Interim Group Management Report

as of March 31, 2013

- Weak start to fiscal 2013
- Sales down by 12.3% with declines in all regions
- Earnings impacted by lower prices and declining volumes
- Agrochemicals business shows robust development
- EBITDA pre exceptionals down sharply from €369 million to €174 million
- EBITDA margin 8.3% vs. 15.5% for same period of last year
- Net income and earnings per share well below prior-year quarter at €25 million and €0.30, respectively
- Net financial liabilities higher at €1,787 million
- Outlook 2013: demand to improve in the second half; EBITDA pre exceptionals for the full year expected to come in below €1 billion
- Capital expenditure guidance for 2013 reduced to about €600 million

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 79 of the Annual Report 2012.

Additions to the Group portfolio

We made no additions to our Group portfolio through acquisitions in the first quarter of 2013. Details about the scope of consolidation are provided in the Notes to the Condensed Consolidated Interim Financial Statements as of March 31, 2013.

Business and strategy

The LANXESS Group is structured in three segments with, as of January 1, 2013, 14 business units, each of which conducts its own operations and has global profit responsibility. In response to the growing significance of the global EPDM rubber business, we divided the Technical Rubber Products business unit within the Performance Polymers segment into two new units, effective as of the beginning of the year. The newly formed Keltan Elastomers business unit focuses exclusively on synthetic ethylene-propylene-diene rubber (EPDM). The remaining Technical Rubber Products portfolio has been renamed the High Performance Elastomers business unit. No other changes have been made to the Group's organizational structure or strategy so far this year. The business units are supported by centralized services and by local organizations in the countries. Further details are given on pages 80–82 of the Annual Report 2012.

There were no material changes to the production base, product portfolio or principal sales markets in the reporting period.

Business trends and economic environment

Business conditions

General economic situation The global economic environment in the first quarter was marked by very weak development. Europe continued to suffer from the sovereign debt crisis, which worsened in some eurozone countries. Economic growth in the United States was held back by the ongoing debate about its sovereign debt level and turned out to be slower than expected. Apart from the economic weakness in the established industrialized countries, the pace of growth was below that of previous years in China, too.

The raw material markets showed comparatively low volatility in the first quarter. Although price trends were mixed, there were no major fluctuations.

Chemical industry The chemical industry as a whole saw a slight increase in production volumes. Development varied widely from one region to another. Strong growth in China and the U.S. contrasted with a tangible decline in output in Europe.

Evolution of major user industries Global growth in automobile production was weak in the first quarter. Development was distinctly negative in the European auto industry at minus 12%, while the sector virtually stagnated in the U.S. at minus 0.3%. Only China posted a very positive trend with 15% growth.

Global demand for replacement tires, both for cars and for commercial vehicles, was very low in the first quarter. The decline in Europe mainly affected car tires, with production volumes down 12% year on year. The commercial vehicle tire market stagnated in Europe, but shrank by 8% in the U.S.

Europe's construction sector receded by 3%. The U.S. construction industry, by contrast, recorded growth of 8% in the first quarter, after a prolonged period of weakness.

The demand for agrochemicals remained solid in the first quarter, with production volumes rising accordingly.

Sales

Group sales in the first quarter came to €2,095 million, down €293 million or 12.3% from the same period a year ago. The drop in business was mainly attributable to declining volumes caused by lower demand, mainly from the rubber processing, auto and construction industries, which depressed sales by 6.4%. On top of this came the 5.5% negative effect of lower selling prices. A small positive portfolio effect from the acquisitions made in the previous year was more than offset by somewhat adverse exchange rate developments. Adjusted for the 0.4% negative balance of these currency and portfolio effects, sales showed an 11.9% decline based on prices and volumes.

Effects on Sales

%	Q1 2013
Price	(5.5)
Volume	(6.4)
Currency	(0.7)
Portfolio	0.3
	(12.3)

Sales in our Performance Polymers segment receded by a substantial 18.5% compared to the prior-year quarter. This was a major factor in the Group's negative business development. The decrease was mainly due to lower selling prices, some of which were attributable to lower prices for raw materials such as butadiene. Compared to the extremely strong prior-year quarter, there were also volume declines resulting from lower demand, particularly from the European automotive industry. A positive portfolio effect from the acquisition of Bond-Laminates GmbH was offset by slightly negative currency developments.

Our Advanced Intermediates segment, by contrast, grew sales by 0.9% against the prior-year period. Increased costs for raw materials such as benzene and cyclohexane were quickly passed along to the market through selling-price adjustments. While the demand for agrochemical precursors and products for the aromatics industry developed favorably, the markets for coatings and construction additives were weak, resulting in slightly lower volumes overall compared with the same period of last year. Exchange rates also had a slight negative effect.

Sales in the Performance Chemicals segment decreased by 6.8%. This was due to lower volumes, which were partly the result of the weak development of the European construction industry as well as supply bottlenecks for a production facility in South Africa. Minor positive portfolio effects from the acquisition of Tire Curing Bladders, LLC in the prior year partially offset the slightly negative currency effect.

Sales by Segment

€ million	Q1 2012	Q1 2013	Change %	Proportion of Group sales %
Performance Polymers	1,391	1,134	(18.5)	54.1
Advanced Intermediates	429	433	0.9	20.7
Performance Chemicals	558	520	(6.8)	24.8
Reconciliation	10	8	(20.0)	0.4
	2,388	**2,095**	**(12.3)**	**100.0**

LANXESS sales decreased by – in some cases substantial – double-digit percentages in all regions except Asia-Pacific. The key factor in this development was the absolute and relative sales performance of the Performance Polymers segment.

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 relating 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 fell by 5.3%, to €1,700 million, and thus more slowly than sales. While the decline in volumes diminished the cost of sales, production costs were increased by the start-up of new capacity, the resulting higher levels of depreciation and by higher energy prices, for example. On top of this came cost increases due to lower capacity utilization.

Gross profit came in at €395 million, for a significant 33.3% decrease on the prior-year quarter. The gross profit margin dropped from 24.8% to 18.9%. One reason for this was the negative development of selling prices, which was partly attributable to lower prices for strategic raw materials. Shifts in exchange rates had no tangible effect. Capacity utilization was below the level of the prior-year quarter because of the demand situation and scheduled maintenance shutdowns.

EBITDA and EBIT

The operating result before depreciation and amortization (EBITDA) pre exceptionals decreased by €195 million or 52.8% in the first quarter of 2013 to €174 million. This was mainly the result of price effects, exacerbated by negative volume effects. Rising production costs, partly caused by energy prices, contributed to this earnings performance. Lower capacity utilization also led to higher costs. Exchange rates, however, had no tangible effect. Selling expenses rose by just 1.6% to €189 million. A slight decrease in freight costs in line with the volume development had a mitigating effect. Research and development expenses increased to €48 million, against €45 million in the prior-year period, due to the targeted expansion of regional and centralized research activities. The Performance Polymers segment accounted for the largest share of R&D spending. The Group's EBITDA margin pre exceptionals came in at 8.3%, well below the 15.5% achieved in the corresponding period of last year.

EBITDA Pre Exceptionals by Segment

€ million	Q1 2012	Q1 2013	Change %
Performance Polymers	255	112	(56.1)
Advanced Intermediates	70	71	1.4
Performance Chemicals	83	51	(38.6)
Reconciliation	(39)	(60)	(53.8)
	369	**174**	**(52.8)**

The Performance Polymers segment generated EBITDA pre exceptionals of €112 million in the first quarter, which was a substantial €143 million below the prior-period figure of €255 million. The drop in earnings occurred mainly because selling prices declined more steeply than raw material costs. This modulation of the price-before-volume strategy was due to the sharp drop in demand against a strong prior-year quarter. The effect of this was heightened by an overall increase in production costs, which was partly the result of higher energy prices and the completion of the butyl rubber facility in Singapore. Currency and portfolio effects had only a minor positive impact. The segment's capacity utilization was significantly below the high level of the prior-year period due to the lower demand, maintenance shutdowns and measures to control inventory.

EBITDA pre exceptionals in the Advanced Intermediates segment, at €71 million, was on the level of the prior-period figure of €70 million. Positive price effects, which compensated for the higher raw material costs, and a slight reduction in production costs offset the effects of a decline in volumes.

EBITDA pre exceptionals of the Performance Chemicals segment posted a year-on-year decline of €32 million, from €83 million to €51 million. Earnings were impacted by declining volumes in the majority of the business units, combined with rising production costs. In addition, there was a slightly negative currency effect, but also a minor positive portfolio effect in the quarter from the acquisition of U.S. company Tire Curing Bladders, LLC.

The Group operating result (EBIT) came to €67 million in the first quarter of 2013, down from €277 million in the year-earlier period. Due to the extensive acquisition and investment activities in recent years, depreciation and amortization was €14 million, or 15.9%, above the prior-year quarter, at €102 million. The €5 million in exceptional charges included in other operating expenses, which fully impacted EBITDA, related mainly to the realignment of business activities and the design and implementation of IT projects. Exceptional charges in the prior-year quarter amounted to €4 million.

Financial result

The financial result amounted to minus €36 million in the first quarter of 2013, compared with minus €30 million in the prior-year period. Interest expense was at the previous year's level, while there was a slight decrease in capitalized construction-period borrowing costs. The earnings contribution from companies accounted for in the consolidated financial statements using the equity method came to €0 million in the reporting period, against €3 million in the previous year.

Income before income taxes

Income before income taxes decreased from €247 million to €31 million in the first quarter, in line with the deterioration in the operating result. The effective tax rate was 22.6%, compared with 22.3% for the prior-year quarter.

Net income and earnings per share

A loss of €1 million was attributable to non-controlling interests in the first quarter of 2013, against a result of €0 million in the prior-year quarter. First-quarter net income amounted to €25 million, compared with a restated €192 million in the prior-year period. With the number of LANXESS shares in circulation unchanged, earnings per share were €0.30, versus a restated €2.31 in the prior-year quarter.

Business trends by region

Sales by Market

	Q1 2012		Q1 2013		Change
	€ million	%	€ million	%	%
EMEA (excluding Germany)	699	29.3	623	29.7	(10.9)
Germany	416	17.4	370	17.7	(11.1)
North America	423	17.7	327	15.6	(22.7)
Latin America	301	12.6	245	11.7	(18.6)
Asia-Pacific	549	23.0	530	25.3	(3.5)
	2,388	**100.0**	**2,095**	**100.0**	**(12.3)**

Sales in the EMEA region (excluding Germany) decreased by 10.9% to €623 million in the first quarter of 2013. With exchange rates virtually unchanged and a minor positive portfolio effect from the acquisition of Bond-Laminates GmbH, the adjusted decrease was of the same magnitude at 10.8%. The Performance Polymers segment was particularly hard hit, with a percentage decline in the low double digits. Sales in the Performance Chemicals segment receded by a high single-digit percentage. Advanced Intermediates achieved sales on a par with the prior year. The principal drivers of this region's negative trend were France, the U.K., the Netherlands and Switzerland, which registered decreases in the low double digits. However, there was a slight increase in sales in Turkey.

With a 29.7% share of total sales in the reporting period against 29.3% in the same quarter a year ago, EMEA (excluding Germany) remained the largest region in terms of sales.

Sales in Germany fell by 11.1% in the first quarter of 2013 to €370 million. There were no material portfolio effects. The Performance Polymers segment, which posted a percentage sales decline well into double digits, was the crucial factor, while the Performance Chemicals segment recorded a sales decrease in the low double digits. The Advanced Intermediates segment, by contrast, raised sales by a mid-single-digit percentage.

Germany's share of Group sales came to 17.7% for the quarter, against 17.4% for the same period a year ago.

The North America region had a considerable impact on the Group's sales development in the first quarter of 2013. Sales there decreased by 22.7% to €327 million. Minor portfolio effects from the acquisition of Tire Curing Bladders in the previous year were largely offset by the effects of slight shifts in exchange rates. On an operational basis, sales fell by 22.8%. The Performance Polymers segment largely accounted for this development, with sales down by a mid-double-digit percentage. The Performance Chemicals segment recorded a sales decrease in the mid-single-digit percentage range for the quarter. The Advanced Intermediates segment, however, grew sales by a mid-single-digit percentage compared to the prior-year period. Business in the United States determined the region's performance.

The LANXESS Group generated 15.6% of first-quarter sales in this region, compared to 17.7% in the same period a year ago.

The Latin America region also saw a distinct drop in business, with sales declining by 18.6% to €245 million. Adjusted for currency effects, sales fell by 16.7%. This was due to percentage sales declines well into double digits in both the Performance Polymers and Advanced Intermediates segments. In contrast to the other regions, business development in the Performance Chemicals segment was positive in Latin America, with sales rising by a low-single-digit percentage. Sales in the region were mainly impacted by the economic situation in Brazil.

The region's share of Group sales came to 11.7% for the quarter, against 12.6% for the same quarter a year ago.

Business in the Asia-Pacific region was only slightly below the prior-year quarter, with sales decreasing by 3.5% to €530 million. After adjusting for currency and portfolio effects, sales fell by 2.5%. Sales in all segments, particularly Performance Polymers, moved back by low single-digit percentages. Japan, Hong Kong and India accounted for a major share of the negative operational sales development in this region as a whole, while China and South Korea recorded higher sales.

Asia-Pacific's share of Group sales rose to 25.3% for the quarter, against 23.0% for the same period a year ago.

Segment information

Performance Polymers

	Q1 2012		Q1 2013		Change
	€ million	Margin %	€ million	Margin %	%
Sales	1,391		1,134		(18.5)
EBITDA pre exceptionals	255	18.3	112	9.9	(56.1)
EBITDA	254	18.3	112	9.9	(55.9)
Operating result (EBIT) pre exceptionals	207	14.9	52	4.6	(74.9)
Operating result (EBIT)	206	14.8	52	4.6	(74.8)
Cash outflows for capital expenditures [1]	63		58		(7.9)
Depreciation and amortization	48		60		25.0
Employees as of March 31 (previous year: as of Dec. 31)	5,348		5,388		0.7

1) intangible assets and property, plant and equipment

Business development in our Performance Polymers segment in the first three months of 2013 was well below the high level of the prior-year period. Sales decreased by 18.5% to €1,134 million against the same period of 2012. The lower raw material prices and selling price adjustments diminished sales by 10.7%. In addition, volumes decreased by 7.5% due to lower demand. A further factor was a slightly negative currency effect of 0.6%.

Volumes in the Butyl Rubber and Performance Butadiene Rubbers business units, which have close ties to tire production and thus to the replacement tire and original equipment manufacturer markets, receded in the first three months of 2013 against a strong prior-year quarter. This was due to sharply lower demand from the automobile and tire industries, especially in Europe. Furthermore, decreasing raw material prices resulted in lower selling prices. By contrast, the High Performance Materials business unit, which has particularly close ties to the automotive and electrical/electronics industries, recorded an increase in volumes, especially due to the development of compounding activities in Latin America, North America and Asia. The continually weak demand in Europe and Asia along with customers' inventory reductions had a negative effect on volumes in the Keltan Elastomers business unit. The drop in raw material prices led to an adjustment of selling prices in the High Performance Elastomers business unit as well. In addition, volumes were below the level of the prior-year quarter, particularly for nitrile rubber (NBR). Sales of the segment as a whole receded in all regions.

EBITDA pre exceptionals in the Performance Polymers segment fell by a substantial €143 million to €112 million. The lower selling prices in all business units had a particularly negative impact, which was not fully offset by the drop in raw material costs. Capacity utilization was below the level of the prior-year quarter, due especially to the decline in demand and to scheduled production shutdowns. The segment also incurred start-up costs for the new butyl rubber plant in Singapore and costs for conversion to the new ACE technology in the Keltan Elastomers business unit. The EBITDA margin came in at 9.9% for the first quarter, against 18.3% a year ago.

Advanced Intermediates

	Q1 2012		Q1 2013		Change
	€ million	Margin %	€ million	Margin %	%
Sales	429		433		0.9
EBITDA pre exceptionals	70	16.3	71	16.4	1.4
EBITDA	70	16.3	71	16.4	1.4
Operating result (EBIT) pre exceptionals	54	12.6	54	12.5	0.0
Operating result (EBIT)	54	12.6	54	12.5	0.0
Cash outflows for capital expenditures [1]	15		19		26.7
Depreciation and amortization	16		17		6.3
Employees as of March 31 (previous year: as of Dec. 31)	2,841		2,841		0.0

1) intangible assets and property, plant and equipment

Performance Chemicals

	Q1 2012		Q1 2013		Change
	€ million	Margin %	€ million	Margin %	%
Sales	558		520		(6.8)
EBITDA pre exceptionals	83	14.9	51	9.8	(38.6)
EBITDA	83	14.9	50	9.6	(39.8)
Operating result (EBIT) pre exceptionals	62	11.1	30	5.8	(51.6)
Operating result (EBIT)	62	11.1	29	5.6	(53.2)
Cash outflows for capital expenditures [1]	11		19		72.7
Depreciation and amortization	21		21		0.0
Employees as of March 31 (previous year: as of Dec. 31)	6,031		5,978		(0.9)

1) intangible assets and property, plant and equipment

Sales in the Advanced Intermediates segment rose by 0.9% in the first quarter of 2013 to €433 million. Higher raw material prices were offset by selling price adjustments, giving a positive price effect of 4.4%. Volumes decreased by 3.0% against the strong prior-year period. Shifts in exchange rates produced an additional negative effect of 0.5%.

Selling prices in the Saltigo business unit were at the level of the prior-year period. In the Advanced Industrial Intermediates business unit, the continuing strong demand from the agrochemical industry for products from the integrated aromatics production network did not compensate for the decline in demand for products for the construction and coatings industries. Higher procurement prices for raw materials, including benzene and cyclohexane, were passed along to the market in the form of selling price adjustments. From the regional viewpoint, Germany was the growth engine in this segment, with business expanding in both absolute and relative terms.

EBITDA pre exceptionals in the Advanced Intermediates segment rose by €1 million against the prior-year quarter to €71 million. Higher raw material costs and a downturn in volumes were more than offset by price increases at the segment level. Shifts in exchange rates had no material impact on earnings. The EBITDA margin came in at the solid level of 16.4%, against 16.3% in the prior-year quarter.

Sales in our Performance Chemicals segment decreased by 6.8% to €520 million in the first quarter of 2013. Volumes receded by 5.9%, in part because of weak demand from the construction industry due to the long winter. Selling prices, by contrast, were stable at 0.2% below the prior-year quarter. Sales were also held back by negative currency effects of 1.2%. There was a positive portfolio effect of 0.5% from the previous year's acquisition of Tire Curing Bladders, LLC in North America.

Volumes in this segment were down against the prior-year quarter. Negative volume effects were recorded in all business units except Functional Chemicals, which expanded its business with phosphorus chemicals. The Leather business unit suffered from a drop in volumes – attributable to continued instability in the supply of CO_2 – and also from lower prices. Lower demand from the construction industry for weather-related reasons caused volumes to decline in the Inorganic Pigments business unit, with selling prices at the level of the year-earlier quarter. In the Rhein Chemie business unit, a positive portfolio effect from the acquisition made in the U.S. in the prior-year quarter did not fully offset the negative overall price-volume effect. Segment sales receded in all regions.

EBITDA pre exceptionals amounted to €51 million, which was €32 million below the year-earlier figure of €83 million. The low demand in the construction industry and temporary shutdowns led to a negative volume effect. Higher raw material prices were passed along to the market at the segment level and in nearly all of this segment's business units. Shifts in exchange rates had no material impact on earnings. The segment's EBITDA margin decreased from 14.9% to 9.8%.

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

Reconciliation

	Q1 2012	Q1 2013	Change
	€ million	€ million	%
Sales	10	8	(20.0)
EBITDA pre exceptionals	(39)	(60)	(53.8)
EBITDA	(42)	(64)	(52.4)
Operating result (EBIT) pre exceptionals	(42)	(64)	(52.4)
Operating result (EBIT)	(45)	(68)	(51.1)
Cash outflows for capital expenditures [1]	3	(3)	< (100)
Depreciation and amortization	3	4	33.3
Employees as of March 31 (previous year: as of Dec. 31)	2,957	3,174	7.3

1) intangible assets and property, plant and equipment

EBITDA pre exceptionals for the reconciliation amounted to minus €60 million, compared with minus €39 million in the prior-year quarter. The difference resulted partly from the planned expansion of central research activities and various Group projects. The €4 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, 2013, the LANXESS Group had total assets of €7,603 million, up €84 million, or 1.1%, from €7,519 million on December 31, 2012. The main reasons for the increase were the higher levels of net working capital and of property, plant and equipment. These were partly offset by a decrease in liquid assets.

Non-current assets rose by €102 million to €3,849 million. The intangible assets and property, plant and equipment included in that figure increased by €99 million to €3,483 million. Cash outflows for purchases of property, plant, equipment and intangible assets, at €93 million in the first quarter of 2013, were at the level of the prior-year period's €92 million. Depreciation and amortization in the first three months totaled €102 million, against €88 million in the prior-year period. LANXESS-TSRC (Nantong) Chemical Industrial Co., Ltd., China, previously accounted for using the equity method, was fully consolidated for the first time, leading to additions in the mid-double-digit million range. The carrying amount of investments accounted for using the equity method decreased to €8 million. The ratio of non-current assets to total assets was 50.6%, up slightly from 49.8% on December 31, 2012.

Current assets amounted to €3,754 million, down by €18 million or 0.5%. Inventories rose by €114 million to €1,641 million compared to year end 2012 due to higher volumes. Trade receivables rose by €127 million against year end 2012, to €1,244 million. The total of cash and cash equivalents and near-cash assets decreased by €268 million to €529 million, mainly due to the sale of money market funds. The ratio of current assets to total assets was 49.4%, against 50.2% as of December 31, 2012.

The LANXESS Group has significant internally generated intangible assets that are not reflected in the statement of financial position because of 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 our 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. The long-standing, trust-based partnerships with customers and suppliers, underpinned by consistent service and product quality, enable us to set ourselves apart from our competitors. Our 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 €56 million from December 31, 2012 to €2,386 million, predominantly due to the net positive effect of currency translation differences. The ratio of equity to the Group's total assets amounted to 31.4% as of March 31, 2013, against 31.0% as of December 31, 2012.

Non-current liabilities grew by €70 million to €3,629 million as of March 31, 2013. The €22 million increase in pension provisions to €915 million was attributable mainly to additional vested rights and also to the change in the interest rates used for measurement. Other non-current financial liabilities rose by €33 million to €2,200 million, largely as the result of an increase in liabilities to banks. The ratio of non-current liabilities to total assets was 47.7%, compared with 47.3% as of December 31, 2012.

Current liabilities came to €1,588 million, down by €42 million or 2.6% from December 31, 2012. The change was primarily due to lower trade payables. By contrast, other current provisions increased. The ratio of current liabilities to total assets was 20.9% as of March 31, 2013, against 21.7% at the end of 2012.

Financial condition and capital expenditures

Changes in the statement of cash flows In the first three months of 2013 there was a net cash outflow of €160 million from operating activities, against a net inflow of €129 million in the prior-year period. With income before income taxes amounting to €31 million, the increase in net working capital compared to December 31, 2012 resulted in a cash outflow of €285 million. In the prior-year period, the income before income taxes was €247 million, and the cash outflow from the increase in net working capital was €244 million. The development of net working capital in the reporting period was mainly the result of an increase in inventories due to continued low demand and an increase in receivables due to higher sales in March 2013 versus December 2012.

There was a €144 million net cash inflow from investing activities in the first three months of 2013, compared with a net cash inflow of €9 million in the same period a year ago. Cash inflows in the reporting period mainly comprised receipts of €235 million from financial assets, which were largely attributable to the sale of near-cash assets. Cash outflows for purchases of intangible assets, property, plant and equipment totaled €93 million, which was €1 million more than in the prior-year period. Depreciation and amortization amounted to €102 million.

Net cash used in financing activities came to €19 million, compared with net cash of €17 million provided by financing activities in the first three months of 2012. Cash outflows in the amount of €30 million for the repayment of financial liabilities were offset by €19 million in proceeds from new borrowings.

Financing and liquidity The principles and objectives of financial management discussed on page 101 of the Annual Report 2012 remained valid during the first quarter of 2013. They are centered on a conservative financial policy built on long-term, secured financing.

Cash and cash equivalents decreased by €33 million compared with the end of 2012, to €353 million. The €176 million of instant-access investments in money market funds, down from €411 million at the end of 2012, was reported under near-cash assets. The Group's liquidity position thus remains sound.

Net financial liabilities totaled €1,787 million as of March 31, 2013, compared with €1,483 million as of December 31, 2012.

Net Financial Liabilities

€ million	Dec. 31, 2012	March 31, 2013
Non-current financial liabilities	2,167	2,200
Current financial liabilities	167	191
less		
Liabilities for accrued interest	(54)	(75)
Cash and cash equivalents	(386)	(353)
Near-cash assets	(411)	(176)
	1,483	**1,787**

Financing instruments off the statement of financial position As of March 31, 2013, we had no material financing items that were not reported in the statement of financial position, such as factoring, asset-backed structures or sale-and-lease-back transactions.

Significant capital expenditure projects Capital expenditures in the Performance Polymers segment, for example, were related to the construction of the new butyl rubber facility in Singapore for the Butyl Rubber business unit. As planned, the plant entered its commissioning phase in the first quarter of 2013 and is due to start commercial production in the second half of the year. Also in Singapore, the Performance Butadiene Rubbers business unit is currently building the world's largest production facility for neodymium-based performance butadiene rubber (Nd-PBR) with an annual capacity of 140,000 tons. It is scheduled to start operating in the first half of 2015. In Changzhou, China, our Keltan Elastomers business unit is erecting the world's largest production plant for EPDM rubber. This plant, which will utilize the innovative Keltan ACE technology, is due to start up in 2015. Fifty percent of production at the site in Geleen, Netherlands, has been converted to the Keltan ACE technology. This work was completed in the first quarter of 2013. Our High Performance Elastomers business unit is expanding production capacities for chloroprene rubber at the site in Dormagen, Germany. The High Performance Materials business unit is investing in a new world-scale plant for polyamide plastics at the site in Antwerp, Belgium. The facility will have an annual capacity of around 90,000 tons and is scheduled to be completed in 2014. The capacity of our glass fiber production operations, also based in Antwerp, is being expanded. In addition, a new plant for compounding high-tech plastics is being built in Porto Feliz, Brazil, with completion due later this year.

The Advanced Intermediates segment's Advanced Industrial Intermediates business unit is expanding cresol production at the Leverkusen site. Completion is expected in mid-2013.

The Performance Chemicals segment's Inorganic Pigments business unit is currently building a new high-tech plant for iron oxide red pigments in Ningbo, China. The plant will have an initial annual capacity of 25,000 tons. Production is scheduled to start in the first quarter of 2015. The Leather business unit completed construction of a production plant for leather chemicals with an annual capacity of up to 50,000 tons at the site in Changzhou, China. The facility, featuring the latest technology and eco-friendly processes, came on stream in April 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 this year. The Rhein Chemie business unit is building a facility for rubber additives and release agents at the site in Lipetsk, Russia, where production is scheduled to start by the middle of this year. Furthermore, a manufacturing plant for vulcanization bladders is under construction in Porto Feliz, Brazil, and is due to start up later this year. The Ion Exchange Resins business unit is investing in a new production line for weakly acidic cation exchange resins and a state-of-the-art facility for food-grade filling and packaging at the Leverkusen site.

Significant opportunities and risks

There have been no significant changes in the opportunities or risks of the LANXESS Group compared with December 31, 2012. Further information on this topic is provided in the combined management report for LANXESS AG and the LANXESS Group on pages 124 to 135 of the Annual Report 2012. 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

In the first quarter of 2013, the low level of demand continued in most of LANXESS's businesses contrary to the typical seasonality. In a persistently weak economic environment and with customer order levels continuing to be volatile, we project only a slight improvement in business in the second quarter. Accordingly, we expect that second-quarter EBITDA pre exceptionals will not exceed €220 million.

The rest of the year is likely to remain challenging due to the low level of global economic momentum. Based on the expected weak development of the first six months, we currently anticipate an improvement in demand in the second half of the year.

With respect to the emerging markets, we continue to expect the most rapid growth in our customer industries, especially automotive, to take place in Asia, particularly China. We anticipate that the U.S. economy will see some growth in the course of the year from which our customers in the automotive sector will also benefit. We expect demand in the European tire and automotive industries to remain at a low level. Demand for agrochemicals is likely to stay solid for the remainder of the year. It nevertheless remains difficult to gauge the future development of the economy as a whole.

We took early action in 2012 with our flexible asset management and rigorous cost discipline to cushion the impact of a potential drop in demand. We are continuing with this action in the current year and adding further measures aimed at addressing the persistent weakness in demand. These relate to the Performance Chemicals segment and are designed to improve competitiveness at our international sites. We assume that raw material and energy prices will move sideways for the rest of the year, with ongoing volatility. Passing along raw material and energy price fluctuations to the market will remain a challenge in the current environment. As before, we will endeavor to deliver an optimal response with a view to our earnings generation and strategic positioning.

Based on business development so far and our second-quarter earnings forecast, we predict an improvement in demand in the second half of the year. We expect EBITDA pre exceptionals for the full year 2013 to come in below €1 billion.

We will continue to pursue our selective growth strategy in the current year. However, in view of the difficult market environment, we have adjusted our planned cash outflows for capital expenditures. We currently expect these to total around €600 million. We are committed to maintaining LANXESS's strategic alignment in the future. With our product portfolio, we are represented in all key customer industries and have attained strong positions in the relevant growth markets.

Forecasts Unchanged in the Reporting Period

Information in the Annual Report 2012	Page
Future organization and corporate structure	131 ff.
Future corporate objectives and strategy	131 ff.
Future production and products	132 ff.
Future sales markets and competitive position	132 ff.
Future research and development activities	119 ff., 132
Future financing	134 f.
Future dividend policy	135

Events after the end of the reporting period

The LANXESS Group acquired Singapore-based PCTS Specialty Chemicals Pte. Ltd. in April 2013. PCTS specializes in the production of biocides for environmentally friendly water-based paints that meet stringent health, safety and environmental standards. This acquisition, which will be integrated into the Material Protection Products business unit of the Performance Chemicals segment, puts LANXESS among the leading suppliers of biocides for paints and coatings in the expanding markets of the Asia-Pacific region. The acquisition will have no material effects on the financial position or results of operations of the LANXESS Group.

No other events of special significance took place after March 31, 2013 that are expected to materially affect the financial position or results of operations of the LANXESS Group.