

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## GENERAL INFORMATION

The consolidated financial statements of the LANXESS Group as of December 31, 2009 were prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union (E.U.), and the corresponding interpretations, together with the additional requirements of Section 315a Paragraph 1 of the German Commercial Code (HGB). The previous year's figures were determined according to the same principles.

The consolidated financial statements comprise the statement of financial position, the income statement and statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the notes, which include the segment information.

The consolidated financial statements of the LANXESS Group were prepared entirely in euros (€). Amounts are stated in millions of euros (€ million) except where otherwise indicated. Assets and liabilities are classified in the statement of financial position as current or non-current. In some cases, a detailed breakdown by maturity is given in the notes.

The consolidated financial statements are prepared on the basis of historical acquisition, generation, construction or production costs of the assets. Where the IFRS prescribes different valuation principles, these are used. They are explained in the section on recognition and valuation principles.

The income statement was prepared using the cost-of-sales method.

The fiscal year for these consolidated financial statements is the calendar year.

The annual financial statements of LANXESS AG and the consolidated financial statements of the LANXESS Group, to which the auditors, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, have issued unqualified auditor's reports, are published in the electronic version of the German Federal Gazette (Bundesanzeiger).

The consolidated financial statements of the LANXESS Group for fiscal 2009 were drawn up by the Board of Management of LANXESS AG and authorized for submission to the Supervisory Board on March 2, 2010. It is the responsibility of the Supervisory Board to examine the consolidated financial statements and declare whether or not it approves them.

## CONSOLIDATION METHODS

The consolidated financial statements of the LANXESS Group include LANXESS AG and all material subsidiaries under the direct or indirect control of LANXESS AG. Control exists if LANXESS AG holds more than half of the voting rights in a company or is otherwise able to govern the company's financial and operating policies in order to obtain benefits from its activities. A company is consolidated as of the date from which LANXESS AG is able to exercise control and deconsolidated when this is no longer the case.

The financial statements of the consolidated companies were prepared using uniform recognition and valuation principles.

If the fiscal year of a consolidated company does not end on December 31, interim financial statements are prepared for the purpose of consolidation.

Capital consolidation is performed according to IFRS 3. All business combinations are accounted for by using the purchase method. The cost of a business combination is stated as the aggregate of the fair values, at the date of acquisition, of the assets given, liabilities incurred or assumed, and any equity instruments issued in exchange for control of the acquiree plus all costs directly attributable to the business combination. The cost of acquisition is compared with the balance of the acquired assets, liabilities and contingent liabilities stated at fair value (purchase price allocation). The fair value of net assets not acquired as part of the business combination is stated under equity attributable to non-controlling interests.

Any difference between the cost of acquisition and the fair value of the net assets acquired is recognized as goodwill and tested annually for impairment – or more frequently where events or changes in circumstances indicate a possible impairment. Negative goodwill is immediately recognized through profit or loss after the purchase price allocation has been re-examined for possible errors.

Intra-Group profits, losses, sales, income, expenses, receivables and payables are eliminated.

Investments in entities in which the LANXESS Group exerts significant influence, generally through an ownership interest of between 20% and 50%, are accounted for using the equity method. The cost of acquisition of such an entity (associate) is adjusted annually by the percentage of any change in its equity corresponding to LANXESS's percentage interest in the entity. Any goodwill arising from the first-time inclusion of companies at equity is accounted for in the same way as goodwill relating to subsidiaries.

The joint venture Anhui Tongfeng Shengda Chemical Company Limited, Tongling, China, is also accounted for using the equity method.

## CURRENCY TRANSLATION

In the financial statements of the individual consolidated companies that form the basis for the consolidated financial statements of the LANXESS Group, all foreign currency receivables and payables are translated at closing rates, irrespective of whether they are hedged. Forward contracts serving as economic hedges against fluctuations in exchange rates are reflected at fair value.

The financial statements of foreign entities are prepared in their respective functional currencies in accordance with IAS 21. By far the majority of foreign companies are financially, economically and organizationally autonomous and their functional currencies are therefore the local currencies. The assets and liabilities of these companies are translated at closing rates, while income and expense items are translated at average rates for the year.

Goodwill arising on the acquisition of a foreign entity is recorded in the currency of the acquired entity and translated at the closing rate, irrespective of the date on which it arose.

Since equity (excluding income and expenses recognized directly in other comprehensive income) is translated at historical rates, the differences arising on translation at closing rates are shown separately in other comprehensive income as exchange differences on translation of operations outside the euro zone.

If a company is deconsolidated, the relevant exchange differences are reversed and recognized through profit or loss.

Where the operations of a foreign company are essentially integrated into those of the parent company, the functional currency is that of the parent company. In these cases, currency translation is carried out by the temporal method and recognized through profit or loss.

The exchange rates for major currencies against the euro changed as follows:

### Exchange Rates

€ 1		Closing rate, Dec. 31		Average rate	
		2008	2009	2008	2009
Argentina	ARS	4.81	5.47	4.64	5.21
Brazil	BRL	3.25	2.51	2.67	2.77
China	CNY	9.50	9.84	10.23	9.52
United Kingdom	GBP	0.95	0.89	0.80	0.89
India	INR	67.39	66.84	63.60	67.29
Japan	JPY	126.14	133.16	152.37	130.35
Canada	CAD	1.70	1.51	1.56	1.59
South Africa	ZAR	13.07	10.67	12.07	11.68
United States	USD	1.39	1.44	1.47	1.39

## RECOGNITION AND VALUATION PRINCIPLES

**Intangible assets** Acquired intangible assets with a definite useful life are recognized at cost and amortized over their respective useful lives. The amortization period for software, concessions, industrial property rights, similar rights and assets and licenses to such rights and assets varies from 3 years to 20 years. Write-downs are made for impairment losses. Write-backs are made if the reasons for previous years' write-downs no longer apply. Such write-backs (reversals of impairment losses), however, must not cause the carrying amounts of the assets to exceed either the amortized cost at which they would have been recognized if the write-downs had not been made or their current recoverable value. The lower of these two amounts is recognized. Amortization for 2009 has been allocated to the respective functional cost items. Intangible assets with indefinite useful lives are not amortized. They are tested for impairment annually, or more often if events or a change in circumstances indicate a possible impairment.

Goodwill, including that arising from capital consolidation, is capitalized and tested annually for impairment – or more frequently where events or changes in circumstances indicate a possible impairment. In compliance with IAS 36, impairments of goodwill are determined by comparing the goodwill to the discounted cash flows expected to be generated by the assets to which it can be ascribed. Any impairments of capitalized goodwill are included in other operating expenses. Neither write-backs of goodwill impairments nor the amortization of goodwill are permitted.

The costs incurred for in-house software development at the application development stage are capitalized and amortized over the expected useful life of the software from the date it is placed in service.

Emissions allowances are recognized at cost. Allowances allocated free of charge by the German Emissions Trading Authority (DEHSt) or comparable authorities in other European countries are capitalized at a value of zero.

**Property, plant and equipment** Property, plant and equipment is carried at the cost of acquisition or construction less depreciation for wear and tear. Write-downs are made for impairments that go beyond normal depreciation. In compliance with IAS 36, impairment losses are measured by comparing the carrying amounts with the discounted cash flows expected to be generated by the assets in the future. Where it is not possible to allocate future cash flows to specific assets, the impairment loss is assessed on the basis of the discounted cash flows for the cash-generating unit to which the asset belongs. Write-backs are made if the reasons for previous years' write-downs no longer apply, provided that this does not cause the carrying amounts of the assets to exceed either the amortized cost at which they would have been recognized if the write-downs had not been made or their current recoverable value.

The cost of self-constructed property, plant and equipment comprises the direct cost of materials, direct manufacturing expenses, appropriate allocations of material and manufacturing overheads, and an appropriate share of the depreciation and impairments of assets used in construction. It also includes the shares of expenses for company pension plans and discretionary employee benefits that are attributable to construction.

Where an obligation exists to decommission or dismantle assets at the end of their useful life or to restore a site to its original condition, the present value of the liability is capitalized along with the cost of acquisition or construction and a provision in the same amount is recognized.

If the construction phase of property, plant or equipment extends over a long period, the directly attributable borrowing costs incurred up to the date of completion are capitalized as part of the cost of acquisition or construction.

Expenses for current maintenance and repairs are recognized directly through profit or loss. They are capitalized retroactively as acquisition or construction costs if they will result in future economic benefits and can be accurately determined.

Expenses for general overhauls of major large-scale plants are recognized separately at the cost of the overhaul as part of the related assets and depreciated over the period between one general overhaul and the next using the straight-line method.

Where assets comprise material components with different purposes, different properties, or different useful lives, the components are capitalized individually and depreciated over their useful lives.

When property, plant or equipment is sold, the difference between the net proceeds and the carrying amount is recognized as a gain or loss in other operating income or expenses.

Assets are depreciated by the straight-line method based on the following useful lives, which are applied uniformly throughout the Group:

Buildings	20 to 50 years
Outdoor infrastructure	10 to 20 years
Plant installations	6 to 20 years
Machinery and equipment	6 to 12 years
Laboratory and research facilities	3 to 5 years
Storage tanks and pipelines	10 to 20 years
Vehicles	5 to 8 years
Computer equipment	3 to 5 years
Furniture and fixtures	4 to 10 years

**Leasing** In accordance with IAS 17, leased assets where all substantive risks and rewards incidental to ownership are transferred (finance leases) are capitalized at the lower of their fair value or the present value of the minimum lease payments at the date of addition. They are depreciated over their useful lives. If subsequent transfer of title to the leased asset is uncertain, it is depreciated over the shorter of its estimated useful life or the lease term.

The future lease payments are recorded as financial liabilities. Liabilities under finance leases are recognized at the fair value of the leased asset at the inception of the lease or the present value of the minimum lease payments, whichever is lower. Thereafter the minimum lease payments are divided into financing costs and the portion representing repayment of the principal. In the case of leasing contracts that do not include the transfer of all substantive risks and rewards incidental to ownership (operating leases), the lessee recognizes the lease payments as current expenses.

Property, plant and equipment also includes assets that LANXESS leases or rents out to third parties under agreements other than finance leases. However, if the lessee is to be regarded as the economic owner of the assets a receivable is recognized in the amount of the discounted future lease or rental payments.

Leasing arrangements may be embedded in other contracts. Where IFRS stipulates separation of the embedded leasing arrangement, the components of the contract are recognized and measured separately.

**Financial instruments** Financial instruments are contracts that give rise simultaneously to a financial asset for one party and a financial liability or equity instrument for the other. Under IAS 32, financial instruments include primary instruments, such as trade receivables or payables and financial assets or liabilities, as well as derivative financial instruments, which are used to hedge risks arising from changes in currency exchange rates, raw material prices or interest rates.

Trade accounts receivable and other financial receivables are recognized at amortized cost using the effective interest method. Write-downs for amounts unlikely to be recovered are recognized via impairment accounts.

Investments in affiliated companies and the equity instruments included in non-current assets are classified as “available-for-sale” financial assets and recognized at fair value in accordance with IAS 39, except where their fair value cannot be reliably determined, in which case they are recognized at cost. Where objective evidence exists that such assets may be impaired, they are written down as necessary on the basis of an impairment test.

Investments in companies included at equity are recognized at the amounts corresponding to LANXESS's share in their equity in accordance with IAS 28 or IAS 31.

Financial assets held for trading are recognized at fair value. Any gain or loss arising from subsequent measurement is reflected in the income statement.

All other primary financial assets are classified as “available-for-sale” and recognized at fair value except if they are allocable to loans and receivables. Any gain or loss resulting from subsequent measurement, with the exception of write-downs and translation gains and losses, is recognized in other comprehensive income until the financial asset is derecognized.

LANXESS does not utilize the option of designating non-derivative financial assets or liabilities at fair value through profit or loss upon initial recognition.

In the case of regular-way purchases and sales, the settlement date is the relevant date for first-time recognition or derecognition of financial assets in the financial statements.

**Derivative financial instruments and hedging transactions** In accordance with IAS 39, the LANXESS Group recognizes derivative financial instruments as assets or liabilities at their fair value on the closing date. Gains and losses resulting from changes in fair value are recognized through profit or loss. Where foreign currency derivatives or forward commodity contracts used to hedge future cash flows from pending business or forecasted transactions qualify for hedge accounting under this standard, changes in the value of such instruments are recognized separately in other comprehensive income until the underlying transactions are realized. The amounts recognized here are subsequently released to other operating income or production costs as appropriate when the hedged transaction is recognized in the income statement. Any portion of the change in value of such derivatives deemed to be ineffective with regard to the hedged risk is recognized directly in the income statement. Changes in the fair value of interest-rate derivatives used to hedge long-term liabilities with variable interest rates – provided such derivatives qualify for hedge accounting – are recognized in other comprehensive income and subsequently released to the income statement as interest income/expense concurrently with the recognition of the income from the hedged transaction.

Contracts concluded for the purpose of receiving or delivering non-financial items based on expected purchases, sales or utilization and held for this purpose are recognized not as financial derivatives but as pending transactions. If the contracts contain embedded derivatives, the derivatives are accounted for separately from the host contract, provided that the economic characteristics and risks of the embedded derivative are not closely linked to those of the host contract.

**Determination of fair value** The principal methods and assumptions used in measuring the fair value of financial instruments are outlined below:

Trade receivables, other receivables and cash and cash equivalents are generally due within one year. Their carrying amount is therefore their fair value. Receivables due in more than one year are discounted using current interest rates to determine their fair value.

The fair value of securities is determined from their market price on the closing date, disregarding transaction costs.

The fair value of loans is determined from discounted future interest payments and capital repayment amounts.

The bonds are traded in an active, liquid market. Their fair values are the prices determined and published by the market.

The fair value of trade payables and other primary financial liabilities due within one year is their carrying amount. That of all other liabilities is determined by discounting them to present value where feasible.

The fair values of receivables and liabilities relating to finance leases are the present values of the net lease payments calculated using the market rate for comparable lease agreements.

Most of the derivative financial instruments used by LANXESS are traded in an active, liquid market. The fair values of forward exchange contracts are derived from their trading or listed prices using the “forward method.” Currency options are valued using an asset pricing model based on the Black & Scholes model. The fair values of forward commodity contracts are also derived from their trading or listed prices using the “forward method.” Where no market price is available, values are determined using recognized capital market pricing methods.

**Inventories** In accordance with IAS 2, inventories encompass assets held for sale in the ordinary course of business (finished goods and merchandise), assets in the process of being manufactured for sale (work in process) and assets consumed during the production process (raw materials and supplies). In accordance with IAS 2, inventories are valued by the weighted-average method and recognized at the lower of cost or net realizable value, which is the estimated selling price in the ordinary course of business less the estimated production costs and selling expenses.

The cost of production comprises the direct cost of materials, direct manufacturing expenses and appropriate allocations of fixed and variable material and manufacturing overheads at normal capacity utilization, where these are attributable to production.

It also includes expenses for company pension plans, corporate welfare facilities and discretionary employee benefits that can be allocated to production. Administrative costs are included where they are attributable to production.

In view of the production and distribution sequences characteristic of the LANXESS Group, work in process and finished goods are grouped together.

**Cash and cash equivalents** Cash and cash equivalents comprise cash, checks and balances with banks. Securities with maturities of up to three months from the date of acquisition are recognized in cash and cash equivalents in view of their high liquidity.

**Non-current assets and liabilities held for sale** Material assets are recognized as held for sale if they can be sold in their current condition and their sale is highly probable. Such assets may be individual non-current assets, groups of assets (disposal groups) or complete business entities. A disposal group may also include liabilities if these are to be divested together with the assets as part of the transaction.

Assets classified as held for sale are no longer depreciated. They are recognized at the lower of fair value less costs to sell or the carrying amount.

**Provisions** Provisions are recognized and measured in accordance with IAS 37 and, where appropriate, IAS 19 and IFRS 2, using the best estimate of the extent of the obligation. Non-current portions of material provisions due in more than one year are discounted to present value if the extent and timing of the obligation can be assessed with reasonable certainty. Where the projected obligation alters as the time of performance approaches (interest effect), the related expense is recognized in other financial expense.

Provisions for pensions and other post-employment benefits are established for defined-benefit pension plans. The provision is measured according to the actuarial present value of the obligation, calculated using the projected unit credit method. This takes into account not only the known pensions and pension entitlements as of the closing date, but also expected future salary and benefit increases. Actuarial gains and losses and adjustments resulting from the asset ceiling and from minimum funding requirements for defined-benefit plans are recognized in full in other comprehensive income in the period in which they occur. They are recognized directly in retained earnings and cannot be reclassified to profit or loss in a subsequent reporting period.

If the projected obligation declines as a result of a change in the estimate, the provision is reversed by the corresponding amount and the effect is recognized in the income or expense item(s) in which the provision was originally recorded.

Personnel-related provisions mainly include those for annual bonus payments, payments under multi-year compensation programs and other personnel costs. Reimbursements to be received from the German government under the phased early retirement program are recorded as receivables and recognized in the income statement as soon as the criteria for such reimbursements are fulfilled.

The share-based remuneration program provides for cash settlement. Provisions are established for the obligations entered into under such programs on the basis of the proportionate fair value of the rights allocated to employees. The fair value is determined using the Monte Carlo method, in which future returns are simulated and the expected payment calculated from the value of the rights based on a two-dimensional standard distribution of returns.

The LANXESS Group also records provisions for current or pending legal proceedings where the resulting expenses can be reasonably estimated. These provisions include all estimated fees and legal costs and the cost of potential settlements. The amounts of such provisions are based upon information and cost estimates provided by the Group's legal advisers. The provisions are regularly reviewed (at least once a quarter) together with the Group's legal advisers and adjusted if necessary.

Contingent liabilities are potential obligations to third parties or existing commitments, the extent of which cannot be reasonably estimated or which are unlikely to lead to an outflow of resources. They are not recognized in the statement of financial position unless they have been entered into in connection with a business combination.

**Liabilities** Current liabilities are recognized at repayment or redemption amounts. Non-current liabilities are recognized at amortized cost. Financial liabilities that do not constitute either the hedged item or the hedging instrument in a permissible hedge accounting relationship are carried at amortized cost, calculated using the effective interest method.

Subsidies received from third parties for the acquisition or construction of property, plant and equipment are reflected in other liabilities and released to the income statement over the underlying period or expected useful life of the assets to which they relate.

**Sales and other revenues** Sales are recognized at the time the goods are delivered to the customer or the services are rendered, and are reported net of sales taxes and deductions. Revenues from contracts that contain customer acceptance provisions are deferred until customer acceptance occurs or the contractual acceptance period lapses. Allocations to provisions for rebates to customers are recognized in the period in which revenue recognition legally occurs. Received payments relating to the sale or licensing of technologies or technological expertise are recognized in income as of the effective dates of the respective agreements, provided that all rights and obligations relating to the technologies concerned are relinquished under the contract terms. However, if rights to the technologies continue to exist or obligations resulting from them still have to be fulfilled, the payments received are recorded in line with the actual circumstances. Revenues such as license fees, rental payments, interest income and dividends are recognized according to the same principles.

**Research and development expenses** According to IAS 38, research costs cannot be capitalized, whereas development costs must be capitalized if, and only if, specific narrowly defined conditions are fulfilled. Development costs must be capitalized if it is sufficiently certain that the future economic benefits to the company will cover not only the usual production, selling and administrative costs but also the development costs themselves. However, since the development of new products and processes frequently involves uncertainties, the conditions for capitalization of development costs are not generally met.

**Income taxes** This item comprises the income taxes paid or accrued in the individual countries, plus deferred taxes. Computation is based on local tax rates.

Income tax liabilities comprise the liabilities relating to the year under review and any liabilities relating to previous years.

In accordance with IAS 12, deferred taxes are calculated for temporary differences between the carrying amounts of assets or liabilities in the statement of financial position and its tax base and for differences arising from consolidation measures or realizable tax loss carryforwards. Deferred taxes are calculated at the rates which – on the basis of the statutory regulations in force, or already enacted in relation to future periods, as of the closing date – are expected to apply in the individual countries at the time of realization.

The carrying amount of deferred tax assets is reviewed at each closing date and only the amount likely to be realizable due to future taxable income is recognized. Deferred tax assets from loss carryforwards are recognized if it is probable that the carryforwards can be utilized.

Deferred tax assets and liabilities are netted if they relate to income taxes levied by the same tax authorities.

**Statement of cash flows** The statement of cash flows shows how cash inflows and outflows during the year affected the cash and cash equivalents of the LANXESS Group. The effects of acquisitions, divestments and other changes in the scope of consolidation are eliminated. Cash flows are classified by operating, investing and financing activities in accordance with IAS 7. The liquidity reported in the statement of cash flows comprises only cash and cash equivalents.

**Global impairment testing procedure and impact** In the LANXESS Group, non-current assets are tested for impairment by comparing the residual carrying amount of each cash-generating unit with its recoverable amount. In the LANXESS Group these impairment tests are performed at least once a year. Related information is also contained in the section headed “Estimation uncertainties and exercise of discretion.”

The LANXESS Group defines its business units as the cash-generating units. However, if there is reason to suspect impairment of non-current assets below business-unit level, such assets are also tested for impairment, and any impairment loss is recognized in the income statement.

The recoverable amount is the higher of the asset's fair value less costs to sell and the value in use. If the carrying amount of a cash-generating unit exceeds the recoverable amount, an impairment loss is recognized. The fair value less costs to sell is the best estimate of the price that would be obtained by selling the cash-generating unit to a third party at the time of valuation less the estimated selling costs. The value in use is defined as the present value of future cash flows based on the continuing use of the asset and its retirement at the end of its useful life. The first step in an impairment test is to determine the fair value less costs to sell. If this is less than the carrying amount of the cash-generating unit, the value in use is then determined.

The recoverable amount is calculated from a forecast of future cash flows based on the LANXESS Group's current long-term planning. This planning is based on the latest approved five-year plan, which is in turn built on past experience and the Board of Management's estimates of expected market conditions, including assumptions regarding future raw material prices, cost of sales, selling expenses, research and development expenses, general administration expenses and exchange rates. The present value of future cash flows is calculated by discounting them using a weighted capital cost factor. The capital cost factor is derived according to IAS 36 from capital market models, taking into account the capital structure and business risks specific to the chemical industry.

If the impairment test reveals a need to recognize an impairment loss, the first step is to write down the goodwill of the strategic business units concerned. For this purpose, goodwill is allocated among the strategic business units on the basis of use before the impairment test. Any remaining impairment amount is allocated proportionately among the other non-current assets of the strategic business unit on the basis of their net carrying amounts at the closing date.

Impairment losses are fully recognized in the income statement under other operating expenses and reflected in the segment reporting in the expenses of the respective segments.

## CHANGES IN RECOGNITION AND VALUATION PRINCIPLES

The International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) have adopted a number of amendments to accounting standards which became mandatory for the first time in 2009.

**Presentation of the financial statements** Near-cash assets are reported on the face of the statement of financial position for the first time to enhance the clarity of the Group financial statements. This item includes units of money market funds that can be sold at any time and are expected to be realized within twelve months after the closing date.

Due to the revised version of IAS 1 that entities are required to apply from 2009 forward, a reconciliation of income after taxes to total comprehensive income showing the components of other comprehensive

income (statement of comprehensive income) has been prepared in addition to the income statement. The presentation of the statement of changes in equity has also been modified in this connection.

The revised version of IAS 1 requires the additional publication of an opening statement of financial position for the earliest comparative period if changes in accounting policies are applied retroactively. In view of the change in the accounting for pension and other post-employment benefit obligations outlined below, an opening statement of financial position as of January 1, 2008 is presented. Explanatory notes are only included for the items affected by the change. Where no comment is made on the carrying amount of an item as of January 1, 2008, it has not been affected by the accounting change.

**Accounting for pension and other post-employment benefit obligations** LANXESS decided to change the accounting treatment of provisions for pension and other post-employment benefit obligations in order to improve the transparency of financial reporting. Actuarial gains and losses in the LANXESS Group are no longer accounted for under the 10% corridor rule. Instead they are recognized in full outside profit or loss as a component of other comprehensive income in the period in which they occur. The LANXESS Group has also applied the interpretation IFRIC 14 for the first time following its adoption by the E.U. This concerns the asset ceiling and the minimum funding requirements for defined-benefit pension plans.

In compliance with the applicable financial reporting standards, the change in the accounting for pension and other post-employment benefit obligations has been applied retroactively. The impact on the relevant items of the statement of financial position as of January 1, 2008 and December 31, 2008 is as follows:

### Impact on Statement of Financial Position as of Jan. 1, 2008

€ million	Jan. 1, 2008 (previous accounting)	Effect from change in accounting	Jan. 1, 2008 (new accounting)
<b>ASSETS</b>			
Investments accounted for using the equity method	33	(8)	25
Deferred taxes	93	21	114
Other non-current assets	102	(78)	24
<b>EQUITY AND LIABILITIES</b>			
Other reserves	923	(110)	813
Provisions for pensions and other post-employment benefits	470	65	535
Deferred taxes	60	(20)	40

## Impact on Statement of Financial Position as of Dec. 31, 2008

€ million	Dec. 31, 2008 (previous accounting)	Effect from change in accounting	Dec. 31, 2008 (new accounting)
<b>ASSETS</b>			
Investments accounted for using the equity method	49	(7)	42
Deferred taxes	137	17	154
Other non-current assets	134	(69)	65
<b>EQUITY AND LIABILITIES</b>			
Other reserves	840	(78)	762
Net income	171	12	183
Other equity components	(509)	(2)	(511)
Provisions for pensions and other post-employment benefits	483	15	498
Deferred taxes	47	(6)	41

The change in accounting increased the operating result (EBIT) previously reported for fiscal 2008 by €1 million and the financial result by €16 million, while the accounting for deferred taxes led to tax expense of €5 million.

**Segment reporting** The segment reporting has been prepared according to IFRS 8 for the first time. The key difference between IFRS 8 and IAS 14, which was applied for the last time in the consolidated financial statements as of December 31, 2008, is that IFRS 8 follows the so-called management approach. This means that the amount reported for each segment item must be the same as that notified to the company's chief operating decision maker (CODM). Since the earnings figure used for management accounting purposes within the LANXESS Group is the operating result before depreciation and amortization (EBITDA) pre exceptionals, this is the amount now disclosed as the "segment result." A reconciliation of EBITDA pre exceptionals to income before taxes is also provided.

**Notes to financial instruments** In March 2009 the IASB published amendments to IFRS 7 stipulating extended disclosures on the fair-value measurement of financial instruments and on liquidity risks. For example, it introduces a three-level hierarchy for the measurement of financial instruments at fair value. Since the changes relate only to disclosure requirements, their first-time application had no material impact on the financial position or results of operations of the LANXESS Group.

**Other changes** The following accounting standards and interpretations had to be applied for the first time in 2009 but currently have no impact, or no material impact, on the LANXESS Group:

- IFRIC 11: IFRS 2 – Group and Treasury Share Transactions
- IFRIC 13: Customer Loyalty Programmes
- IAS 23: Borrowing Costs
- IFRS 2: Amendments to IFRS 2 – Vesting Conditions and Cancellations

- IAS 32 and IAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation – Amendments to IAS 32 and IAS 1
- Various IAS and IFRSs: "Improvements to IFRSs" (2008)
- IFRS 1 and IAS 27: Cost of an investment in a subsidiary, jointly controlled entity or associate in the separate financial statements of the parent company – Amendments to IFRS 1 and IAS 27
- IFRIC 9 and IAS 39: Reassessment of embedded derivatives following reclassification of financial assets – Amendments to IFRIC 9 and IAS 39.

## NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET MANDATORY

In 2009 the LANXESS Group did not yet apply certain further accounting standards and interpretations that had already been issued by the IASB and IFRIC but were not mandatory for that year. The application of these standards and interpretations is in some cases contingent upon their adoption by the E.U. It is therefore possible that the dates for mandatory application may ultimately be later than indicated below.

Revised versions of IFRS 3 and IAS 27 were published in January 2008. The new version of IFRS 3 defines the scope of the standards and the accounting treatment of purchase price components, minority interests and goodwill. It also specifies which assets, liabilities and contingent liabilities are to be recognized. The new version of IAS 27 mainly addresses the treatment of share purchases and sales effected when a company gains, loses or maintains its ability to exercise control. The revised versions of IFRS 3 and IAS 27 are to be applied largely prospectively to fiscal years beginning on or after July 1, 2009. Depending on the type and scope of future transactions, the amendments could have an impact on the financial position and results of operations of the LANXESS Group in the future, though it is not possible to estimate that impact at the present time.

In November 2009, the IASB issued IFRS 9. The new standard represents the first of three phases in the complete replacement of IAS 39 and introduces fundamental changes to the previous rules on classification and measurement of financial assets. IFRS 9 is to be applied for annual periods beginning on or after January 1, 2013. The LANXESS Group is currently evaluating what impact the application of IFRS 9 will have on its financial position and results of operations.

The following accounting standards and interpretations currently have no impact, or no material impact, on the LANXESS Group.

Standard/Interpretation		Date of publication	Mandatory for LANXESS as of fiscal year	Adoption by the E.U.
IFRIC 12	Service Concession Arrangements	Nov. 30, 2006	2010 <sup>1)</sup>	yes
IFRS 5	Improvements to IFRSs (2008) – Amendments to IFRS 5	May 22, 2008	2010	yes
IFRIC 15	Agreements for the Construction of Real Estate	July 3, 2008	2010 <sup>1)</sup>	yes
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	July 3, 2008	2010 <sup>1)</sup>	yes
IAS 39	Suitable Host Contracts – Amendments to IAS 39	July 31, 2008	2010	yes
IFRIC 17	Distributions of Non-cash Assets to Owners	Nov. 27, 2008	2010	yes
IFRS 1	First-time Adoption of International Financial Reporting Standards	Nov. 27, 2008	–	yes
IFRIC 18	Transfers of Assets from Customers	Jan. 29, 2009	2010	yes
Various IAS and IFRS	Improvements to IFRSs (2009)	April 16, 2009	2010 in most cases	no
IFRS 2	Group Cash-settled Share-based Payment Transactions – Amendments to IFRS 2	June 18, 2009	2010	no
IFRS 1	Additional Exemptions for First-time Adopters	July 23, 2009	–	no
IAS 32	Classification of Rights Issues	Oct. 8, 2009	2011	yes
IAS 24	Related Party Disclosures	Nov. 4, 2009	2011	no
IFRIC 14	Prepayments of a Minimum Funding Requirement	Nov. 26, 2009	2011	no
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	Nov. 26, 2009	2011	no
IFRS 1	Temporary Exemption from Comparative IFRS 7 Disclosures	Jan. 28, 2010	–	no

1) Date of mandatory adoption altered during the E.U. endorsement process

## ESTIMATION UNCERTAINTIES AND EXERCISE OF DISCRETION

The preparation of consolidated financial statements in accordance with IFRS entails the selection of recognition and valuation principles and the use of forward-looking assumptions and estimates that may affect the valuation of assets and liabilities, income and expenses and contingent liabilities.

All assumptions and estimates used in the consolidated financial statements are based on management's expectations and thus take into account the repercussions of the financial and economic crisis. Information that could alter these estimates is reviewed continually and may result in adjustments to the carrying amounts of the respective assets and liabilities.

Assumptions and estimates that could materially impact the valuation of the LANXESS Group's assets and liabilities are discussed below.

The LANXESS Group tests its cash-generating units for impairment at least once a year by determining the respective recoverable amount (for further information see the section headed "Recognition and Valuation Principles"). The test is based on forecasts of future cash flows, derived from reasonable assumptions representing the management's best assessment of the economic circumstances at the time of the impairment test. Management's expectations of future cash flows therefore indirectly affect the valuation of assets and goodwill.

The assumptions and estimates used for the impairment test conducted on assets in fiscal 2009 could differ from the actual values in subsequent periods, necessitating subsequent valuation

adjustments. In 2009, the impairment test on cash-generating units was performed solely by determining their fair values less costs to sell based on a discount rate of 7.7% and without using growth rates to extrapolate the last year of the forecasting period. As in the previous year, an increase of one percentage point in the discount rate or a reduction of 10% in expected future cash flows would not have led to write-downs. Similarly, a reduction of one percentage point in the discount rate or an increase of 10% in expected future cash flows would not have led to write-ups in 2009 (2008: €59 million).

The goodwill of €93 million arising on the acquisition of Petroflex in 2008 was allocated in full to the Performance Butadiene Rubbers business unit. The goodwill of €12 million arising on the acquisition of Gwalior in fiscal 2009 (see the section headed "Companies Consolidated") was allocated to the Basic Chemicals business unit. The goodwill from both acquisitions was tested for impairment as of the closing date. Neither a one percentage point increase in the discount rate nor a 10% reduction in expected future cash flows would have necessitated an impairment write-down on this goodwill.

The recognition and measurement of provisions are also affected by assumptions as to the probability of utilization, the underlying discount rate and the absolute level of risk. The LANXESS Group performed sensitivity analyses on all provisions existing as of December 31, 2009 as required by the IFRS. These involved calculating the impact of variations in the parameters used, especially probability of occurrence, discount rate and absolute level of risk. The outcome of these sensitivity analyses shows that variations in the assumptions described above would not have a material impact on the level of other provisions reported in the consolidated financial statements of the LANXESS Group. For further information on the sensitivity analyses relating to provisions for pension and other post-employment benefits, see Note [12].

Defined-benefit pension plans also necessitate actuarial computations and valuations. The section on provisions for pension and other post-employment benefit obligations contains information on the assumptions on which the actuarial calculations and estimates were based (see Note [12]).

There is also a degree of uncertainty surrounding the assessment of certain tax situations by the tax authorities. Although the LANXESS Group believes it has presented all tax-relevant information correctly and in compliance with the law, it is possible that the tax authorities may occasionally reach different conclusions.

Other significant estimates are used to assess the useful lives of intangible assets and property, plant and equipment, the probability of collecting receivables and other assets, the valuation of inventories and the ability to realize tax claims and deferred tax assets recognized for temporary differences and tax loss carryforwards.

Up to the time these consolidated financial statements were prepared, no circumstances had become known that would necessitate a major change in such estimates.

## COMPANIES CONSOLIDATED

**Changes in the scope of consolidation** The consolidated financial statements of the LANXESS Group include the parent company LANXESS AG along with all of its material domestic and foreign subsidiaries.

On September 1, 2009 the Indian subsidiary LANXESS India Private Ltd., Thane, acquired the chemical businesses and production facilities of the listed Indian company Gwalior Chemical Industries Ltd. (Gwalior), headquartered in Mumbai. Also effective September 1, 2009, the LANXESS Group purchased the businesses and production facilities of Jiangsu Polyols Chemical Co. Ltd., Liyang, China. The acquisitions were financed mainly out of existing liquidity of the LANXESS Group. These activities, which are allocated to the Advanced Intermediates segment, were included in the consolidated financial statements of the LANXESS Group with effect from September 1, 2009.

Since the date of acquisition, the acquired businesses contributed €18 million to LANXESS Group sales and less than €1 million to net income. Had these businesses already been acquired as of January 1, 2009, they would have contributed approximately €56 million to LANXESS Group sales and about €4 million to net income in fiscal 2009.

The acquisitions were accounted for as business combinations in accordance with IFRS 3 (2004). The purchase price allocations reflected the fair values of the identifiable assets, liabilities and contingent liabilities of the acquired companies. The remaining difference of €12 million represents the goodwill acquired with the Gwalior business. Details of the purchase price allocation and the effects of the acquisitions on the LANXESS Group's statement of financial position are given below:

### Additions from Acquisitions

€ million	2009		
	IFRS carrying amounts prior to first-time consolidation	Purchase price allocation	Carrying amounts upon first-time consolidation
Intangible assets	2	13	15
Property, plant and equipment	43	3	46
Other assets	15	–	15
<b>Total assets</b>	<b>60</b>	<b>16</b>	<b>76</b>
Non-current liabilities	–	–	–
Current liabilities	2	–	2
<b>Total liabilities</b>	<b>2</b>	<b>–</b>	<b>2</b>
<b>Net acquired assets (excluding goodwill)</b>	<b>58</b>	<b>16</b>	<b>74</b>
<b>Acquisition costs</b>			<b>86</b>
<b>Acquired goodwill (provisional valuation)</b>			<b>12</b>

The purchase price allocation is provisional and was carried out with the aid of reports from external experts and in the light of the information available at and immediately after the date of acquisition. According to IFRS, the purchase price allocation is subject to adjustment within one year after the acquisition date to reflect new information and findings.

The goodwill remaining after the purchase price allocation is the result of various factors. The goodwill resulting from the acquisition of the Gwalior business reflects advantageous production conditions attaching to the location that cannot be stated as a separate intangible asset, along with synergies arising from the creation of production capacities, product extensions and market potential, especially in the BRIC countries. The acquisition is thus a further step in LANXESS's long-term growth strategy.

The above €86 million cost of acquisition includes external consultancy fees constituting ancillary costs of acquisition.

The company OOO LANXESS, Dzerzhinsk, Russia, was also consolidated for the first time. Through this company LANXESS steers its business in Russia and other countries of the Commonwealth of Independent States (CIS). The first-time consolidation of this company did not have a material impact on the LANXESS Group's financial position or results of operations.

Intra-Group mergers had no impact on the assets or liabilities recognized in the financial statements of the LANXESS Group as they merely involved the transfer of assets and liabilities between fully consolidated Group companies.

LANXESS Yaxing Chemical (Weifang) Co., Ltd., Weifang, China, was deconsolidated in fiscal 2009 after being divested. This had no material impact on the financial position or results of operations of the LANXESS Group. No subsidiaries were deconsolidated in 2008.

The consolidated financial statements of the LANXESS Group as of December 31, 2009 include 59 (2008: 61) fully consolidated companies. The 40% interest in CURRENTA GmbH & Co. OHG, Leverkusen, Germany, and the 25% interest in Anhui Tongfeng Shengda Chemicals Company Limited, Tongling, China, are accounted for using the equity method.

First-time consolidation of the companies of the Petroflex group (now LANXESS Elastômeros do Brasil S.A., Rio de Janeiro, Brazil), which were acquired in the previous year, was effected as of April 1, 2008. The acquisition had the following impact on the consolidated statement of financial position of the LANXESS Group as of December 31, 2008:

#### Additions from the Acquisition of the Petroflex Group

€ million	2008		
	IFRS carrying amounts prior to first-time consolidation	Purchase price allocation	Carrying amounts upon first-time consolidation
Intangible assets	5	34	39
Property, plant and equipment	131	36	167
Other assets	280	51	331
<b>Total assets</b>	<b>416</b>	<b>121</b>	<b>537</b>
Non-current liabilities	103	56	159
Current liabilities	212	–	212
<b>Total liabilities</b>	<b>315</b>	<b>56</b>	<b>371</b>
<b>Net acquired assets (excluding goodwill)</b>	<b>101</b>	<b>65</b>	<b>166</b>
<b>Acquisition costs</b>			<b>259</b>
<b>Acquired goodwill (provisional valuation)</b>			<b>93</b>

The purchase price allocation for this acquisition was provisional and was subject to adjustment within one year after the acquisition date to reflect new information and findings. The provisional purchase price allocation had not changed by March 31, 2009, so the figures in the above table are final.

**Other information on companies consolidated** The principal consolidated companies are listed in the following table:

#### Company Name and Headquarters

Company Name and Headquarters	Interest Held
in %	
<b>Germany</b>	
ALISECA GmbH, Leverkusen	100
LANXESS Buna GmbH, Marl	100
LANXESS Deutschland GmbH, Leverkusen	100
LANXESS Distribution GmbH, Langenfeld	100
Rhein Chemie Rheinau GmbH, Mannheim	100
SALTIGO GmbH, Langenfeld	100

#### EMEA (excluding Germany)

LANXESS Elastomères S.A.S., Lillebonne, France	100
LANXESS Emulsion Rubber S.A.S., La Wantzenau, France	100
LANXESS Finance B.V., Ede, Netherlands	100
LANXESS International SA, Granges-Paccot, Switzerland	100
LANXESS Limited, Newbury, U.K.	100
LANXESS (Pty.) Ltd., Modderfontein, South Africa	100
LANXESS N.V., Antwerp, Belgium	100
LANXESS Rubber N.V., Zwijndrecht, Belgium	100
LANXESS S.r.l., Milan, Italy	100

#### North America

LANXESS Buna LLC, Wilmington, U.S.	100
LANXESS Corporation, Pittsburgh, U.S.	100
LANXESS Inc., Sarnia, Canada	100

#### Latin America

LANXESS Elastômeros do Brasil S.A., Rio de Janeiro, Brazil	100
LANXESS Industria de Produtos Quimicos e Plasticos Ltda., São Paulo, Brazil	100
LANXESS S.A., Buenos Aires, Argentina	100
LANXESS S.A. de C.V., Mexico City, Mexico	100

#### Asia-Pacific

LANXESS Wuxi Chemicals Co. Ltd., Wuxi, China	100
LANXESS Hong Kong Ltd., Hong Kong, China	100
LANXESS India Private Ltd., Thane, India	100
LANXESS K.K., Tokyo, Japan	100
LANXESS Pte. Ltd., Singapore, Singapore	100
LANXESS PTY Ltd., Homebush Bay, Australia	100
LANXESS (Shanghai) Trading Co. Ltd., Shanghai, China	100

A complete list of the LANXESS Group's ownership interests is published in the electronic version of the German Federal Gazette (Bundesanzeiger) and is also available directly from LANXESS AG on request.

## NOTES TO THE STATEMENT OF FINANCIAL POSITION

**1 Intangible assets** Changes in intangible assets were as follows:

### Changes in Intangible Assets in 2008

€ million	Concessions, industrial property rights, similar rights and assets, and licenses to such rights and assets	Acquired goodwill	Advance payments	Total
Cost of acquisition or generation on Dec. 31, 2007	153	16	7	176
Changes in scope of consolidation/acquisition	41	93		134
Capital expenditures	1		13	14
Disposals	(86)	(1)		(87)
Reclassifications	19		(19)	0
Exchange differences	(5)	(14)		(19)
<b>Cost of acquisition or generation on Dec. 31, 2008</b>	<b>123</b>	<b>94</b>	<b>1</b>	<b>218</b>
Accumulated amortization and write-downs on Dec. 31, 2007	(137)	(6)	0	(143)
Changes in scope of consolidation				0
Amortization and write-downs in 2008	(20)			(20)
of which write-downs	(3)			(3)
Disposals	87			87
Reclassifications				0
Exchange differences	2	1		3
<b>Accumulated amortization and write-downs on Dec. 31, 2008</b>	<b>(68)</b>	<b>(5)</b>	<b>0</b>	<b>(73)</b>
<b>Carrying amounts on Dec. 31, 2008</b>	<b>55</b>	<b>89</b>	<b>1</b>	<b>145</b>

### Changes in Intangible Assets in 2009

€ million	Concessions, industrial property rights, similar rights and assets, and licenses to such rights and assets	Acquired goodwill	Advance payments	Total
Cost of acquisition or generation on Dec. 31, 2008	123	94	1	218
Changes in scope of consolidation/acquisition	15	12		27
Capital expenditures	5		5	10
Disposals	(18)			(18)
Reclassifications	2		(2)	0
Exchange differences	10	22		32
<b>Cost of acquisition or generation on Dec. 31, 2009</b>	<b>137</b>	<b>128</b>	<b>4</b>	<b>269</b>
Accumulated amortization and write-downs on Dec. 31, 2008	(68)	(5)	0	(73)
Changes in scope of consolidation				0
Amortization and write-downs in 2009	(13)			(13)
of which write-downs				0
Disposals	17			17
Reclassifications				0
Exchange differences	(4)			(4)
<b>Accumulated amortization and write-downs on Dec. 31, 2009</b>	<b>(68)</b>	<b>(5)</b>	<b>0</b>	<b>(73)</b>
<b>Carrying amounts on Dec. 31, 2009</b>	<b>69</b>	<b>123</b>	<b>4</b>	<b>196</b>

**2 Property, plant and equipment** Changes in property, plant and equipment were as follows:

### Changes in Property, Plant and Equipment in 2008

€ million	Land and buildings	Technical equipment and machinery	Other fixtures, fittings and equipment	Advance payments and assets under construction	Total
Cost of acquisition or construction on Dec. 31, 2007	1,126	4,860	196	140	6,322
Changes in scope of consolidation/ acquisition	67	88	4	20	179
Capital expenditures	6	68	10	258	342
Disposals	(36)	(155)	(11)	(6)	(208)
Reclassifications	17	137	(17)	(137)	0
Exchange differences	(13)	(80)	(2)	(5)	(100)
<b>Cost of acquisition or construction on Dec. 31, 2008</b>	<b>1,167</b>	<b>4,918</b>	<b>180</b>	<b>270</b>	<b>6,535</b>
Accumulated depreciation and write-downs on Dec. 31, 2007	(813)	(3,901)	(149)	0	(4,863)
Changes in scope of consolidation					
Depreciation and write-downs in 2008	(37)	(216)	(6)		(259)
of which write-downs	(5)	(12)			(17)
Disposals	26	151	9		186
Reclassifications					0
Exchange differences	1	44	2		47
<b>Accumulated depreciation and write-downs on Dec. 31, 2008</b>	<b>(823)</b>	<b>(3,922)</b>	<b>(144)</b>	<b>0</b>	<b>(4,889)</b>
<b>Carrying amounts on Dec. 31, 2008</b>	<b>344</b>	<b>996</b>	<b>36</b>	<b>270</b>	<b>1,646</b>

### Changes in Property, Plant and Equipment in 2009

€ million	Land and buildings	Technical equipment and machinery	Other fixtures, fittings and equipment	Advance payments and assets under construction	Total
Cost of acquisition or construction on Dec. 31, 2008	1,167	4,918	180	270	6,535
Changes in scope of consolidation/ acquisition	(8)	1	1	10	4
Capital expenditures	7	118	10	197	332
Disposals	(32)	(108)	(9)	(2)	(151)
Reclassifications	32	166	10	(208)	0
Exchange differences	22	72	3	8	105
<b>Cost of acquisition or construction on Dec. 31, 2009</b>	<b>1,188</b>	<b>5,167</b>	<b>195</b>	<b>275</b>	<b>6,825</b>
Accumulated depreciation and write-downs on Dec. 31, 2008	(823)	(3,922)	(144)	0	(4,889)
Changes in scope of consolidation	4	29			33
Depreciation and write-downs in 2009	(37)	(208)	(15)		(260)
of which write-downs	(8)	(7)			(15)
Disposals	27	103	9		139
Reclassifications					0
Exchange differences	(4)	(33)	(2)		(39)
<b>Accumulated depreciation and write-downs on Dec. 31, 2009</b>	<b>(833)</b>	<b>(4,031)</b>	<b>(152)</b>	<b>0</b>	<b>(5,016)</b>
<b>Carrying amounts on Dec. 31, 2009</b>	<b>355</b>	<b>1,136</b>	<b>43</b>	<b>275</b>	<b>1,809</b>

Capitalized property, plant and equipment includes assets with a total net value of €77 million (2008: €40 million) held under finance leases. The gross carrying amounts of these assets at the closing date totaled €161 million (2008: €117 million).

These assets are mainly machinery and technical equipment with a carrying amount of €62 million and a cost of acquisition or construction of €136 million (2008: carrying amount €24 million, cost of acquisition or construction €92 million) and buildings with a carrying

amount of €15 million and a cost of acquisition or construction of €25 million (2008: carrying amount €16 million, cost of acquisition or construction €25 million). In the case of buildings, either the present value of the minimum lease payments substantially covers their fair value, or title passes to the lessee on expiration of the lease.

**3 Investments accounted for using the equity method** As in the previous year, the companies included in the consolidated financial statements for 2009 using the equity method are CURRENTA GmbH & Co. OHG, Leverkusen, Germany, and Anhui Tongfeng Shengda Co. Ltd., Tongling, China.

The following table shows the main items included in the income statement and statement of financial position related to these associates:

#### Income from Investments Accounted for using the Equity Method

€ million	2008	2009
Sales	1,527	1,123
Income from investments accounted for using the equity method	21	8

#### Investments Accounted for using the Equity Method

€ million	Jan. 1, 2008	Dec. 31, 2008	Dec. 31, 2009
Assets	994	957	855
Liabilities	814	778	669
<b>Equity</b>	<b>180</b>	<b>179</b>	<b>186</b>
Adjustment of LANXESS's interest and equity valuation	(155)	(137)	(160)
<b>Investments accounted for using the equity method</b>	<b>25</b>	<b>42</b>	<b>26</b>

The €16 million decrease (2008: €17 million increase) in the carrying amount of investments accounted for using the equity method arises from the equity-method income after adjustment for a gain of €1 million (2008: €0 million) on the value of cash flow hedges at CURRENTA GmbH & Co. OHG, Leverkusen, Germany, previously recognized in other comprehensive income and now released to the income statement, and the impact of the pro rata income transfer of €23 million (2008: €4 million) from that company.

**4 Investments in other affiliated companies** This item contains interests in other affiliated companies totaling €1 million (2008: €2 million). The decrease is due primarily to the first-time consolidation of OOO LANXESS, Dzerzhinsk, Russia, in fiscal 2009.

The other investments classified as available-for-sale financial assets consist of non-listed equity instruments whose fair values could not be reliably determined. These are therefore recognized at cost in the consolidated financial statements as of December 31, 2009, at an amount of €1 million (2008: €2 million). There are currently no plans to dispose of these investments.

## 5 Other non-current and current financial assets

#### Other Non-Current and Current Financial Assets

€ million	Dec. 31, 2008		
	Non-current	Current	Total
Available-for-sale financial assets	31	64	95
Receivables under finance leases	10	2	12
Other financial receivables	31	89	120
	<b>72</b>	<b>155</b>	<b>227</b>

#### Other Non-Current and Current Financial Assets

€ million	Dec. 31, 2009		
	Non-current	Current	Total
Available-for-sale financial assets	52	2	54
Receivables under finance leases	8	2	10
Other financial receivables	19	142	161
	<b>79</b>	<b>146</b>	<b>225</b>

The available-for sale non-current financial assets comprise €51 million in bearer securities of an exchange-traded index fund. Accounts receivable of €10 million (2008: €12 million) relate to lease agreements in which the other party, as lessee, is to be regarded as the economic owner of the leased assets (finance leases).

The leasing receivables are due as follows:

#### Maturity Structure of Lease Payments

€ million	Dec. 31, 2008		
	Lease payments	Interest portion	Leasing receivables
Up to 1 year	2	0	2
1 to 5 years	9	1	8
More than 5 years	2	0	2
	<b>13</b>	<b>1</b>	<b>12</b>

#### Maturity Structure of Lease Payments

€ million	Dec. 31, 2009		
	Lease payments	Interest portion	Leasing receivables
Up to 1 year	2	0	2
1 to 5 years	9	1	8
More than 5 years	0	0	0
	<b>11</b>	<b>1</b>	<b>10</b>

Other financial receivables include fixed-term investments of €137 million (2008: €80 million) bearing interest at a weighted average effective rate of 0.7% (2008: 2.9%).

None of the receivables included in other financial assets are impaired or overdue. There were no indications as of the closing date that the respective debtors would not meet their payment obligations.

**6 Other non-current assets** Other non-current assets are carried at amortized cost less write-downs. No write-downs were necessary in 2008 or 2009.

Other non-current assets comprised:

#### Other Non-Current Assets

€ million	Jan. 1, 2008	Dec. 31, 2008	Dec. 31, 2009
Receivables from pension obligations	9	47	68
Other receivables	15	18	24
	<b>24</b>	<b>65</b>	<b>92</b>

**7 Inventories** The inventories of the LANXESS Group comprised:

#### Inventories

€ million	Dec. 31, 2008	Dec. 31, 2009
Raw materials and supplies	232	177
Work in process, finished goods and merchandise	816	672
	<b>1,048</b>	<b>849</b>

Inventories of €175 million (2008: €256 million) are reflected at their net realizable value.

Write-downs of inventories were as follows:

#### Write-downs of Inventories

€ million	Dec. 31, 2008	Dec. 31, 2009
Balance at beginning of year	(63)	(148)
Additions charged as expenses	(112)	(46)
Reversals/utilization	22	120
Exchange differences	5	(5)
<b>Balance at end of year</b>	<b>(148)</b>	<b>(79)</b>

**8 Trade receivables** Trade receivables are stated after write-downs of €22 million (2008: €30 million) for amounts unlikely to be recovered. These write-downs related to gross receivables of €29 million (2008: €35 million).

All trade receivables – totaling €733 million (2008: €725 million) – are due within one year. Trade receivables of €2 million (2008: €7 million) related to other affiliated companies and €731 million (2008: €718 million) to other customers.

Changes in write-downs of trade receivables were as follows:

#### Write-Downs of Trade Receivables

€ million	Dec. 31, 2008	Dec. 31, 2009
Balance at beginning of year	(17)	(30)
Additions charged as expenses	(22)	(9)
Reversals/utilization	9	17
<b>Balance at end of year</b>	<b>(30)</b>	<b>(22)</b>

The maturity structure of overdue trade receivables is as follows:

#### Maturity Structure of Overdue Payments

€ million	Dec. 31, 2008	Dec. 31, 2009
Carrying amount of trade receivables	725	733
of which unimpaired and not overdue	589	636
of which unimpaired and overdue by		
up to 30 days	105	77
between 31 and 60 days	15	9
between 61 and 90 days	6	2
more than 90 days	5	2

With regard to trade receivables that were neither impaired nor overdue, there were no indications as of the closing date that the respective debtors would not meet their payment obligations.

**9 Near-cash assets** The near-cash assets of €402 million (2008: €0 million) comprise units of money market funds that can be sold at any time and are expected to be realized within 12 months after the closing date.

**10 Other current assets** Other receivables and other assets are stated at amortized cost, less write-downs of €9 million (2008: €10 million). They principally comprise miscellaneous claims for tax refunds amounting to €75 million (2008: €97 million).

**11 Equity**

**Share buyback and retirement** The Annual Stockholders' Meeting of LANXESS AG on May 7, 2009, authorized the Board of Management to acquire shares in the company representing up to 10% of the capital stock up to November 5, 2010 and to utilize them for any purpose permitted by law. This authorization may also be utilized by subsidiaries of the company or by third parties on behalf of the company or its subsidiaries. At the discretion of the Board of Management, such shares may be acquired either in the market or via a public tender offer. The Board of Management is authorized to utilize the acquired shares for any purpose permitted by law. In particular, it may retire the shares, sell them over the counter, or transfer them in return for contributions in kind, provided that this is done in order to acquire companies, parts of companies or equity interests in companies, to effect mergers, or to satisfy conversion rights or

warrants attached to convertible or warrant bonds, profit-participation rights, income bonds or combinations of such instruments. Subscription rights of the stockholders shall be excluded in the above cases, except when the shares are retired.

**Capital stock** The capital stock of LANXESS AG was €83,202,670 and thus unchanged from the previous year. It is divided into 83,202,670 no-par shares. All shares carry the same rights and obligations. One vote is granted per share and determines the share of the profit.

**Authorized capital** As of December 31, 2009 the company's authorized capital comprised the following:

The Annual Stockholders' Meeting of LANXESS AG on May 7, 2009 authorized the Board of Management up to May 6, 2014 to increase the company's capital stock, with the approval of the Supervisory Board, by issuing new no-par shares against cash or non-cash contributions in one or more installments up to a total of €16,640,534. This resolution on authorized capital was entered in the Commercial Register on May 20, 2009. Stockholders must normally be granted subscription rights to any authorized capital issued. However, with the approval of the Supervisory Board, the Board of Management is authorized to exclude subscription rights for stockholders in certain circumstances.

**Conditional capital** As of December 31, 2009 the company's contingent capital comprised the following:

- Conditional capital I und II

At the Annual Stockholders' Meeting on May 31, 2007, the Board of Management was authorized until May 31, 2012 to issue – in one or more installments – convertible bonds and/or warrant bonds, profit-participation rights and/or income bonds (or any combination of these instruments), either as registered or as bearer bonds, with or without limited maturity, with a total nominal value of €500,000,000 in either case and to grant the bearer or creditors of bonds conversion or subscription rights to no-par bearer shares in the company's capital stock up to a total of €21,155,167. This constitutes a conditional increase in the capital stock of LANXESS AG of up to €21,155,167 in either case (conditional capital I and II). The conditional increase serves the purpose of granting no-par bearer shares to the holders or creditors of convertible and/or warrant bonds, profit-participation rights and/or income bonds (or any combination of these instruments). The two authorizations to issue warrant and/or convertible bonds, profit-participation rights and/or income bonds (or any combination of these instruments), combined with the creation of conditional capital, are essentially identical. The only difference is the conversion or warrant price. The Board of Management will only utilize one of these two authorizations. The resolution adopted at the Annual Stockholders' Meeting authorizes the Board of Management, subject to the approval of the Supervisory Board, to exclude stockholders' subscription rights in certain circumstances when issuing convertible and/or warrant bonds, profit-participation rights and/or income bonds (or any combination of these instruments). Subscription rights may

be excluded for residual amounts arising from the subscription ratio if the issue price of the new shares is not significantly lower than the market price at the time when the issue price is being finalized and the new shares issued do not exceed 10% of the capital stock, either at the time this authorization takes effect or at the time it is utilized; if the profit-sharing rights or income bonds are vested with bond-like characteristics; and if bonds are issued in return for contributions in kind for the purpose of acquiring companies, parts of companies or equity interests in companies and the contribution in kind adequately reflects the value of the bond.

**Capital reserves** The capital reserves of LANXESS AG are unchanged from the previous year at €806,195,490.

**Other reserves** The other reserves principally comprise retained earnings. After offsetting the previous year's net income, recognition of the impact of actuarial gains and losses, the effects from the inclusion of the asset ceiling and the effects of the minimum funding requirement in other comprehensive income, retained earnings amounted to €660 million in 2009 (2008: €604 million). Retained earnings as of January 1, 2008 were €543 million.

**Non-controlling interests** Non-controlling interests comprise the interests held by other stockholders in the equity of DuBay Polymer GmbH, Hamm, Germany; EUROPIGMENTS S.L., Barcelona, Spain; and Rhein Chemie (Qingdao) Co. Ltd., Qingdao, China.

**Capital management** The main purpose of capital management in the LANXESS Group is to maintain the long-term viability of the Group's operations and achieve an attractive return on sales and capital compared with the chemical industry average. LANXESS's financial policy defines a second key criterion for capital management, which is to maintain an investment-grade rating. To achieve this goal, the Group has to meet indicators set by the rating agencies. Most of these are derived from statement of financial position, income statement and cash flow data. Capital management in the LANXESS Group entails decisions by the relevant internal bodies on the capital structure shown on the statement of financial position, the appropriateness of the company's equity, the distribution of the profit, the amount of the dividend, the financing of capital expenditures and borrowing and the repayment of debt. The Articles of Incorporation of LANXESS AG do not contain any specific capital requirements.

**12 Provisions for pension and other post-employment benefit obligations** Most employees in the LANXESS Group are entitled to retirement benefits on the basis of statutory regulations or contractual agreements. These are provided through both defined-contribution and defined-benefit plans.

In the case of defined-contribution plans, the company pays contributions into separate pension funds. These contributions are included in the respective functional cost items as expenses for the year, and thus in the operating result. Once the contributions have been paid, the company has no further payment obligations. In 2009 these expenses totaled €33 million (2008: €28 million).

The pension plan financed through the Bayer Pensionskasse is also reflected in the annual financial statements as a defined-contribution plan. The above amounts include contributions of €20 million (2008: €14 million) to this pension fund.

The Bayer Pensionskasse is a legally independent private insurance company and is therefore subject to the German Insurance Supervision Act. The obligation of the plan sponsors is not confined to payment of the contributions for the respective fiscal year. Therefore the Bayer Pensionskasse is a defined-benefit plan sponsored by multiple employers and would normally have to be accounted for proportionately as a defined-benefit plan.

The Bayer Pensionskasse is financed not on the principle of coverage for individual benefit entitlements, but on the actuarial equivalence principle, based on totals for the whole plan. This means that the sum of existing plan assets and the present value of future contributions must be at least equal to the present value of the future benefits payable under the plan. The LANXESS Group is therefore exposed to the actuarial risks of the other plan sponsors of the Bayer Pensionskasse and thus has no consistent or reliable basis for allocating the benefit obligation, plan assets and costs to account for the Bayer Pensionskasse as a defined-benefit plan in accordance with IAS 19. Accordingly, the Bayer Pensionskasse is accounted for as a defined-contribution plan and not as a defined-benefit plan.

The Bayer Pensionskasse assumes any pension adjustments in accordance with Section 16 of the German Occupational Pensions Improvement Act (BetrAVG) insofar as the necessary funds are made available to it. Pension adjustments that are not assumed by the Bayer Pensionskasse are accounted for by LANXESS as a separate defined-benefit plan.

Pension plans based on statutory regulations mainly comprise an obligation to pay a lump sum when employment ends. The amount depends principally on years of service and final salary.

Pension plans based on contractual agreements generally comprise lifelong benefits payable in the event of death or disability or when the employee reaches a certain age. Benefits are normally based on remuneration and years of service.

Alongside retirement benefits, pension and other post-employment benefit obligations include the obligation of Group companies in the Americas to reimburse healthcare costs to retirees.

Benefit entitlements are financed either internally through provisions or externally through legally independent pension funds. The pension commitments in Germany are partly covered by the LANXESS Pension Trust e.V.

The provisions for pensions and other post-employment benefits recognized in the statement of financial position reflect the present value of the defined-benefit obligation at year end, taking into account expected future benefit increases, less the year-end fair value of external plan assets adjusted for unrecognized past service cost and unrealizable plan assets. The defined-benefit obligation is measured regularly – at least every three years – by an independent actuary using the projected unit credit method. Comprehensive actuarial valuations are undertaken annually for all major pension plans. The discount rates used to compute present value normally correspond to the yields on high-quality corporate bonds with the same maturities.

A change has been made in the accounting treatment of provisions for pension and other post-employment benefit obligations to improve the transparency of financial reporting. Actuarial gains and losses in the LANXESS Group are no longer accounted for under the 10% corridor rule as in the previous year, but recognized in full outside profit or loss as a component of other comprehensive income in accordance with IAS 19.93A. The LANXESS Group also applied the interpretation IFRIC 14 for the first time in 2009. This concerns the asset ceiling and the minimum funding requirements for defined-benefit pension plans.

The prior-year amounts shown below have been restated to reflect the change in the accounting method. Differences compared with the corridor method used in the previous year are explained.

Total expenses for defined-benefit plans in 2009 amounted to €35 million (2008: €43 million). With the exception of interest cost and the expected return on plan assets, these expenses are recognized in the operating result.

The costs for the plans comprise the following:

#### Costs for Defined-Benefit Plans

€ million	Pension obligations		Other post-employment benefit obligations	
	2008	2009	2008	2009
Current service cost	20	16	9	10
Past service cost	0	0	0	0
Interest cost	64	80	7	7
Expected return on plan assets	(56)	(66)	0	0
Plan curtailments and settlements	1	0	(2)	(12)
	<b>29</b>	<b>30</b>	<b>14</b>	<b>5</b>

Expenses for defined-benefit plans in 2008, calculated using the corridor method, were €44 million. Following the switch to the new accounting method, the actuarial losses (€3 million) included in expenses according to the corridor method and the ceiling on plan assets (€12 million) are now included in other comprehensive income. This led to a reduction in the expenses for pension plans. For the other benefit obligations, the change did not result in any difference from the corridor method used in 2008.

The reconciliation of the defined-benefit obligation to the net amounts of assets and provisions recognized in the statement of financial position is as follows:

#### Reconciliation to Net Recognized Liability

€ million	Pension obligations			Other post-employment benefit obligations		
	Jan. 1, 2008	Dec. 31, 2008	Dec. 31, 2009	Jan. 1, 2008	Dec. 31, 2008	Dec. 31, 2009
Defined benefit obligation (funded)	793	859	1,037	5	5	6
External plan assets	(488)	(665)	(876)	(3)	(3)	(3)
<b>Underfunding</b>	<b>305</b>	<b>194</b>	<b>161</b>	<b>2</b>	<b>2</b>	<b>3</b>
Defined benefit obligation (unfunded)	45	76	80	124	109	108
Unrecognized past service cost	0	0	(1)	1	1	(1)
Effects of asset ceiling and minimum funding requirements	49	69	151	0	0	0
<b>Net recognized liability</b>	<b>399</b>	<b>339</b>	<b>391</b>	<b>127</b>	<b>112</b>	<b>110</b>
<b>Amounts shown in the balance sheet</b>						
Other non-current assets	(9)	(47)	(68)	0	0	0
Provisions for pensions and other post-employment benefits	408	386	459	127	112	110
<b>Net recognized liability</b>	<b>399</b>	<b>339</b>	<b>391</b>	<b>127</b>	<b>112</b>	<b>110</b>

The net recognized liability for pension plans, calculated using the corridor method, was €256 million as of December 31, 2008. The increase in the net recognized liability following the switch to the new accounting method resulted from the inclusion of previously unrealized actuarial losses (€57 million) and the first-time application of IFRIC 14 (€26 million). Both items are included in other comprehensive income. The net recognized liability for other benefit obligations increased by €1 million due to the inclusion of unrealized actuarial losses.

The net recognized liability is reflected in the following items in the statement of financial position:

#### Net Recognized Liability

€ million	Jan. 1, 2008	Dec. 31, 2008	Dec. 31, 2009
Provisions for pensions and other post-employment benefits	535	498	569
Other non-current assets	(9)	(47)	(68)
<b>Net recognized liability</b>	<b>526</b>	<b>451</b>	<b>501</b>

According to the corridor method, the provisions for pension and other post-employment benefit obligations and the receivables relating to pension obligations reflected in other non-current assets as of December 31, 2008 were €483 million and €116 million respectively.

The defined-benefit obligation and plan assets changed as follows in 2009:

#### Change in Defined-Benefit Obligation as of Dec. 31

€ million	Pension obligations		Other post-employment benefit obligations	
	2008	2009	2008	2009
<b>Defined benefit obligation</b>				
Benefit obligation at beginning of year	838	935	129	114
Current service cost	20	16	9	10
Interest cost	64	80	7	7
Employee contributions	2	2	–	–
Plan changes	0	1	0	0
Plan settlements	4	0	0	0
Actuarial gains/losses	(64)	45	(6)	8
Benefits paid	(42)	(56)	(17)	(18)
Acquisitions/divestments	202	0	0	0
Plan curtailments	4	0	(3)	(12)
Exchange differences	(93)	94	(5)	5
<b>Benefit obligation at end of year</b>	<b>935</b>	<b>1,117</b>	<b>114</b>	<b>114</b>

#### Change in Plan Assets as of Dec. 31

€ million	Pension obligations		Other post-employment benefit obligations	
	2008	2009	2008	2009
<b>Fair value of plan assets</b>				
Plan assets at beginning of year	488	665	3	3
Expected return on plan assets	56	66	0	0
Actuarial gains/losses	(50)	15	0	0
Acquisitions/divestments	295	0	0	0
Plan settlements	8	0	–	–
Employer contributions	13	44	0	0
Employee contributions	2	2	–	–
Benefits paid	(31)	(43)	0	0
Exchange differences	(116)	127	0	0
<b>Plan assets at end of year</b>	<b>665</b>	<b>876</b>	<b>3</b>	<b>3</b>

The following table shows the actuarial gains and losses recognized outside profit or loss as a component of other comprehensive income in fiscal 2009 and the effects of the asset ceiling and the minimum funding requirements, recognized in other comprehensive income:

#### Amounts Recognized in Other Comprehensive Income

€ million	Pension obligations		Other post-employment benefit obligations	
	2008	2009	2008	2009
Actuarial gains/losses	14	(30)	6	(8)
Effects of asset ceiling and minimum funding requirements	4	(59)	0	0
	<b>18</b>	<b>(89)</b>	<b>6</b>	<b>(8)</b>

The accumulated actuarial gains and losses recognized in other comprehensive income at year end 2009 amounted to minus €105 million (2008: minus €61 million).

The actuarial gains and losses computed in fiscal 2009 relate to changes in actuarial assumptions and experience adjustments. The actuarial gains and losses are assigned to the following categories:

### Categories of Actuarial Gains/Losses as of Dec. 31

€ million	Pension obligations					Other post-employment benefit obligations				
	2005	2006	2007	2008	2009	2005	2006	2007	2008	2009
Difference between expected and actual return on plan assets	17	16	1	(50)	15	0	0	0	0	0
Experience adjustment	4	11	(23)	(26)	36	12	3	(3)	0	(2)
Adjustment for changes in valuation assumptions	(100)	8	95	90	(81)	(7)	1	7	6	(6)
<b>Net actuarial gain/loss for the year</b>	<b>(79)</b>	<b>35</b>	<b>73</b>	<b>14</b>	<b>(30)</b>	<b>5</b>	<b>4</b>	<b>4</b>	<b>6</b>	<b>(8)</b>

The actual return on plan assets was €81 million in 2009 (2008: €6 million).

The following weighted parameters were used to define the benefit costs and liability:

#### Assumptions as of Dec. 31

in %	Pension obligations		Other post-employment benefit obligations	
	2008	2009	2008	2009
Discount rate	8.0	7.3	7.2	6.7
Expected salary increases	4.2	4.0	2.5	3.9
Expected pension increases	2.3	2.1	–	–
Expected return on plan assets	8.8	9.3	4.7	4.9
Expected increase in the cost of medical care	–	–	9.3	9.0
Expected long-term increase in the cost of medical care	–	–	5.2	5.5

The Heubeck mortality tables 2005 G form the biometric basis for the computation of pension obligations in Germany. Current national biometric assumptions are used to compute benefit obligations at other Group companies. Employee turnover rates are estimated on the basis of age and gender.

The discount rate used to calculate the present value of pension and other post-employment benefit obligations is derived from the yield on high-quality corporate bonds with the same maturity. An increase of 0.5 percentage point in the discount rate would reduce pension obligations by €72 million and other post-employment benefit obligations by €5 million. A reduction of 0.5 percentage point in the discount rate would have largely the opposite effect.

The long-term cost increase for medical care is expected to take place within about five years.

Assuming all other parameters remain unchanged, a one percentage point increase or decrease in the assumptions relating to the expected long-term increase in medical costs would raise or reduce the present value of the defined-benefit obligation by €5 million. The costs for healthcare plans would not materially increase or decrease.

The plan assets now comprise:

#### Allocation of Plan Assets

in % of plan assets	Dec. 31, 2008	Dec. 31, 2009
Equity instruments	24.9	24.3
Fixed-income securities	66.4	65.3
Real estate	1.8	2.2
Other	6.9	8.2
	<b>100.0</b>	<b>100.0</b>

The high proportion of fixed-income securities is due to a risk-averse investment strategy for plan assets.

The expected return on each category of plan assets was calculated on the basis of generally available and internal capital market reports and forecasts. The expected return on fixed-income securities is based on the maturity of the portfolio and the yields on the closing date. The expected return on equity instruments reflects the long-term return expectations for the underlying equity portfolio.

The table below shows the defined-benefit obligation and plan assets at the end of each year:

#### Funded Status as of Dec. 31

€ million	2005	2006	2007	2008	2009
Defined benefit obligation	1,073	1,022	967	1,049	1,231
External plan assets	(396)	(396)	(491)	(668)	(879)
<b>Underfunding</b>	<b>677</b>	<b>626</b>	<b>476</b>	<b>381</b>	<b>352</b>

#### 13 Other non-current and current provisions These comprise:

#### Other Provisions

€ million	Dec. 31, 2008				Dec. 31, 2009			
	Up to 1 year	1–5 years	Over 5 years	Total	Up to 1 year	1–5 years	Over 5 years	Total
Personnel	144	53	43	240	78	47	37	162
Transactions with customers	103	0	0	103	105	4	0	109
Environmental protection	24	23	56	103	32	22	53	107
Restructuring	49	36	9	94	37	41	10	88
Miscellaneous	75	37	4	116	100	80	13	193
	<b>395</b>	<b>149</b>	<b>112</b>	<b>656</b>	<b>352</b>	<b>194</b>	<b>113</b>	<b>659</b>

Provisions changed as follows in 2009:

#### Changes in Provisions in 2009

€ million	Jan. 1, 2009	Allocations	Interest effect	Utilization	Reversals	Exchange differences	Dec. 31, 2009
Personnel	240	86	8	(144)	(30)	2	162
Transactions with customers	103	80	0	(61)	(15)	2	109
Environmental protection	103	10	(2)	(13)	0	9	107
Restructuring	94	41	0	(43)	(5)	1	88
Miscellaneous	116	115	3	(35)	(19)	13	193
	<b>656</b>	<b>332</b>	<b>9</b>	<b>(296)</b>	<b>(69)</b>	<b>27</b>	<b>659</b>

#### Personnel-related provisions – Multi-year compensation programs

**Long-Term Incentive Program (LTIP)** LANXESS AG offers a long-term incentive program to members of the Board of Management and certain other managers. This program provides for cash settlement. The last of the rights under the LTIP program launched in 2005 were granted in 2007. A new program was introduced in 2008, again comprising three tranches. The date of issue of the rights granted and still outstanding is February 1 each year. Participation in the LTIP is conditional upon each manager making a personal investment in LANXESS stock, depending on his/her base salary. Under the previous program such shares had to be held until January 31, 2010 while under the new program they must be held until February 1, 2013.

Whereas the previous program comprised a share-based component (Stock Performance Plan 2005-2007) and a non-share-based component (Economic Value Plan), the new program is entirely share-based (Stock Performance Plan 2008-2010).

**Stock Performance Plan** Awards under the Stock Performance Plan are based on the performance of LANXESS stock relative to the Dow Jones STOXX 600 Chemicals<sup>SM</sup> Index.

**Stock Performance Plan 2005-2007** If LANXESS stock performs in line with this index, a payment of €0.75 per right will be made. For each percentage point by which the stock outperforms the index, €0.025 will be paid in addition. The additional payment per percentage point above 10% is €0.05, up to a maximum possible payment of €1.50 per right. Members of the Board of Management are only entitled to payments if LANXESS stock outperforms the benchmark index.

Members of the Board of Management and senior managers were entitled to take part in the Stock Performance Plan 2005-2007. Eligibility for this plan was contingent upon participation in the Economic Value Plan described below.

**Stock Performance Plan 2008-2010** If LANXESS stock outperforms the index, a payment of at least €0.75 per right will be made. For each percentage point by which the stock outperforms the index, €0.05 will be paid in addition, or €0.06667 if the percentage outperformance is 5% or above. The maximum possible payment is €2.00 per right.

Members of the Board of Management and senior managers are entitled to take part in the Stock Performance Plan 2008-2010.

Obligations arising from the Stock Performance Plan are valued on the basis of the following principal parameters:

#### Parameters

in %	2008	2009
Expected share price volatility	40.0	50.0
Expected dividend payment	2.0	2.0
Expected index volatility	24.0	29.0
Correlation between LANXESS stock and the index	67.0	70.0
Risk-free interest rate	2.0	1.5

The expected volatilities are based on the historical volatility of LANXESS stock and the Dow Jones STOXX 600 Chemicals<sup>SM</sup> Index.

The following table provides information on the tranches outstanding as of December 31, 2009:

#### Stock Performance Plan

	Tranche 2006	Tranche 2007	Tranche 2008	Tranche 2009
Duration	5 years	5 years	6 years	6 years
Retention period	3 years	3 years	3 years	3 years
Initial LANXESS share price	€26.03	€40.79	€24.03	€12.86
Initial Dow Jones STOXX 600 Chemicals <sup>SM</sup> index price	348.60 points	431.50 points	465.97 points	317.39 points
Fair value per right as of December 31, 2009	€0.23	€0.12	€0.82	€1.08
<b>Change in number of outstanding rights</b>				
Outstanding rights as of January 1, 2009	2,812,582	3,326,386	11,453,318	0
Rights granted	–	–	–	12,406,822
Rights lapsed or forfeited	(27,430)	(27,431)	(375,378)	(100,488)
<b>Outstanding rights as of December 31, 2009</b>	<b>2,785,152</b>	<b>3,298,955</b>	<b>11,077,940</b>	<b>12,306,334</b>

LANXESS shares were trading at €26.34 at year end 2009 and the reference index was at 463.06 points. No rights were exercised in 2009.

The fair value of the rights is reflected in a pro-rata provision over the retention period. This resulted in net expense of €9 million in 2009 (2008: €0 million). As of December 31, 2009 this provision totaled €10 million (2008: €1 million).

**Economic Value Plan** Awards under the Economic Value Plan depend on the development of the economic value of the LANXESS Group. If the Group's performance is in line with the medium-term operational plan, a 100% award is made under the program.

Members of the Board of Management, senior managers and some other managers are eligible to participate in the Economic Value Plan.

As of December 31, 2009 the provision for the Economic Value Plan totaled €9 million (2008: €15 million). The value of economic value rights was determined on the basis of the expected target attainment.

**LANXESS stock plan** This is an employee stock plan under which junior managers and non-managerial staff may purchase shares in the company at a 50% discount. Employees acquired a total of 175,299 LANXESS shares under this program in the previous year. These shares must be retained for at least three years. Since there are no further conditions attached to this stock plan, the effect resulting from the discount was expensed immediately. The expense recognized for the stock plan in 2008 was €2 million.

**Trade-related commitments** Provisions for trade-related commitments mainly comprise those made for rebates, impending losses and onerous contracts.

**Provisions for restructuring** Of the allocations made to restructuring provisions in 2008, €43 million was utilized in 2009. €41 million was allocated to provisions for further restructuring programs during the year.

Provisions for restructuring totaled €88 million (2008: €94 million) on December 31, 2009. Of this amount, €64 million (2008: €71 million) comprised provisions for severance payments and other personnel expenses and €24 million (2008: €23 million) comprised provisions for demolition and other expenses.

**Environmental provisions** The Group's activities are subject to extensive laws and regulations in the jurisdictions in which it does business and maintains properties. Compliance with environmental laws and regulations may require LANXESS to remove or mitigate the effects of the disposal or release of chemical substances at various

sites. Under some of these laws and regulations, a current or previous owner or operator of property may be held liable for the costs of removal or remediation of hazardous substances on, under, or in its property, without regard to whether the owner or operator knew of, or caused the presence of the contaminants, and regardless of whether the practices that resulted in the contamination were legal at the time they occurred. As many of the production sites have a long history of industrial use, it is impossible to predict precisely what effect these laws and regulations will have on the LANXESS Group in the future.

As with other companies in the chemical and related industries, soil or groundwater contamination has occurred in the past at certain sites, and the possibility exists that such contamination could occur or be discovered at other sites. Group companies may be subject to claims brought by national or local regulatory agencies, private organizations or individuals regarding the remediation of sites or areas of land that the LANXESS Group has acquired from the Bayer Group, where materials were produced specifically for third parties under contract manufacturing agreements or where waste from production facilities operated by the LANXESS Group was treated, stored or disposed of.

For instance, a potential liability exists under the U.S. Federal Comprehensive Environmental Response, Compensation, and Liability Act, commonly known as "Superfund," the U.S. Resource Conservation and Recovery Act and related state laws for investigation and remediation costs at a number of sites. At most of the U.S. sites concerned, numerous companies, including the LANXESS Group, have been notified that the U.S. Environmental Protection Agency, state authorities or private individuals consider such companies to be potentially responsible parties under Superfund or related laws. At other sites in the United States, the LANXESS Group is the sole responsible party. The proceedings relating to these sites are in various stages. Remediation measures have already been initiated at most of the sites concerned.

The existing provisions for environmental remediation costs relate primarily to the rehabilitation of contaminated sites, recultivation of landfills, and redevelopment and water protection measures. The provisions for environmental remediation costs are stated at the present value of the expected commitments where environmental assessments or clean-ups are probable, the costs can be reasonably

estimated and no future economic benefit is expected to arise from these measures. Costs are estimated based on significant factors such as previous experience in similar cases, environmental assessments, current cost levels and new circumstances affecting costs, our understanding of current environmental laws and regulations, the number of other potentially responsible parties at each site and the identity and financial position of such parties in light of the joint and several nature of the liability, and the remediation methods likely to be employed.

It is difficult to estimate the future costs of environmental protection and remediation because of many uncertainties relating to the status of laws, regulations and the information available about conditions in the various countries and at the individual sites. Subject to these factors and in the light of the experience it has gained to date regarding environmental matters of a similar nature, LANXESS believes the provisions to be adequate based upon currently available information. However, given the difficulties inherent in estimating liabilities in this area, the possibility that additional costs could be incurred beyond the amounts accrued cannot be excluded. It is nevertheless assumed that any additional costs would not materially impact the Group's financial position or results of operations.

**Legal risks** The LANXESS Group is involved in numerous legal disputes either directly, or indirectly through reimbursement obligations to companies in the Bayer Group under agreements made in connection with the spin-off of the LANXESS Group from Bayer. As an international chemicals group, LANXESS is exposed to administrative or court proceedings in the normal course of business and may be again in the future.

Administrative and court proceedings generally involve complex technical and/or legal issues and are therefore subject to a number of imponderables. The outcomes of any current or future proceedings cannot be predicted with certainty. It is therefore possible that legal judgments could give rise to expenses that are not covered, or not fully covered, by insurance and that could materially affect the business operations, revenues, earnings and cash flows of the LANXESS Group.

**14 Other non-current financial liabilities** The other non-current financial liabilities comprise:

#### Other Non-Current Financial Liabilities

€ million	Dec. 31, 2008	Dec. 31, 2009
Bonds	498	1,094
Liabilities to banks	427	281
Liabilities under leasing agreements	56	85
Other financial liabilities	5	2
	<b>986</b>	<b>1,462</b>

On June 21, 2005 the LANXESS Group placed a Euro Benchmark Bond on the European capital market. This €500 million bond has an annual coupon of 4.125% and a maturity of seven years. At the start of April 2009 the LANXESS Group placed a further Euro Benchmark Bond on the European capital market. This €500 million bond has an annual coupon of 7.75 % and a maturity of five years. At the start of September 2009 the LANXESS Group placed another Euro Benchmark Bond on the European capital market. This €200 million bond has an annual coupon of 5.5% and matures in September 2016. The proceeds were used to redeem €92 million of the bond issued in 2005 and for premature repayment of a bank loan. It is the main reason for the reduction in non-current liabilities to banks.

The maturity structure of the other non-current financial liabilities is as follows:

#### Maturity Structure of Other Non-Current Financial Liabilities

€ million	Dec. 31, 2008	Dec. 31, 2009
1–2 years	22	34
2–3 years	312	504
3–4 years	531	128
4–5 years	48	519
More than 5 years	73	277
	<b>986</b>	<b>1,462</b>

The weighted average interest rate for financial liabilities in the LANXESS Group was 5.4% (2008: 4.6%).

Information on the fair or market values of financial liabilities is given in Note [31].

Liabilities under lease agreements are recognized if the leased assets are capitalized under property, plant and equipment as the economic property of the Group (finance leases). They are stated at present values. Lease payments totaling €120 million (2008: €73 million), including €24 million (2008: €11 million) in interest, are to be made to lessors in future years.

The liabilities under lease agreements, which are included in other financial liabilities, are due as follows:

#### Leasing Liabilities

€ million	Dec. 31, 2008		
	Lease payments	Interest portion	Leasing liabilities
Up to 1 year	9	3	6
1 to 2 years	9	2	7
2 to 3 years	8	2	6
3 to 4 years	23	2	21
4 to 5 years	14	1	13
More than 5 years	10	1	9
	<b>73</b>	<b>11</b>	<b>62</b>

#### Leasing Liabilities

€ million	Dec. 31, 2009		
	Lease payments	Interest portion	Leasing liabilities
Up to 1 year	15	4	11
1 to 2 years	14	4	10
2 to 3 years	13	4	9
3 to 4 years	35	3	32
4 to 5 years	8	2	6
More than 5 years	35	7	28
	<b>120</b>	<b>24</b>	<b>96</b>

Lease payments under operating leases amounted to €13 million in 2009 (2008: €9 million).

**15 Other liabilities** The other non-current liabilities include total asset subsidies of €67 million (2008: €39 million) granted by third parties.

Other current liabilities are recognized at settlement cost. They comprise:

#### Other Current Liabilities

€ million	Dec. 31, 2008	Dec. 31, 2009
Tax liabilities	34	32
Social security liabilities	18	16
Payroll liabilities	21	15
Miscellaneous liabilities	89	46
	<b>162</b>	<b>109</b>

Tax liabilities include not only Group companies' own tax liabilities, but also taxes withheld for payment to the authorities on behalf of third parties.

Liabilities for social expenses include, in particular, social insurance contributions that had not been paid by the closing date.

The miscellaneous liabilities include guarantees, commission payments to customers and reimbursements of expenses. As in the previous year, there were no such liabilities to other affiliated companies.

**16 Trade payables** Trade accounts are payable mainly to third parties. As in the previous year, the entire amount totaling €486 million (2008: €484 million) is due within one year.

Trade payables of €40 million (2008: €59 million) related to other affiliated companies and €446 million (2008: €425 million) to other suppliers.

### 17 Other current financial liabilities

#### Other Current Financial Liabilities

€ million	Dec. 31, 2008	Dec. 31, 2009
Liabilities to banks	137	36
Liabilities under leasing agreements	6	11
Other primary financial liabilities	25	47
	<b>168</b>	<b>94</b>

Other primary financial liabilities include accrued interest of €47 million (2008: €14 million) on financial liabilities. €40 million (2008: €11 million) of this amount relates to the above-mentioned Euro Benchmark Bond. A further €5 million relates to promissory notes.

**18 Further information on liabilities** €279 million (2008: €73 million) of total liabilities had maturities of more than five years.

## NOTES TO THE INCOME STATEMENT

**19 Sales** Sales of €5,057 million (2008: €6,576 million) comprise principally goods sold less discounts and rebates. Sales are deemed to have been realized as soon as delivery has been effected or the service has been rendered. This is normally the case when the significant risks and benefits associated with ownership of the goods pass to the purchaser. In addition, it must be sufficiently certain that the economic benefits will be obtained and it must be possible to determine the costs reliably.

A breakdown of sales and the change in sales by segment and region is given in the segment information (see Note [33]).

### 20 Other operating income

€ million	2008	2009
Income from non-core business	241	132
Gains from the sale of non-current assets	16	19
Income from the reversal of provisions	32	15
Income from reversals of write-downs of receivables and other assets	8	15
Income from hedging with derivative financial instruments	50	0
Miscellaneous operating income	57	56
	<b>404</b>	<b>237</b>

### 21 Other operating expenses

€ million	2008	2009
Expenses for non-core business	232	119
Expenses for allocations to restructuring provisions	69	41
Expenses for hedging with derivative financial instruments	1	10
Write-downs of trade receivables and other current assets	29	9
Losses from the disposal of non-current assets	1	1
Miscellaneous operating expenses	185	143
	<b>517</b>	<b>323</b>

The miscellaneous operating expenses include expenses relating to restructuring.

**22 Financial result** The components of this item are as follows:

#### Financial Result

€ million	2008	2009
<b>Income from investments accounted for using the equity method</b>	<b>21</b>	<b>8</b>
Interest income	19	17
Interest expense	(55)	(90)
<b>Net interest expense</b>	<b>(36)</b>	<b>(73)</b>
Dividends and income from other affiliated companies	1	1
Interest portion of interest-bearing provisions	(18)	(30)
Net exchange loss	(10)	(2)
Miscellaneous financial expenses	(35)	(21)
<b>Other financial income/expense – net</b>	<b>(62)</b>	<b>(52)</b>
<b>Financial result</b>	<b>(77)</b>	<b>(117)</b>

Interest expense mainly includes payments of bond interest. In compliance with IAS 17, the interest portion of the lease payments under finance leases amounting to €3 million (2008: €3 million) is included in interest expense. Income from investments accounted for using the equity method comprises the €8 million (2008: €21 million) share in the income of CURRENTA GmbH & Co. OHG, Leverkusen, Germany, that is attributable to LANXESS.

**23 Income taxes** This item comprises the income taxes paid or accrued in the individual countries, plus deferred taxes. Income taxes are computed on the basis of local tax rates.

The breakdown of income taxes by origin is as follows:

#### Income Taxes by Origin

€ million	2008	2009
Current taxes	(99)	(3)
Deferred taxes resulting from		
temporary differences	61	(41)
statutory changes in tax rates	0	(1)
loss carryforwards	(25)	52
<b>Income taxes</b>	<b>(63)</b>	<b>7</b>

The deferred tax assets and liabilities are allocable to the various items of the statement of financial position as follows:

#### Deferred Taxes

€ million	Jan. 1, 2008		Dec. 31, 2008		Dec. 31, 2009	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible assets	11	1	28	8	16	6
Property, plant and equipment	12	120	10	141	6	140
Inventories	5	5	31	4	16	2
Receivables and other assets	15	36	29	46	44	72
Pension provisions	36	29	41	30	40	13
Other provisions	57	0	87	2	95	3
Liabilities	69	1	86	0	55	2
Loss carryforwards	61	–	32	–	91	–
	<b>266</b>	<b>192</b>	<b>344</b>	<b>231</b>	<b>363</b>	<b>238</b>
of which non-current	120	150	111	179	153	182
Set-off	(152)	(152)	(190)	(190)	(200)	(200)
	<b>114</b>	<b>40</b>	<b>154</b>	<b>41</b>	<b>163</b>	<b>38</b>

The change in deferred taxes is calculated as follows.

#### Changes in Deferred Taxes

€ million	2008	2009
<b>Deferred taxes as of January 1</b>	<b>74</b>	<b>113</b>
Tax income reflected in the income statement	36	10
Changes in scope of consolidation	(23)	(5)
Taxes recognized in equity	20	1
Exchange differences	6	6
<b>Deferred taxes as of December 31</b>	<b>113</b>	<b>125</b>

Other comprehensive income – before and after income taxes – was as follows:

#### Income Taxes on Other Comprehensive Income

€ million	2008		
	Other comprehensive income before income taxes	Income taxes attributable to other comprehensive income	Other comprehensive income after income taxes
Actuarial gains/losses, effects of the asset ceiling and minimum funding requirements relating to defined-benefit plans	45	(13)	32
Exchange differences on translation of operations outside the euro zone	(117)	0	(117)
Financial instruments	(123)	33	(90)
<b>Other comprehensive income</b>	<b>(195)</b>	<b>20</b>	<b>(175)</b>

#### Income Taxes on Other Comprehensive Income

€ million	2009		
	Other comprehensive income before income taxes	Income taxes attributable to other comprehensive income	Other comprehensive income after income taxes
Actuarial gains/losses, effects of the asset ceiling and minimum funding requirements relating to defined-benefit plans	(114)	29	(85)
Exchange differences on translation of operations outside the euro zone	125	0	125
Financial instruments	97	(28)	69
<b>Other comprehensive income</b>	<b>108</b>	<b>1</b>	<b>109</b>

Deferred tax assets of €128 million (2008: €45 million) related to tax jurisdictions in which losses were recorded in 2009 or 2008. In this respect, the LANXESS Group has taken into consideration tax planning calculations and customary and feasible tax strategies.

Deferred tax assets of €91 million (2008: €32 million) were recognized on the €294 million (2008: €110 million) in tax loss carryforwards that represent income likely to be realized in the future.

Deferred taxes were not recognized for €192 million (2008: €136 million) of tax loss carryforwards that theoretically can be utilized over more than five years. Deferred tax assets also were not recognized in 2009 for tax-deductible temporary differences of €27 million (2008: €29 million).

The actual tax income for 2009 was €7 million (2008: tax expense of €63 million). This figured differed by €17 million (2008: €13 million) from the expected tax expense of €10 million (2008: €76 million).

The expected tax expense for the LANXESS Group is calculated by applying an overall tax rate of 31.2% (2008: 31.2%) for the German companies. This comprises a corporation tax rate of 15.0%, plus a solidarity surcharge (5.5% of corporation tax) and trade tax.

The reconciliation of the expected tax result to the actual tax result is as follows:

#### Reconciliation to Reported Tax Income

€ million	2008	2009
Income before income taxes	246	32
Aggregated income tax rate of LANXESS AG	31.2%	31.2%
Expected tax expense	(76)	(10)
Tax difference due to differences between local tax rates and the hypothetical tax rate	23	18
Reduction in taxes due to tax-free income		
Utilization of unrecognized loss carryforwards	0	5
Other	11	7
Increase in taxes due to non-tax-deductible expenses	(9)	(10)
Other tax effects	(12)	(3)
<b>Actual tax income (expense)</b>	<b>(63)</b>	<b>7</b>
Effective tax rate	25.6%	(21.9%)

**24 Earnings per share** The calculation of earnings per share for 2009 was based on 83,202,670 outstanding shares. Since there are currently no equity instruments in issue that could dilute earnings per share, basic and diluted earnings per share are identical. Further information on equity instruments that could dilute earnings per share in the future is contained in Note [11].

#### Earnings per Share

	2008	2009	Change in %
Net income (€ million)	183	40	(78.1)
No. of outstanding shares (weighted)	83,202,670	83,202,670	0.0
<b>Earnings per share in € (undiluted/diluted)</b>	<b>2.20</b>	<b>0.48</b>	<b>(78.1)</b>

The change in accounting for pensions and other post-employment benefits increased the income after income taxes originally reported for 2008, which equaled net income, by €12 million to €183 million. The earnings per share originally reported for the same period increased accordingly by €0.15 to €2.20.

LANXESS AG reported a distributable profit of €106 million for fiscal 2009 (2008: €97 million).

**25 Cost of materials** The cost of materials was €3.0 billion (2008: €4.0 billion), comprising purchased materials adjusted for changes in inventories, and expenses for purchased energy and fuels.

**26 Personnel expenses** Personnel expenses amounted to €981 million in fiscal 2009 (2008: €1,062 million). They mainly comprised wages and salaries totaling €770 million (2008: €832 million). Social security contributions totaled €162 million (2008: €166 million), pension expenses amounted to €45 million (2008: €60 million) and benevolent expenses came to €4 million (2008: €4 million). Personnel expenses do not include the interest portion of personnel-related provisions, especially pension provisions, which is reflected in the financial result (see Note [22]).

## OTHER INFORMATION

**27 Employees** The average number of employees in the LANXESS Group in 2009 was 14,472. The decrease of 396 compared with the previous year was mainly due to the global efficiency improvement programs.

### Employees by Function

	2008	2009
Production	10,555	10,343
Marketing	2,178	1,952
Administration	1,694	1,672
Research	441	505
	<b>14,868</b>	<b>14,472</b>

**28 Contingent liabilities and other financial commitments** Contingent liabilities as of December 31, 2009 amounted to €4 million (2008: €5 million). They resulted from guarantees and similar instruments assumed on behalf of third parties. They represent potential future commitments in cases where the occurrence of certain events would create an obligation that was uncertain at the closing date. An obligation to perform under such contingent liabilities arises in the event of delayed settlement or insolvency on the part of the debtor.

As a personally liable partner in CURRENTA GmbH & Co. OHG, Leverkusen, Germany, LANXESS may be required to inject further capital into this company in the future.

Apart from provisions, liabilities and contingent liabilities, financial commitments also exist under leasing and long-term rental agreements.

The minimum non-discounted future payments pertaining to operating leases total €75 million (2008: €70 million). The respective payment obligations mature as follows:

### Maturity Structure of Lease and Rental Payments

€ million	Dec. 31, 2008	Dec. 31, 2009
Up to 1 year	10	19
1 to 2 years	9	12
2 to 3 years	8	9
3 to 4 years	8	8
4 to 5 years	8	5
More than 5 years	27	22
	<b>70</b>	<b>75</b>

Financial commitments resulting from orders already placed under purchase agreements relating to planned or ongoing capital expenditure projects in the area of property, plant and equipment total €52 million (2008: €64 million). Of the respective payments, €37 million are due in 2010 and €15 million are due in 2011.

**Description of the master agreement** Under the master agreement that was concluded between Bayer AG and LANXESS AG together with the Spin-Off and Takeover Agreement, Bayer AG and LANXESS AG agreed, among other things, on commitments regarding mutual indemnification for obligations of the respective other party and special arrangements allocating responsibility to deal with claims in the areas of product liability, environmental contamination and antitrust violations. The master agreement also contains arrangements for the allocation of tax effects relating to the spin-off and to the preceding measures to create the subgroup that was subsequently spun off.

Since the statutory joint and several liability of LANXESS for residual liabilities of the Bayer Group was limited to five years, the previous risk exposure no longer exists.

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

Transactions with companies accounted for in the consolidated financial statements using the equity method and their subsidiaries mainly comprised the purchase of site services in the fields of utilities, infrastructure and logistics totaling €345 million (2008: €453 million). As a result of these transactions, trade payables of €40 million existed as of December 31, 2009 (2008: €59 million).

No material business transactions were undertaken with other associated companies.

**30 Compensation of the Board of Management and the Supervisory Board** Annual compensation totaling €3,592 thousand (2008: €5,087 thousand) was paid to the members of the Board of Management of LANXESS AG in fiscal 2009. This comprised fixed salaries of €2,250 thousand (2008: €2,303 thousand) and bonus payments of €1,342 thousand (2008: €2,784 thousand).

In addition, the members of the Board of Management received multi-year compensation under the Long Term Incentive Program (LTIP). 2,203,750 share-based compensation rights were granted in 2009 (2008: 2,203,750). The fair value of these rights at the grant date was €1,147 thousand (2008: €1,102 thousand). They also received compensation of €372 thousand (2008: €528 thousand) under the non-share-based Economic Value Plan. This gave rise to expenses of €1,657 thousand (2008: €873 thousand) for multi-year compensation, comprising €1,901 thousand (2008: €43 thousand) for the share-based Stock Performance Plan and income of €244 thousand (2008: expenses of €830 thousand) for the non-share-based Economic Value Plan. Further details of the components of the LTIP can be found in Note [13].

Details of the compensation system for members of the Board of Management and an individual breakdown of compensation are given in the Compensation Report section of the Group Management Report for fiscal 2009.

Further, in fiscal 2009 service cost of €622 thousand (2008: €698 thousand) relating to defined-benefit pension plans was incurred for members of the Board of Management as part of their compensation package.

Payments of €276 thousand (2008: €117 thousand) were made to former members of the Board of Management. The total obligation for former members of the Board of Management was €6,352 thousand as of December 31, 2009 (2008: €5,384 thousand).

The members of the Supervisory Board received remuneration of €1,171 thousand in 2009 (2008: €1,200 thousand). The provisions established for multi-year remuneration components for Supervisory Board members as of December 31, 2009 – including the interest pertaining to 2009 – amounted to €1,549 million (2008: €1,466 million).

Details of the remuneration system for members of the Supervisory Board and an individual breakdown of the amounts paid are contained in the corporate governance report in the section headed Compensation System of the Supervisory Board.

No loans were granted to members of the Board of Management or the Supervisory Board in fiscal 2009 or 2008.

**31 Financial instruments** Primary financial instruments are reflected in the statement of financial position. In compliance with IAS 39, asset instruments are categorized as “at fair value through profit or loss,” “held to maturity” or “available for sale” and, accordingly, recognized at cost or fair value. Liability instruments that are neither held for trading nor constitute derivatives are carried at amortized cost.

**Risks and risk management** The global alignment of the LANXESS Group exposes its business operations, earnings and cash flows to a variety of market risks. Material financial risks to the Group as a whole, such as currency, interest-rate, credit, liquidity and commodity price risks, are managed centrally.

These risks could impair the earnings and financial position of the LANXESS Group. The various risk categories and risk management system for the LANXESS Group are outlined below.

The principles of risk management are defined by the Board of Management. At the regular strategy meetings of the Financial Risk Committee, which are chaired by the Chief Financial Officer, reports on the outcome of financial risk management and on current risks levels are presented and any further action is decided upon. Simulations based on a range of worst-case scenarios are used to assess the impact of market trends. The implementation of the Financial Risk Committee’s decisions and ongoing risk management are undertaken centrally by the Group Function Treasury. The aim of financial risk management is to identify and evaluate risks and to manage and limit their effects as appropriate.

- **Currency risks**

Since the LANXESS Group undertakes transactions in numerous currencies, it is exposed to the risk of fluctuations in the relative value of these currencies, particularly the U.S. dollar, against the euro.

Currency risks from potential declines in the value of financial instruments due to exchange rate fluctuations (transaction risks) arise mainly when receivables and payables are denominated in a currency other than the company’s local currency.

Currency risks relating to operating activities are systematically monitored and analyzed. While the risks relating to changes in the value of receivables and payables denominated in foreign currencies are fully hedged, the scope of hedging for currency risks relating to forecast transactions is subject to regular review. A substantial proportion of contractual and foreseeable currency risks are hedged using derivative financial instruments. Changes in the fair values of these instruments are recognized in the financial result or, in the case of cash flow hedges, in other comprehensive income. Realized income/expense from the effective portion of cash flow hedges are recognized in other operating income/expenses.

Currency risks arising on financial transactions, including interest, are generally fully hedged, mainly through forward exchange contracts.

Since the LANXESS Group concludes derivative contracts for the greater part of its currency risks, it believes that, in the short term, a significant rise or fall in the euro against other major currencies would have no material impact on future cash flows. In the long term, however, these exchange rate fluctuations could adversely affect cash flows should the LANXESS Group not be in a position to absorb them, for example, through the pricing of its products in the respective local currencies.

If the exchange rate for the euro had been 5% higher against all other currencies at year end 2009, this would have had a €21 million (2008: €41 million) effect, mainly on other comprehensive income, which would have improved accordingly. This effect mainly relates to the U.S. dollar. A correspondingly lower rate for the euro would have had basically the opposite effect.

Many companies in the LANXESS Group are based outside the euro zone. Since the Group prepares its consolidated financial statements in euros, the annual financial statements of these subsidiaries are translated into euros for consolidation purposes. Changes in the average exchange rate of a currency from one period to the next can materially affect the translation of both sales and earnings reported in this currency (translation risk). Unlike transaction risk, translation risk has no impact on Group cash flows in the local currency.

The LANXESS Group has material assets, liabilities and businesses outside the euro zone that report in local currencies. The related long-term currency risk is estimated and evaluated on a regular basis. In view of the risks involved in such cases, however, foreign currency hedging transactions are only concluded if consideration is being given to withdrawing from a particular business and it is intended to repatriate the funds released by the withdrawal. However, the effects of exchange rate fluctuations on the translation of net positions into euros are reflected in other comprehensive income.

#### ● Interest-rate risks

Fluctuations in market interest rates can cause fluctuations in the overall return on a financial instrument. Interest rate risk affects both financial assets and financial liabilities.

Since the majority of financial liabilities are entered into at fixed interest rates, changes in interest rates in the coming years will only have a limited impact on the LANXESS Group. The available liquidity is invested in instruments with short-term fixed interest rates, so that the LANXESS Group benefits quickly from rising interest rates. A general change of one percentage point in interest rates as of December 31, 2009 would have altered Group net income by around €3 million (2008: €1 million).

#### ● Credit risks

Credit risks arise from trade relationships with customers and dealings with banks and other financial partners, especially with regard to the investment business and financial-instrument transactions.

Customer risks are systematically identified, analyzed and managed, using both internal and external information sources. Customer portfolios may be insured against credit risks, especially where the risk profile is elevated. The maximum credit risk is mitigated mainly through letters of credit and credit insurance agreements in favor of the LANXESS Group. Credit risk management was stepped up considerably in fiscal 2008. In view of the persistently difficult economic situation, this policy was continued. Since the start of 2009 most of LANXESS's customer risks have been insured against default by a leading European credit insurer.

Credit risk management also includes global management of the counterparty risk relating to banks and financial partners. The LANXESS Group pays particular attention to risk diversification to prevent any cluster risks that could jeopardize its existence. Through master agreements, the market values of open trading positions can be netted if a partner becomes insolvent, thereby further reducing risks.

#### ● Liquidity risks

Liquidity risks arise from potential financial shortfalls and the resulting increase in refinancing costs. The aim of liquidity management in the LANXESS Group is to ensure that the Group has sufficient liquidity and committed credit facilities available at all times to enable it to meet its payment commitments, and to optimize the liquidity balance within the Group.

The €1,408 billion syndicated credit facility, which runs through November 2014 and was unused as of the closing date, is a key component of the LANXESS Group's liquidity management. In addition, the Group has short-term liquidity reserves of €715 million in the form of cash and cash equivalents and highly liquid investments in AAA-rated money market funds. Accordingly, the LANXESS Group has a comfortable liquidity position based on a broad range of financing instruments.

The following table shows the contractually agreed (undiscounted) payment streams, including contractually agreed interest payments, for primary financial liabilities and derivative financial instruments.

## Dec. 31, 2008

€ million	2009	2010	2011	2012	2013	After 2013
<b>Bond</b>	(10)	(21)	(21)	(520)		
<b>Liabilities to banks</b>	(150)	(24)	(316)	(33)	(24)	(74)
<b>Trade payables</b>	(484)					
<b>Liabilities under finance leases</b>	(9)	(9)	(8)	(23)	(14)	(10)
<b>Other primary financial liabilities</b>	(25)	(5)				
<b>Derivative liabilities</b>						
Hedging instruments that qualify for hedge accounting						
Disbursements	(238)	(37)				
Receipts	182	7				
Other hedging instruments						
Disbursements	(284)					
Receipts	260					
<b>Derivative assets</b>						
Hedging instruments that qualify for hedge accounting						
Disbursements	(194)	(256)	(102)			
Receipts	199	269	131			
Other hedging instruments						
Disbursements	(392)					
Receipts	417					

## Dec. 31, 2009

€ million	2010	2011	2012	2013	2014	After 2014
<b>Bonds</b>	(26)	(66)	(468)	(50)	(550)	(222)
<b>Liabilities to banks</b>	(41)	(37)	(87)	(104)	(28)	(58)
<b>Trade payables</b>	(486)					
<b>Liabilities under finance leases</b>	(15)	(14)	(13)	(35)	(8)	(35)
<b>Other primary financial liabilities</b>	(48)	(2)				
<b>Derivative liabilities</b>						
Hedging instruments that qualify for hedge accounting						
Disbursements	(12)	(6)				
Receipts	3	2				
Other hedging instruments						
Disbursements	(575)				(10)	
Receipts	553				10	
<b>Derivative assets</b>						
Hedging instruments that qualify for hedge accounting						
Disbursements	(254)	(132)				
Receipts	282	148				
Other hedging instruments						
Disbursements	(193)					
Receipts	194					

The contractually agreed payments for other primary financial liabilities due within one year following the closing date contain accrued interest of €40 million (2008: €11 million) relating to the bonds.

- Raw material price risks

The LANXESS Group is exposed to changes in the market prices of commodities used for its business operations. There is a risk that only part of any increases in energy and raw material procurement costs can be passed on to customers and that such increases could therefore materially affect the operating result of the LANXESS Group.

These market-price risks are systematically monitored, analyzed and controlled as part of the financial risk management system. The aim is to achieve a deliberate and controlled reduction in the volatility of cash flows and thus the volatility of the company's economic value by making systematic use of derivatives, for example, for natural gas, fuel oil or N-butane. Where cash flow hedges qualify for hedge accounting, changes in their fair values are recognized in other comprehensive income until the hedged transaction is realized.

If all raw material prices had been 10% higher or lower on the closing date, the changes in the fair values of the respective hedging instruments would have increased or decreased other comprehensive income by €3 million (2008: €4 million).

**Derivative financial instruments** Derivatives with a total fair value of €45 million (2008: €77 million) are capitalized in the consolidated financial statements of the LANXESS Group for fiscal 2009. Instruments with a negative fair value totaling €30 million (2008: €109 million) are recognized as liabilities.

#### Derivative Financial Instruments

€ million	Dec. 31, 2008		
	Notional value	Positive fair values	Negative fair values
Forward exchange contracts	1,336	35	(33)
Currency options	504	15	(36)
Cross-currency interest-rate swaps	100	27	0
Forward commodity contracts	105	0	(40)
<b>Total</b>	<b>2,045</b>	<b>77</b>	<b>(109)</b>

#### Derivative Financial Instruments

€ million	Dec. 31, 2009		
	Notional value	Positive fair values	Negative fair values
Forward exchange contracts	1,228	32	(17)
Currency options	294	5	(10)
Forward commodity contracts	47	8	(3)
<b>Total</b>	<b>1,569</b>	<b>45</b>	<b>(30)</b>

The total notional value of forward commodity contracts was €47 million (2008: €105 million), including €44 million (2008: €79 million) due within one year. The total notional value of forward exchange contracts and currency options was €1,522 million (2008: €1,840 million), including €1,309 million (2008: €1,342 million) due within one year.

**Cash flow hedges** As of December 31, 2009, the unrealized gains recorded in other comprehensive income in 2009 or earlier periods from **currency hedging contracts** that qualified for hedge accounting amounted to €23 million (2008: losses of €14 million). In fiscal 2009, €7 million (2008: €36 million) was reclassified from equity and recognized in the income statement as a loss (2008: gain) due to the realization of the hedged transactions. Currency hedging contracts had a notional value of €687 million (2008: €1,140 million). As of December 31, 2009, these contracts had positive fair values of €35 million (2008: €24 million) and negative fair values of €10 million (2008: €45 million). Contracts with a total notional amount of €496 million (2008: €642 million) are due within one year. The hedged cash flows will be realized within the next two years.

The LANXESS Group expects that €13 million of the unrealized gains recognized in other comprehensive income in 2009 or earlier periods will be realized in 2010 and that €10 million will be reclassified from equity to profit or loss in 2011. In 2008, it was expected that unrealized losses of €14 million recognized in other comprehensive income in 2008 or earlier periods would be reclassified from equity to profit or loss in 2009.

In fiscal 2009 hedging contracts concluded in order to hedge currency risks in U.S. dollars and yen were closed out because the underlying transactions were no longer probable. The resulting expense was €2 million.

As part of the restructuring of the refinancing portfolio in 2009, LANXESS withdrew from or prematurely closed out all cross-currency interest-rate swaps it had entered into in 2008.

As of December 31, 2009, the unrealized gains recorded in other comprehensive income in 2009 or earlier periods from **forward commodity contracts** that qualified for hedge accounting amounted to €3 million (2008: losses of €27 million). In fiscal 2009, €18 million was reclassified from equity and recognized in the income statement as a loss (2008: €6 million gain) due to the realization of the hedged transactions. Hedges comprised forward commodity contracts with positive fair values of €8 million on December 31, 2009 (2008: €0 million) and negative fair values of €3 million (2008: €40 million). The total notional value of these hedges was €47 million (2008: €105 million), including €44 million (2008: €79 million) due within one year. The hedged cash flows will be realized within the next two years.

The LANXESS Group expects that unrealized gains of €3 million recognized in other comprehensive income in 2009 or previous years will be reclassified from equity to profit or loss in 2010. In 2008, it was expected that unrealized losses of €22 million recognized in other comprehensive income in 2008 or previous years would be reclassified from equity to profit or loss in 2009 and that €5 million would be reclassified in 2010.

**Carrying amounts, measurement and fair value of financial instruments** The table shows the carrying amounts of the individual classes of financial assets and liabilities and their fair values. The basis of measurement is also shown:

**Dec. 31, 2008**

€ million	IAS 39 valuation category	Carrying amount Dec. 31, 2008
<b>Financial assets</b>		
Trade receivables	LaR	725
Receivables under finance leases	-	12
Other financial receivables	LaR	120
Cash and cash equivalents	LaR	249
Available-for-sale financial assets		
Near-cash assets	AfS	-
Other available-for-sale financial assets	AfS	97
Derivative assets		
Hedging instruments that qualify for hedge accounting	-	51
Other hedging instruments	FAHfT	26
<b>Financial liabilities</b>		
Bonds	FLAC	(498)
Liabilities to banks	FLAC	(564)
Trade payables	FLAC	(484)
Liabilities under finance leases	-	(62)
Other primary financial liabilities	FLAC	(30)
Derivative liabilities		
Hedging instruments that qualify for hedge accounting	-	(85)
Other hedging instruments	FLHfT	(24)

**Dec. 31, 2009**

€ million	IAS 39 valuation category	Carrying amount Dec. 31, 2009
<b>Financial assets</b>		
Trade receivables	LaR	733
Receivables under finance leases	-	10
Other financial receivables	LaR	161
Cash and cash equivalents	LaR	313
Available-for-sale financial assets		
Near-cash assets	AfS	402
Other available-for-sale financial assets	AfS	55
Derivative assets		
Hedging instruments that qualify for hedge accounting	-	43
Other hedging instruments	FAHfT	2
<b>Financial liabilities</b>		
Bonds	FLAC	(1,094)
Liabilities to banks	FLAC	(317)
Trade payables	FLAC	(486)
Liabilities under finance leases	-	(96)
Other primary financial liabilities	FLAC	(49)
Derivative liabilities		
Hedging instruments that qualify for hedge accounting	-	(13)
Other hedging instruments	FLHfT	(17)

LaR	Loans and Receivables
AfS	Available-for-Sale Financial Assets
FAHfT	Financial Assets Held for Trading
FLAC	Financial Liabilities Measured at Amortized Cost
FLHfT	Financial Liabilities Held for Trading

Valuation method according to IAS 39				Valuation method according to IAS 17	Fair value Dec. 31, 2008
Amortized cost	Acquisition cost	Fair value (other comprehensive income)	Fair value (profit or loss)		
725					725
				12	12
120					120
249					249
					-
	2	95			95
		51			51
			26		26
(498)					(487)
(564)					(564)
(484)					(484)
				(62)	(63)
(30)					(30)
		(85)			(85)
			(24)		(24)

Valuation method according to IAS 39				Valuation method according to IAS 17	Fair value Dec. 31, 2009
Amortized cost	Acquisition cost	Fair value (other comprehensive income)	Fair value (profit or loss)		
733					733
				10	10
161					161
313					313
		402			402
	1	54			54
		43			43
			2		2
(1,094)					(1,196)
(317)					(317)
(486)					(486)
				(96)	(105)
(49)					(49)
		(13)			(13)
			(17)		(17)

**Carrying Amounts by IAS 39 Category**

€ million	Dec. 31, 2008	Dec. 31, 2009
Loans and receivables	1,094	1,207
Available-for-sale financial assets	97	457
Financial assets held for trading	26	2
	<b>1,217</b>	<b>1,666</b>
Financial liabilities measured at amortized cost	(1,576)	(1,946)
Financial liabilities held for trading	(24)	(17)
	<b>(1,600)</b>	<b>(1,963)</b>

**Fair value measurement** Fair value measurement is based on a hierarchy that reflects the significance of inputs in the valuation. This comprises three levels:

- Level 1 Quoted prices (unadjusted) for identical assets or liabilities in active markets
- Level 2 Inputs other than quoted prices used within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3 Inputs for the asset or liability that are not based on observable market data.

As of December 31, 2009, the classification of financial instruments using the fair value hierarchy was as follows:

**Fair Value Measurement Levels**

€ million	Level 1	Level 2	Level 3
Available-for-sale financial assets			
Near-cash assets	402	–	–
Other available-for-sale financial assets	53	1	–
Derivative assets	–	45	–
Derivative liabilities	–	30	–

**Net result by category** The following table provides an overview of the net results based on the measurement categories defined in IAS 39:

**Net Results by IAS 39 Category**

€ million	2008	2009
Loans and receivables	(4)	12
Available-for-sale financial assets	(46)	0
Assets and liabilities held for trading	2	0
Financial liabilities measured at amortized cost	(46)	(80)
	<b>(94)</b>	<b>(68)</b>

Net gains and losses principally comprise interest income and expense, dividend income and valuation adjustments.

The net result for available-for-sale financial assets includes losses of €1 million (2008: €0 million), which are reflected in other comprehensive income.

In addition, fees of €16 million were incurred in 2009 (2008: €4 million) in connection with financial instruments.

**Collateralization of financial liabilities** Financial liabilities amounting to €34 million (2008: €47 million) were collateralized by mortgages or other property claims.

**32** **Notes to the Statement of Cash Flows** The statement of cash flows shows cash inflows and outflows by type of business activity. For the sake of clarity, €14 million in receipts constituting investment grants for the construction of facilities for major customers that had been reflected in changes in other assets and liabilities in 2008 has been reclassified to investing activities and netted with the cash outflows for purchases of intangible assets, property, plant and equipment.

Effective January 1, 2009 a change was made in the accounting treatment of provisions for pension and other post-employment benefit obligations to improve the transparency of financial reporting. In compliance with IAS 19.93A, actuarial gains and losses are now recognized in full in the period in which they occur. This increased the originally reported 2008 figures for income before income taxes by €17 million, increased the income from investments accounted for using the equity method by €1 million, and reduced cash inflows from changes in other assets and liabilities in 2008 by €16 million.

**Net cash flow provided by operating activities** The net cash inflow from operating activities in 2009 amounted to €565 million (2008: €492 million). Income before income taxes, which is the starting point for the statement of cash flows, came in at €32 million (2008: €246 million). Other assets and liabilities decreased by €24 million year-on-year (2008: increased by €26 million). Apart from the income before income taxes, net operating cash flow included depreciation, amortization and write-downs of €273 million (2008: €279 million). No income taxes were paid in 2009 (2008: €120 million).

**Net cash used in investing activities** Purchases of property, plant and equipment and intangible assets led to a cash outflow of €275 million in 2009 (2008: €342 million). A further €448 million was disbursed for financial assets (2008: €35 million), chiefly comprising units of money market funds that can be sold at any time. Cash outflows for the acquisition of subsidiaries – net of acquired cash and cash equivalents – comprised €86 million for the purchase of the business and production facilities of the listed Indian company Gwalior Chemical Industries Ltd., Mumbai, and the Chinese company Jiangsu Polyols Chemical Co. Ltd. (Jiangsu Polyols), Liyang. Proceeds of €7 million (2008: €27 million) were recorded from the divestment of businesses. Further cash inflows comprised interest receipts of €13 million (2008: €14 million) and income of €24 million (2008: €5 million) from other affiliates. This consisted mainly of inflows from the transfer to LANXESS of the pro-rata share of the income of CURRENTA GmbH & Co. OHG, Leverkusen, Germany, which is accounted for using the equity method. Net cash outflow for investing activities was €771 million (2008: €543 million).

**Net cash provided by financing activities** A net cash inflow of €258 million (2008: €115 million) was recorded for financing activities, including a €353 million (2008: €246 million) inflow from net borrowings, a €53 million (2008: €47 million) outflow for interest paid and other financial disbursements, and a €42 million (2008: €84 million) outflow for the dividend paid by LANXESS AG in 2009.

**Cash and cash equivalents** Cash and cash equivalents (cash, checks, bank balances) amounted to €313 million as of December 31, 2009 (2008: €249 million). In accordance with IAS 7, this item also includes securities with maturities of up to three months from the date of acquisition.

## 33 Segment reporting

### Key Data by Segment

€ million	Performance Polymers		Advanced Intermediates	
	2008	2009	2008	2009
External sales	3,280	2,388	1,310	1,104
Intersegment sales	26	38	61	38
Segment/Group sales	3,306	2,426	1,371	1,142
Segment result/EBITDA pre exceptionals	413	250	186	154
Segment assets	1,931	2,053	676	719
Segment acquisitions	259			86
Segment capital expenditures	178	171	76	82
Depreciation and amortization	128	136	44	48
Impairments	11	1		
Segment liabilities	653	681	318	360
Employees (December 31)	4,672	4,375	2,530	2,858
Employees (average for the year)	4,650	4,467	2,541	2,703

2008 figures restated

### Key Data by Region

€ million	EMEA (excluding Germany)		Germany	
	2008	2009	2008	2009
External sales by market	2,201	1,557	1,421	1,063
Non-current region assets	370	406	737	750
Acquisitions				
Capital expenditures	85	88	164	135
Employees (December 31)	2,703	2,625	7,772	7,626

Performance Chemicals		Reconciliation		LANXESS	
2008	2009	2008	2009	2008	2009
1,930	1,530	56	35	6,576	5,057
10	11	(97)	(87)	0	0
1,940	1,541	(41)	(52)	6,576	5,057
241	182	(118)	(121)	722	465
1,078	1,022	144	95	3,829	3,889
14				273	86
82	80	20	9	356	342
74	65	13	9	259	258
8	6	1	8	20	15
477	433	398	426	1,846	1,900
5,021	4,675	2,574	2,430	14,797	14,338
5,079	4,851	2,598	2,451	14,868	14,472

North America		Latin America		Asia-Pacific		LANXESS	
2008	2009	2008	2009	2008	2009	2008	2009
1,074	781	724	515	1,156	1,141	6,576	5,057
321	322	270	331	111	220	1,809	2,029
		259		14	86	273	86
52	40	16	18	39	61	356	342
1,464	1,261	1,412	1,152	1,446	1,674	14,797	14,338

**Notes to the segment reporting** The valuation principles applied in segment reporting correspond to the uniform recognition and valuation principles used for the consolidated financial statements prepared in accordance with IFRS.

The segment reporting has been prepared according to IFRS 8 for the first time. The key difference between IFRS 8 and IAS 14, which was applied for the last time in the consolidated financial statements as of December 31, 2008, is that IFRS 8 follows the so-called management approach. This means that the amount reported for each segment item must be the same as that notified to the company's chief operating decision maker (CODM). Since the earnings figure used for management accounting purposes within the LANXESS Group is the operating result before depreciation and amortization (EBITDA) pre exceptionals, this is the amount now disclosed as the "segment result." A reconciliation of EBITDA pre exceptionals to income before taxes is also provided. The aim of segmentation is to provide users of the financial statements with information regarding the profitability and future prospects of the Group's various activities.

On December 31, 2009 the LANXESS Group comprised the following reporting segments:

Segment	Operations
Performance Polymers	Special-purpose rubber for high-quality rubber products, e.g. for use in vehicles, tires, construction and footwear; engineering plastics, polyamide compounds
Advanced Intermediates	Intermediates for the agrochemicals and coatings industries; fine chemicals as precursors and intermediates for pharmaceuticals, agrochemicals and specialty chemicals; custom manufacturing
Performance Chemicals	Material protection products; inorganic pigments for the coloring of concrete, emulsion paints and other coatings; finishing agents for the leather industry; rubber chemicals; ion exchange resins for water treatment; plastics additives such as flame retardants and plasticizers

The reconciliation eliminates intersegment items and reflects assets and liabilities not directly allocable to the core segments including, in particular, those pertaining to the Corporate Center. It also includes the €25 million (2008: €41 million) interest in the associate CURRENTA GmbH & Co. OHG, Leverkusen, and the latter's equity-method income of €8 million (2008: €21 million).

The majority of employees reflected in the reconciliation provide services for more than one segment. They include technical service staff.

The reporting regions are those into which LANXESS's activities are organized: EMEA (Europe excluding Germany, Middle East, Africa), Germany, North America, Latin America and Asia-Pacific. In 2009 the Americas reporting region was subdivided for the first time into North America and Latin America to increase transparency. The previous year's figures were split accordingly.

Segment EBITDA pre exceptionals comprises gross profit, selling expenses, general administration expenses, research and development expenses and other operating income and expenses. It does not include, in particular, depreciation and amortization or exceptional items, which relate principally to restructuring activities.

#### Reconciliation of Segment Sales and Segment Result

€ million	2008	2009
<b>Total of segment sales</b>	<b>6,617</b>	<b>5,109</b>
Other/Consolidation	(41)	(52)
<b>Group sales</b>	<b>6,576</b>	<b>5,057</b>
<b>Total of segment results</b>	<b>840</b>	<b>586</b>
Other/Consolidation	(118)	(121)
Exceptional items in EBITDA	(120)	(43)
Depreciation and amortization	(279)	(273)
Financial result	(77)	(117)
<b>Income before income taxes</b>	<b>246</b>	<b>32</b>

Segment assets principally comprise property, plant and equipment, intangible assets, inventories and trade receivables. In particular, segment assets do not include cash and cash equivalents, income tax receivables, receivables from derivatives, or other financial assets. The first-time application of IFRS 8 led to minor adjustments to the previous year's figures for segment assets.

### Reconciliation of Segment Assets

€ million	2008	2009
<b>Segment assets</b>	<b>3,685</b>	<b>3,794</b>
Other/Consolidation	144	95
Cash and cash equivalents	249	313
Near-cash assets	0	402
Derivative assets	77	45
Other financial assets	227	225
Income tax receivables	56	31
Deferred tax assets	154	163
<b>Group assets</b>	<b>4,592</b>	<b>5,068</b>

Segment liabilities basically consist of trade payables, other liabilities and provisions. In particular, segment liabilities do not include income tax liabilities, liabilities from derivatives, or other financial liabilities.

### Reconciliation of Segment Liabilities

€ million	2008	2009
<b>Segment liabilities</b>	<b>1,448</b>	<b>1,474</b>
Other/Consolidation	398	426
Other financial liabilities	1,154	1,556
Derivative liabilities	109	30
Income tax liabilities	103	99
Deferred tax liabilities	41	38
<b>Group liabilities</b>	<b>3,253</b>	<b>3,623</b>

Capital expenditures made by the segments mainly comprise additions to intangible assets, property, plant and equipment.

All depreciation, amortization and write-downs in fiscal 2008 and 2009 were recognized directly in income.

In fiscal 2009, the segments reported other non-cash expenses of €297 million (2008: €422 million). These were attributable to the segments as follows: Performance Polymers €150 million (2008: €223 million), Advanced Intermediates €66 million (2008: €66 million) and Performance Chemicals €81 million (2008: €133 million). The reconciliation contained a total of €125 million (2008: €197 million) in non-cash expenses. The principal non-cash expenses comprised allocations to provisions and write-downs of inventories and receivables.

**34 Audit fees** In 2009, audit fees of €2,669 thousand (2008: €2,254 thousand) for the auditor of the consolidated financial statements of the LANXESS Group were recognized as expenses. Of this amount, €1,170 thousand (2008: €1,161 thousand) related to the auditing of financial statements, €483 thousand (2008: €488 thousand) to audit-related services and other assurance and valuation services, and €1,016 thousand (2008: €605 thousand) to other services rendered to Group companies. The fees for financial statement auditing comprise all fees, including incidental expenses, paid or still to be paid for the audit of the consolidated financial statements of the LANXESS Group as well as for the audit of the mandatory financial statements of LANXESS AG and its German subsidiaries.

**35 Declaration of Compliance pursuant to Section 161 of the Stock Corporation Act** Declaration of Compliance with the German Corporate Governance Code has been issued pursuant to Section 161 of the German Stock Corporation Act (AktG) and made available to stockholders.

**36 Exemptions under Section 264 Paragraph 3 of the German Commercial Code** The following German subsidiaries made use of some of the disclosure exemptions granted in Section 264 Paragraph 3 of the German Commercial Code (HGB):

ALISECA GmbH, Leverkusen  
Erste LXS GmbH, Leverkusen  
IAB Ionenaustauscher GmbH Bitterfeld, Greppin  
LANXESS Accounting GmbH, Leverkusen  
LANXESS Buna GmbH, Marl  
LANXESS Deutschland GmbH, Leverkusen  
LANXESS Distribution GmbH, Langenfeld  
LANXESS International Holding GmbH, Leverkusen  
LXS Dormagen Verwaltungs-GmbH, Dormagen  
Perlon-Monofil GmbH, Dormagen  
Rhein Chemie Rheinau GmbH, Mannheim  
SALTIGO GmbH, Langenfeld  
Vierte LXS GmbH, Leverkusen

# RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable financial reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the management report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Leverkusen, March 2, 2010

LANXESS Aktiengesellschaft, Leverkusen

The Board of Management

Dr. Axel C. Heitmann

Dr. Werner Breuers

Dr. Rainier van Roessel

Matthias Zachert

# AUDITOR'S REPORT

Our auditor has issued the following unqualified opinion on the consolidated financial statements and the Group management report as of December 31, 2009, which were prepared on March 2, 2010:

We have audited the consolidated financial statements prepared by the LANXESS Aktiengesellschaft, Leverkusen, the statement of financial position, the income statement and statement of comprehensive income, statement of changes in equity, statement of cash flows and the notes to the consolidated financial statements, together with the group management report for the business year from January 1 to December 31, 2009. The preparation of the consolidated financial statements and the group management report in accordance with the IFRSs, as adopted by the E.U., and with the additional requirements of German commercial law pursuant to § (Article) 315 a Abs. (Paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) is the responsibility of the parent company's Board of Management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management

report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the company's Board of Management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit the consolidated financial statements comply with the IFRSs as adopted by the E.U., the additional requirements of German commercial law pursuant to § 315 a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Cologne, March 3, 2010

PricewaterhouseCoopers  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

Peter Albrecht  
Wirtschaftsprüfer  
(German Public Auditor)

Jörg Sechser  
Wirtschaftsprüfer  
(German Public Auditor)