. The drivers were the absolute sales contributions from the Performance Polymers and Advanced Intermediates segments.

The region's share of Group sales came to 13.7% for the quarter and 13.2% for the half, which were close to the prior year's levels.

We lifted second-quarter sales in the Asia-Pacific region by a significant 23.6% to €608 million. After adjusting for currency and portfolio effects, sales grew by 11.1%. The Performance Polymers segment drove this development in both absolute and relative terms, with growth well into double digits. By contrast, sales in Advanced Intermediates lagged behind the previous year with a low-single-digit decrease. Performance Chemicals also posted a slight decline in sales. The clear growth drivers in the region were China and Singapore, followed at some distance by Taiwan and South Korea. Business was slightly down in Japan and India, in particular.

In the first half of 2012, sales in this region advanced by 21.4% to €1,157 million. Adjusted for currency and portfolio effects, the increase came to 9.0%. The shares of the segments were broadly the same as for the quarter, with Performance Polymers the outstanding growth engine. Business in the other segments, however, showed a slight decline.

Asia-Pacific's share of Group sales came to 25.1% for the quarter and 24.0% for the half. Both of these figures represent higher proportions than a year ago.

Segment information

Our Performance Polymers segment continued its positive business development in the second quarter of 2012. Sales rose by €146 million, or 11.4%, to €1,427 million from the already high level

Performance Polymers

	Q2 2011		Q2 2012		Change	H1 2011		H1 2012		Change
	€ million	Margin %	€ million	Margin %	%	€ million	Margin %	€ million	Margin %	%
Sales	1,281		1,427		11.4	2,365		2,818		19.2
EBITDA pre exceptionals	229	17.9	257	18.0	12.2	428	18.1	512	18.2	19.6
EBITDA	229	17.9	256	17.9	11.8	428	18.1	510	18.1	19.2
Operating result (EBIT) pre exceptionals	191	14.9	207	14.5	8.4	356	15.1	414	14.7	16.3
Operating result (EBIT)	191	14.9	206	14.4	7.9	356	15.1	412	14.6	15.7
Cash outflows for capital expenditures [1]	72		85		18.1	112		148		32.1
Depreciation and amortization	38		50		31.6	72		98		36.1
Employees as of June 30 (previous year: as of Dec. 31)	4,977		5,187		4.2	4,977		5,187		4.2

1) Intangible assets and property, plant and equipment

of the prior-year quarter. Continued inflation in raw material costs compared to the previous year, particularly in the case of butadiene and isobutylene, was offset by timely price increases, giving a positive price effect of 6.3%. Volumes retreated by 5.6% year on year. A positive portfolio effect of 3.1% from the acquisition of the Keltan EPDM business in the previous year along with favorable currency effects of 7.6% also made a substantial contribution to sales.

The demand trends in this segment's individual business units continued to vary in the second quarter of 2012. The Butyl Rubber business unit increased volumes and also benefited 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 OEM tire markets, posted a decrease in volumes because of production shutdowns and weaker demand for standard-quality rubber grades. The demand for high-performance rubber grades, however, remained strong. The High Performance Materials (formerly Semi-Crystalline Products) business unit, which generates a substantial portion of its sales with customers in the automotive and electrical/electronics industries, also saw a slight drop in volumes, especially in Europe. The Technical Rubber Products business unit benefited from a strong contribution by the Keltan EPDM business acquired in the previous year, which much more than offset lower volumes in other product groups. From a regional viewpoint, Asia-Pacific proved to be a key growth engine, posting the largest sales gains in absolute and relative terms.

The Performance Polymers segment's EBITDA pre exceptionals grew somewhat faster than sales, rising by €28 million to €257 million and confirming the continued strength of our market position. Higher raw material costs were passed along to the market in full in all business units. Product mix effects were also accretive to earnings. Capacity utilization was below the level of the prior-year quarter due to lower volumes and to expansion and maintenance shutdowns. The Keltan EPDM business, which was acquired in the previous year, yielded a positive portfolio effect. Changes in exchange rates had a positive impact on earnings as well. The EBITDA margin came in at 18.0% for the second quarter, following 17.9% a year ago.

Segment sales in the first half advanced by a substantial 19.2% to €2,818 million. Higher raw material costs were passed along to the market, giving a price increase of 10.0%. Volumes were down by 3.6% from the high level of the prior-year period. The Keltan EPDM business acquired in the previous year made a positive portfolio contribution of 7.3%. In addition, shifts in exchange rates augmented sales by 5.5%.

The segment achieved EBITDA pre exceptionals of €512 million in the first half of 2012, compared with €428 million in the same period a year ago. Its EBITDA margin improved from 18.1% to 18.2% for the half-year.

The exceptional charges of €2 million in this segment's first-half EBITDA arose from minor integration measures at various Group locations.

Advanced Intermediates

	Q2 2011		Q2 2012		Change	H1 2011		H1 2012		Change
	€ million	Margin %	€ million	Margin %	%	€ million	Margin %	€ million	Margin %	%
Sales	395		399		1.0	811		828		2.1
EBITDA pre exceptionals	65	16.5	79	19.8	21.5	140	17.3	149	18.0	6.4
EBITDA	65	16.5	79	19.8	21.5	140	17.3	149	18.0	6.4
Operating result (EBIT) pre exceptionals	47	11.9	62	15.5	31.9	106	13.1	116	14.0	9.4
Operating result (EBIT)	47	11.9	62	15.5	31.9	106	13.1	116	14.0	9.4
Cash outflows for capital expenditures [1]	20		17		(15.0)	33		32		(3.0)
Depreciation and amortization	18		17		(5.6)	34		33		(2.9)
Employees as of June 30 (previous year: as of Dec. 31)	2,883		2,871		(0.4)	2,883		2,871		(0.4)

1) Intangible assets and property, plant and equipment

Our Advanced Intermediates segment lifted sales by 1.0% to €399 million in the second quarter of 2012. Selling price increases undertaken to compensate for higher raw material prices generated a 2.5% price effect. Volumes decreased by 4.5% against the strong prior-year quarter, while shifts in exchange rates gave a positive effect of 3.0%.

The demand for agrochemicals remained strong in the second quarter of 2012, benefiting both of the segment's business units. Volumes declined in the segment as a whole, falling somewhat short of the previous year's level in the Saltigo business unit and dropping below the strong second quarter of the previous year in the

Advanced Industrial Intermediates business unit. This was partly due to scheduled shutdowns for investment in capacity expansions. The effect of higher demand for agrochemical intermediates from the integrated aromatics production network was more than offset by a drop in volumes for products used in the construction and coatings industries. Higher prices for raw materials, including cyclohexane and toluene, were passed along to the market in the form of selling price adjustments. North America was the growth engine in this segment, posting the largest increase in business in absolute terms.

EBITDA pre exceptionals for the Advanced Intermediates segment came in at €79 million, clearly exceeding the prior year's €65 million. Higher prices for raw materials were passed along to the market in full, as was the increase in energy costs. The segment's capacity utilization was at the level of the prior-year quarter, and there was a positive currency effect. The EBITDA margin rose from 16.5% to 19.8%.

The Advanced Intermediates segment generated half-year sales of €828 million for a year-on-year increase of 2.1%. This was largely due to a 2.8% increase in selling prices made to offset the higher cost of raw materials. Volumes were down by 2.8%. Favorable exchange rate effects of 2.1% contributed to the sales increase.

The segment achieved EBITDA pre exceptionals of €149 million in the first half of 2012, compared with €140 million in the same period a year ago. The EBITDA margin came in at 18.0%, against 17.3% in the first half of 2011.

Performance Chemicals

	Q2 2011		Q2 2012		Change	H1 2011		H1 2012		Change
	€ million	Margin %	€ million	Margin %	%	€ million	Margin %	€ million	Margin %	%
Sales	561		585		4.3	1,117		1,143		2.3
EBITDA pre exceptionals	95	16.9	78	13.3	(17.9)	185	16.6	161	14.1	(13.0)
EBITDA	95	16.9	63	10.8	(33.7)	185	16.6	146	12.8	(21.1)
Operating result (EBIT) pre exceptionals	76	13.5	57	9.7	(25.0)	148	13.2	119	10.4	(19.6)
Operating result (EBIT)	76	13.5	40	6.8	(47.4)	148	13.2	102	8.9	(31.1)
Cash outflows for capital expenditures [1]	14		21		50.0	28		32		14.3
Depreciation and amortization	19		23		21.1	37		44		18.9
Employees as of June 30 (previous year: as of Dec. 31)	5,819		6,015		3.4	5,819		6,015		3.4

1) Intangible assets and property, plant and equipment

Sales in our Performance Chemicals segment moved ahead by 4.3% in the second quarter of 2012 to €585 million. Selling prices rose by a modest 0.6% due to the increase in raw material prices, while volumes receded by 4.1%. A positive portfolio contribution of 3.0% from recent acquisitions and favorable exchange rate movements of 4.8% contributed to the overall sales growth.

Volumes receded for the segment as a whole from the high level of the prior-year quarter, but the picture varied from one business unit to another. The Ion Exchange Resins business unit increased volumes compared to the same period a year ago and also raised selling prices. The Leather business unit suffered from lower chrome ore prices and instability of the CO_2 supply at the site in Newcastle, South Africa. The Material Protection Products business unit recorded lower volumes, but a positive portfolio effect from the biocide businesses acquired in the previous year more than made up the difference. The same applied to the Functional Chemicals business unit, where a positive portfolio effect more than offset weaker demand, particularly from the construction and electrical/electronics industries. The drop in demand from the tire and automotive industries had a similar effect on volumes in the Rubber Chemicals and Rhein Chemie business units, although the latter benefited from a small portfolio effect. The Inorganic Pigments business unit experienced a decline in demand, particularly in Europe and Asia. The segment's regional growth drivers were North America and Latin America, where sales posted the strongest increases in absolute and relative terms.

EBITDA pre exceptionals in the Performance Chemicals segment receded by €17 million from €95 million in the prior-year period to €78 million. Higher raw material prices were fully passed along to the market at the segment level. Earnings were held back by the lower capacity utilization compared with the high level of the prior-year quarter. This was largely the result of the drop in demand already mentioned and of maintenance shutdowns. Quarterly earnings were also impacted by expenses associated with these scheduled shutdowns. In addition, the Material Protection Products business unit had higher costs to bear for product registrations. The positive portfolio contribution from the recently acquired businesses, along with currency effects, had a favorable impact on earnings. The segment's EBITDA margin decreased from 16.9% to 13.3%.

The Performance Chemicals segment posted sales of €1,143 million in the first half of 2012, up 2.3% from the same period a year ago. A positive price effect of 1.7% contrasted with a 5.6% decrease in volumes. A portfolio contribution of 2.9% and favorable exchange rate movements of 3.3% led to a slight sales increase overall.

The segment generated EBITDA pre exceptionals of €161 million in the first six months of 2012, against €185 million in the prior-year period. The EBITDA margin declined from 16.6% to 14.1%.

The segment's exceptional items of €17 million, of which €15 million impacted EBITDA, primarily related to facility consolidations in the Rubber Chemicals business unit.

EBITDA pre exceptionals for the reconciliation amounted to minus €52 million, on a par with the minus €50 million reported in the prior-year quarter. For the first half, EBITDA pre exceptionals was minus €91 million, against minus €92 million in the prior-year period. Earnings in both periods were affected by the planned expansion of our central research activities, among other factors.

The €2 million in exceptional charges reported in the reconciliation for the second quarter and the €5 million for the first six months 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 June 30, 2012, the LANXESS Group had total assets of €7,016 million, up €138 million, or 2.0%, from €6,878 million on December 31, 2011. The main reason for the increase was the growth in net working capital.

Non-current assets rose during the first half-year by €40 million to €3,529 million. The intangible assets and property, plant and equipment included in this figure increased by €58 million to €3,110 million. Cash outflows for purchases of property, plant, equipment and intangible assets, at €229 million, were well above the prior-year figure of €177 million on account of the deliberate growth strategy. Depreciation and amortization in the first half totaled €181 million, compared with €150 million in the prior-year period. The first-time consolidation of Tire Curing Bladders, LLC, Little Rock, United States, which was acquired in the first quarter of 2012, led to additions in the 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 first half of 2012. 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 the first quarter of 2012 and 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 50.3%, down slightly from 50.7% on December 31, 2011.

Reconciliation

	Q2 2011	Q2 2012	Change	H1 2011	H1 2012	Change
	€ million	€ million	%	€ million	€ million	%
Sales	6	13	> 100	23	23	0.0
EBITDA pre exceptionals	(50)	(52)	(4.0)	(92)	(91)	1.1
EBITDA	(55)	(54)	1.8	(102)	(96)	5.9
Operating result (EBIT) pre exceptionals	(54)	(55)	(1.9)	(99)	(97)	2.0
Operating result (EBIT)	(59)	(57)	3.4	(109)	(102)	6.4
Cash outflows for capital expenditures [1]	3	14	> 100	4	17	> 100
Depreciation and amortization	4	3	(25.0)	7	6	(14.3)
Employees as of June 30 (previous year: as of Dec. 31)	2,711	2,808	3.6	2,711	2,808	3.6

1) Intangible assets and property, plant and equipment

Current assets amounted to €3,487 million, up €98 million, or 2.9%, from December 31, 2011. Inventories rose by €202 million to €1,588 million, largely because of a business-driven inventory build-up and preparations for maintenance shutdowns. Trade receivables were also distinctly higher, rising by €184 million from year end 2011 to €1,330 million due to the growth in business. The balance of cash and cash equivalents and near-cash assets decreased by €294 million to €234 million, largely as a result of the scheduled redemption of the Euro Benchmark Bond issued in 2005. The ratio of current assets to total assets was 49.7% 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 consistently high 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 €185 million, or 8.9%, compared with December 31, 2011, to €2,259 million, predominantly due to the net income of €369 million for the first half 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 32.2% as of June 30, 2012, against 30.2% as of December 31, 2011.

Non-current liabilities grew by €356 million to €3,071 million as of June 30, 2012. In addition to the three-year CNH 500 million (roughly €60 million) Chinese off-shore renminbi bond that we placed in the first quarter of 2012, we issued two further bonds with a volume of €100 million each and maturities of 10 and 15 years, respectively. The main reason for the €120 million increase in pension provisions to €799 million was the change in the discount rates used for measurement due to the fall in market rates of interest. The ratio of non-current liabilities to total assets was 43.8%, against 39.5% as of December 31, 2011.

Current liabilities came to €1,686 million, down by €403 million, or 19.3%, from December 31, 2011. The decrease resulted mainly from the scheduled redemption of the Euro Benchmark Bond issued in 2005. Current income tax liabilities showed a business-related increase. Trade payables declined. The ratio of current liabilities to total assets was 24.0% as of June 30, 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 six months of 2012 amounted to €80 million, against €248 million in the prior-year period. With income before income taxes amounting to €477 million, the increase in net working capital compared to December 31, 2011 resulted in a cash outflow of €434 million. The corresponding cash outflow in the prior-year period was €366 million. The development in both periods was mainly attributable to a business-driven increase in inventories and receivables and preparations for maintenance shutdowns, along with higher raw material prices. The changes in other assets and liabilities relate in part to payments that had to be made to counterparties under roll-over hedges for intra-Group foreign currency loans due to the marked decrease in the value of the euro. These payments did not affect earnings.

There was a €202 net cash inflow from investing activities in the first six months of 2012, compared with a €351 net cash outflow in the same period a year ago. Cash inflows in the reporting period mainly comprised receipts of €431 million from financial assets. These were mainly attributable to the sale of near-cash assets and were partially offset by the disbursements for the 3.4% stake in BioAmber Inc., United States. Cash outflows for purchases of intangible assets, property, plant and equipment totaled €229 million, which was €52 million more than in the prior-year period. Depreciation and amortization came to €181 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, Little Rock, United States.

Financing activities resulted in a net cash outflow of €225 million, compared with a €234 million inflow from financing activities in the first half of 2011. Cash outflows in the reporting period related mainly to the scheduled redemption of the Euro Benchmark Bond issued in 2005, interest payments, and the dividend payment to LANXESS AG stockholders for fiscal 2011. These were partially offset by the issuance of two long-term bonds with a volume of €100 million each and a Chinese off-shore renminbi bond with a volume of CNH 500 million, equivalent to about €60 million.

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

Cash and cash equivalents increased by €56 million compared with the end of 2011, to €234 million. The €350 million of instant-access investments in money market funds reported under near-cash assets at year end 2011 was liquidated in connection with the redemption in the reporting period of the remaining €402 million of the Euro Benchmark Bond issued in 2005.

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 contribute to safeguarding long-term liquidity and further improving the maturity profile of the company's financial debt.

Net financial liabilities totaled €1,738 million as of June 30, 2012, compared with €1,515 million as of December 31, 2011. The near-cash assets of €350 million recognized in the statement of financial position as of December 31, 2011, were sold. Cash and cash equivalents, however, rose slightly by €56 million.

Net Financial Liabilities

€ million	Dec. 31, 2011	June 30, 2012
Non-current financial liabilities	1,465	1,729
Current financial liabilities	633	267
less		
Liabilities for accrued interest	(55)	(24)
Cash and cash equivalents	(178)	(234)
Near-cash assets	(350)	0
	1,515	**1,738**

Financing instruments off the statement of financial position As of June 30, 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 in the first half of the year 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. At the Leverkusen, Germany, and Orange, United States, sites of our Technical Rubber Products business unit, we will expand production capacities for hydrogenated acrylonitrile butadiene rubber (HNBR) by 40% before the end of 2012. At the site in Geleen, Netherlands, 50% of production will be converted to the innovative Keltan ACE technology. This work is due for completion in 2013. Our High Performance Materials (formerly Semi-Crystalline Products) business unit has invested in a new plant for the manufacture of high-tech plastics in Gastonia, United States. Production at the new facility is planned to start later this year. 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. Capacity expansions for glass fibers are taking place at the Antwerp site, where we are also investing in a new world-scale facility for polyamide plastics with an annual capacity of around 90,000 tons. Completion of that facility is expected in the first quarter of 2014.

The Advanced Intermediates segment's Advanced Industrial Intermediates business unit is expanding cresol production at the Leverkusen site. Completion is expected in mid-2013. At the site in Krefeld-Uerdingen, Germany, menthol production has been expanded and the new formalin plant has come on stream.

In the Performance Chemicals segment's Rhein Chemie business unit, work is underway in Argentina to increase production capacity for vulcanization bladders used in tire production, while a production facility for rubber additives and release agents is being built in Lipetsk, Russia. The latter is scheduled to start production in the first half of 2013. In addition, a plant for release agents and additives has been commissioned at the site in Jhagadia, India.

Also in Jhagadia, the Material Protection Products business unit has completed the construction of a production plant for biocides. The Leather business unit is investing in the construction of a 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 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 customer markets relevant to LANXESS remain inconsistent. Coupled with still conflicting growth indicators, this makes it difficult to forecast developments for the remainder of the year. We believe that the greatest risks currently lie in the euro debt crisis and its effects on European economic development. Thus the weak development in Europe is likely to continue, with the pace of growth again varying widely from one country to another. We are aware of the possibility of an economic slowdown and only moderate growth in the Asia and Latin America regions in the months ahead. We anticipate continued growth in the United States, possibly with a slight weakening of the positive signals. Overall, no additional momentum is to be expected in the second half of the year in light of the anticipated macroeconomic developments. On the contrary, we believe the economic challenges will intensify.

We anticipate mixed trends in our customer industries over the coming months. We assume the automotive sector will continue to expand, albeit with some softening of the current high growth rates. The European automotive sector will in our opinion be unable to provide any significant impetus. Regarding the demand from the tire industry for our synthetic rubbers, we expect a continuing decline in volumes, though with regional variations. We expect the overall demand for agrochemicals, particularly from the Asian market, to remain stable. However, the severe drought in parts of North America may be expected to hold back the demand for fungicides. We believe that the chemical industry as a whole will experience only a modest improvement for the rest of the year.

We expect raw material and energy costs to stay volatile in the second half of the year, especially in the case of petrochemicals. It remains our aim to counteract this development by firmly adhering to our price-before-volume strategy.

With our products, we are well positioned in our customer markets to meet the growing economic challenges. Accordingly, we confirm our forecast that EBITDA pre exceptionals for 2012 will come in 5% to 10% ahead of the €1,146 million figure for 2011. We expect to achieve EBITDA pre exceptionals in the second half of 2012 on the level of the corresponding period of 2011.

We proceeded with the implementation of a number of strategic investment projects in the first half of 2012 and also initiated new, promising projects. Capital expenditures of €650 to €700 million are now planned for the full year 2012 as part of our targeted investment strategy to strengthen our position in the key markets.

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

No events of special significance occurred after June 30, 2012 that are expected to materially affect the financial position or results of operations of the LANXESS Group.