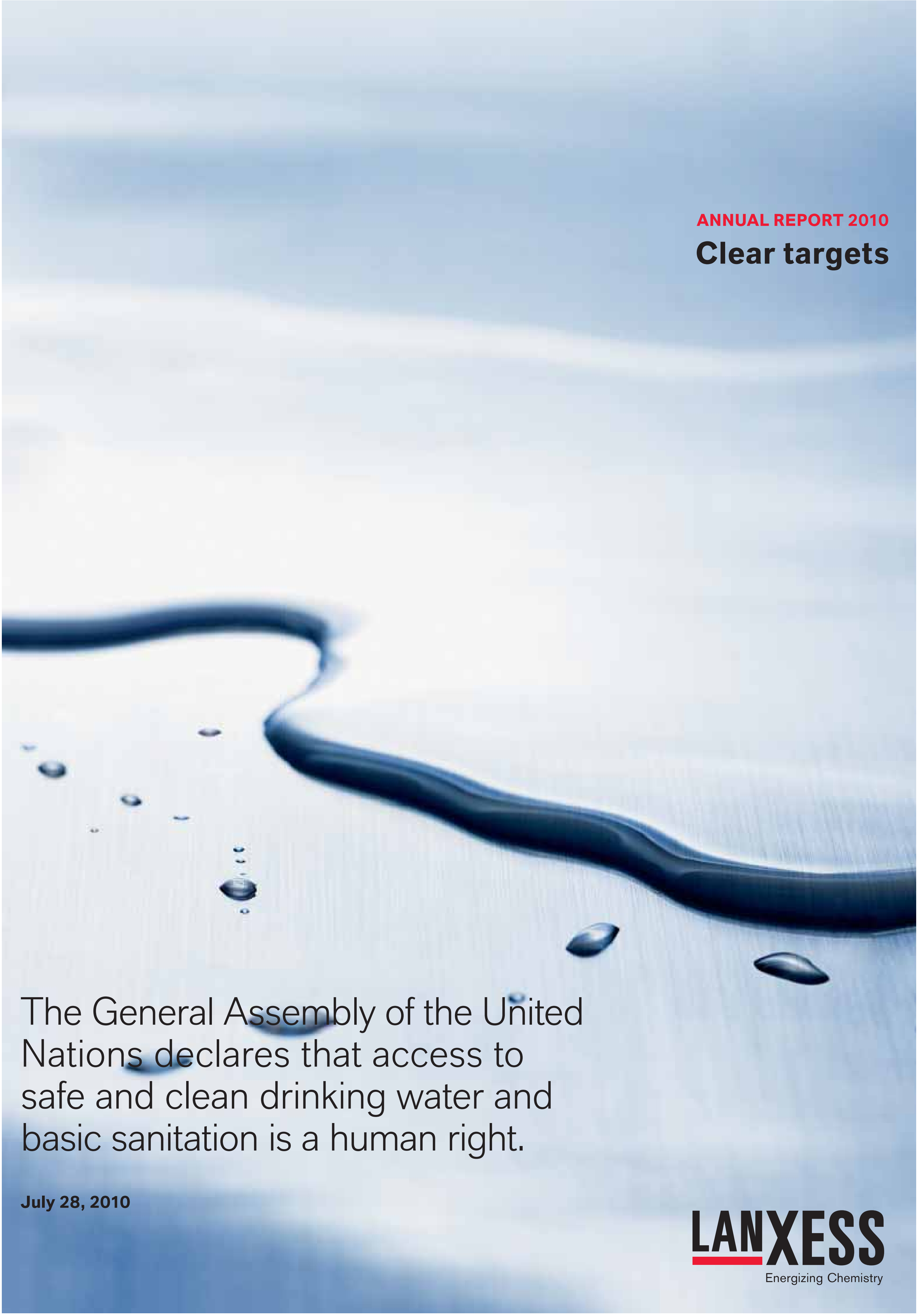
ANNUAL REPORT 2010

Clear targets



The General Assembly of the United Nations declares that access to safe and clean drinking water and basic sanitation is a human right.

July 28, 2010

LANXESS

Energizing Chemistry

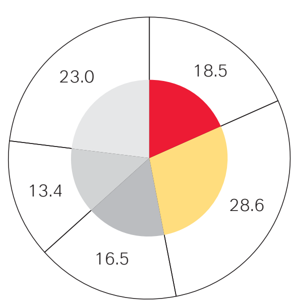
Key Data

€ million	2009	2010	Change in %
Sales	5,057	7,120	40.8
EBITDA pre exceptionals	465	918	97.4
EBITDA margin pre exceptionals	9.2%	12.9%	
EBITDA	422	890	> 100
Operating result (EBIT) pre exceptionals	204	635	> 100
Operating result (EBIT)	149	607	> 100
EBIT margin	2.9%	8.5%	
Net income	40	379	> 100
Earnings per share (€)	0.48	4.56	> 100
Dividend per share (€)	0.50	0.70	40.0
ROCE	5.9%	17.0%	
Cash flow from operating activities	565	505	(10.6)
Depreciation and amortization	273	283	3.7
Cash outflows for capital expenditures	275	501	82.2
Total assets	5,068	5,666	11.8
Equity (including non-controlling interests)	1,445	1,761	21.9
Equity ratio	28.5%	31.1%	
Pension provisions	569	605	6.3
Net financial liabilities	794	913	15.0
Employees (as of December 31)	14,338	14,648	2.2
Personnel expenses (€ million)	981	1,141	16.3
Work-related injuries resulting in at least 1 day's absence (per million hours worked)	3.0	2.3	
Energy consumption (petajoules)	43	48	11.6
Total water consumption (in thousand cubic meters per day)	893[1]	811	(9.2)
Emissions of greenhouse gases (CO_2 equivalents in thousand tons)	1,638[1]	1,938	18,3
Emissions of volatile organic compounds (in thousand tons)	6.7[1]	7.8	16.4
Total waste (in thousand tons)	203[1]	255	25.6
Total wastewater (in thousand cubic meters per day)	73[1]	84	15.1

1) Figure restated

Sales by Region

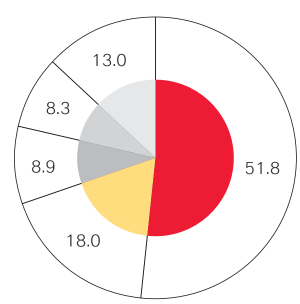
in %



- Germany
- EMEA (excluding Germany)
- North America
- Latin America
- Asia-Pacific

Employees by Region (as of December 31)

in %



- Germany
- EMEA (excluding Germany)
- North America
- Latin America
- Asia-Pacific

This annual report contains forward-looking statements based on current assumptions and forecasts made by LANXESS AG management. Various known and unknown risks, uncertainties and other factors could lead to material differences between the actual future results, financial situation, development or performance of the company and the estimates given here. The company assumes no liability whatsoever to update these forward-looking statements or to conform them to future events or developments.

PERFORMANCE POLYMERS

Market Position

The Performance Polymers segment brings together all the activities of the LANXESS Group in the production of rubber and plastics. Our technologies give us a strong position in the global market. For example, LANXESS is among the leading manufacturers of butyl and polybutadiene rubber, used mainly for the production of car and truck tires. Our high-tech Durethan® and Pocan® plastics are strong brands with significant potential for growth and innovation.

Business Units

- Butyl Rubber (BTR)
- Performance Butadiene Rubbers (PBR)
- Technical Rubber Products (TRP)
- Semi-Crystalline Products (SCP)

Performance Indicators

€ million	2009	2010	Change in %
Sales	2,388	3,782	58.4
Proportion of Group sales	47.2%	53.1%	
EBITDA[1]	250	585	> 100
EBITDA margin[1]	10.5%	15.5%	
Cash outflows for capital expenditures	133	302	> 100
Employees (as of Dec. 31)	4,375	4,393	0.4

1) Pre exceptionals

ADVANCED INTERMEDIATES

Market Position

The operations that LANXESS combines in its Advanced Intermediates segment make it one of the world's main suppliers of basic and fine chemicals. Our core competencies lie in the production and marketing of industrial and fine chemicals, and in research and development in these fields. Many years of experience, successful brands and a highly efficient integrated aromatics production network give LANXESS leadership positions in the global market.

Business Units

- Basic Chemicals (BAC)
- Saltigo (SGO)

Performance Indicators

€ million	2009	2010	Change in %
Sales	1,104	1,321	19.7
Proportion of Group sales	21.8%	18.6%	
EBITDA[1]	154	222	44.2
EBITDA margin[1]	13.9%	16.8%	
Cash outflows for capital expenditures	53	69	30.2
Employees (as of Dec. 31)	2,858	2,791	(2.3)

1) Pre exceptionals

PERFORMANCE CHEMICALS

Market Position

LANXESS's Performance Chemicals segment combines all the Group's application-oriented activities in the field of process and functional chemicals. With strong brands, we rank among the world's leading producers. For example, we hold a leadership position in the field of organic colorants for plastics. Our major strengths include a global sales and service network, outstanding product quality, high innovative capability and patent protection for our company's technologies.

Business Units

- Material Protection Products (MPP)
- Inorganic Pigments (IPG)
- Functional Chemicals (FCC)
- Leather (LEA)
- Rhein Chemie (RCH)
- Rubber Chemicals (RUC)
- Ion Exchange Resins (ION)

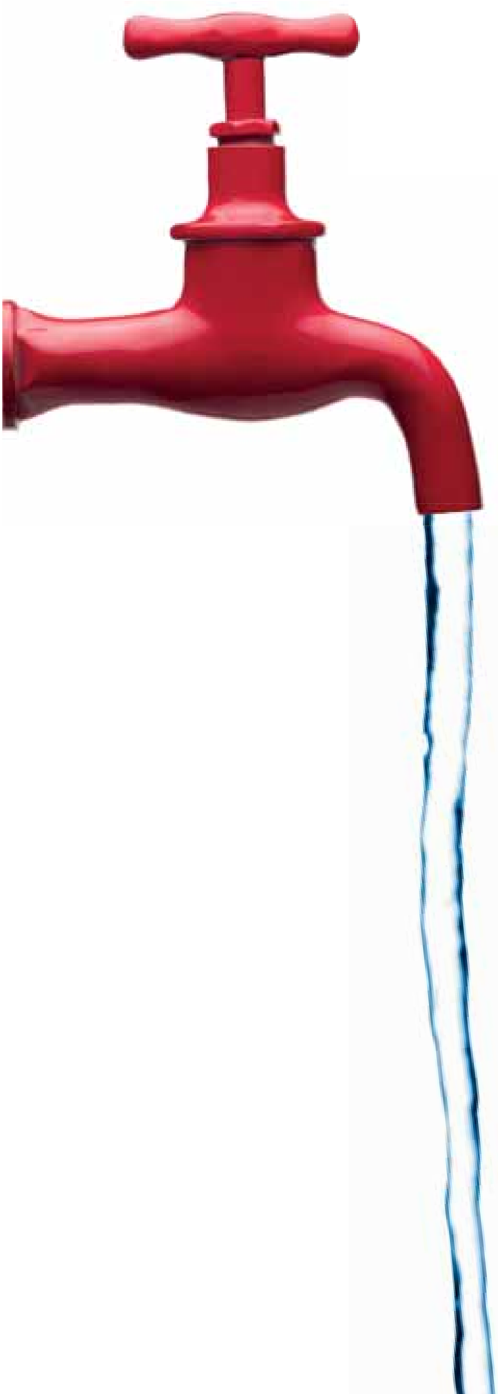
Performance Indicators

€ million	2009	2010	Change in %
Sales	1,530	1,978	29.3
Proportion of Group sales	30.3%	27.8%	
EBITDA[1]	182	281	54.4
EBITDA margin[1]	11.9%	14.2%	
Cash outflows for capital expenditures	80	114	42.5
Employees (as of Dec. 31)	4,675	4,907	5.0

1) Pre exceptionals

With innovative premium products, first-class technical expertise and German inventiveness, LANXESS contributes to its customers' success around the globe. We are a specialty chemicals company with businesses that hold leading market positions worldwide. Resource efficiency and environmentally friendly solutions form the key to our sustainable growth.

In 2010 we set ourselves a number of clear new targets. With our focus on four megatrends and the world's growth markets, we aim to increase our EBITDA pre exceptionals to €1.4 billion by 2015 and further strengthen LANXESS's position at the core of the chemical industry.



2010 – The LANXESS Year of Water
Since July 28, 2010, the right to clean water has been recognized as a human right by the United Nations. We can make an important contribution to solving present and future water problems with innovative products that help to purify and conserve water.

CONTENTS

P. 8

STRATEGY

Information about LANXESS's positioning, the company's strengths and its new strategic growth target

P. 16

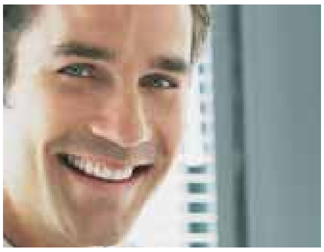
SEGMENTS

Overview of the segments and their business units with detailed descriptions of events in fiscal 2010 – ranging from investment projects to product innovations

P. 28

CORPORATE RESPONSIBILITY

All the important facts about the LANXESS Group's sustainable actions in respect of its employees, the environment and society



P. 48

INVESTOR INFORMATION

Review of LANXESS stock's performance in fiscal 2010, share performance data and information about the company's activities in respect of the capital market

Ladies and Gentlemen,

“2010 was an exceptional year with many facets and highlights for our company.”

LANXESS can look back on a very successful 2010. It was an exceptional year with many facets and highlights for our company. The global economy recovered faster than initially anticipated, thanks to the strong performance of the emerging economies, notably Brazil, India and China. By contrast, the United States, Japan and many European countries were still feeling the aftermath of the crisis and posted slower growth.

Against this backdrop, I am pleased to present to you our results, of which we are proud. We have set new records, with EBITDA pre exceptionals of €918 million and net income of €379 million. Alongside the global economic recovery, the very fast implementation of our Challenge09-12 crisis response program undoubtedly played a significant role in these achievements. The flexible asset management policy, numerous efficiency enhancement measures and cost savings that were part of this program allowed us to create highly competitive structures worldwide. As a result, LANXESS not only passed the stress test of the crisis with flying colors but is now in an even better position than before. Today, our company is an extremely stable and profitable enterprise.

Yet 2010 was successful not just in operational terms. We also took key steps in continuing our proven sustainable growth strategy.

One important event took place shortly before year-end when we announced our purchase of Netherlands-based DSM Elastomers for €310 million, an acquisition second in size only to our purchase of the Brazilian company Petroflex in 2008. This business fits our growth strategy perfectly, as it strengthens our position in the attractive global market for high-tech synthetic rubber. In addition, the acquisition will give LANXESS access to a new technology that significantly reduces the energy and manufacturing costs of synthetic rubber products and at the same time broadens their potential range of applications.

Another highlight in 2010 was the groundbreaking ceremony for our new butyl rubber plant in Singapore. This facility, which is scheduled to come on stream in the first quarter of 2013 and will account for an investment of around €400 million, is the biggest project of its kind in our company’s history. The plant will use a highly innovative technology that sets new standards in areas that are especially important to us: resource conservation, energy efficiency and general environmental compatibility. I am pleased to inform you that we are right on schedule with the realization of this very important project for our company.

Other significant milestones last year included breaking ground for new facilities in Bitterfeld, Germany, and Russia, commissioning two production plants at our site in Jhagadia, India, and investing in U.S. biofuel and biochemical manufacturer Gevo Inc. This start-up company is developing a process for producing isobutene from renewable resources, which could open a new chapter in the synthesis of butyl rubber. In 2009 we celebrated the 100th anniversary of synthetic rubber. And in 2010, our “Rubber Day” conferences in China, India and Brazil demonstrated our expertise in the field of rubber and generated a great deal of publicity.

“We pursue a consistent strategy that reconciles economic, social and environmental interests.”

For LANXESS, business activity is inextricably linked with a strong commitment to the environment and society. We always apply our high standards for sustainable growth when making entrepreneurial decisions. Under the motto “Good for business, good for society,” we pursue a consistent strategy that reconciles economic, social and environmental interests. Our corporate responsibility initiatives in 2010 focused on water, alongside climate protection and education. Our active measures for climate protection included an investment of some €80 million in sustainable energy production. We also systematically expanded our involvement in educational programs.

In light of the demographic trend, we launched our XCare program in 2010. This project aims to find answers to the challenges posed by a steady rise in the average age of the workforce coupled with a shortage of skilled young people. Additional information about LANXESS’s social and environmental responsibility and our key sustainability indicators are presented in the “Corporate Responsibility” section of this Annual Report.

As in the past, the successes we have achieved give us no reason to rest on our laurels. On the contrary, they are a further incentive to become even better, master new challenges and exploit growth opportunities.

We have therefore initiated a new era of growth and aim to achieve an EBITDA pre exceptionals of around €1.4 billion in 2015. This is an ambitious target, but we have a track record of setting our sights high and consistently achieving our goals, sometimes even earlier than expected.

"In order to achieve organic growth, we will invest above all in our strongest businesses in the fastest-growing markets."

Our strategy for the next five years will be based chiefly on the following proven elements:

- We will focus on growth regions, especially the booming BRIC countries Brazil, Russia, India and China. Tomorrow is happening right now in these countries.
- We aim in future to increasingly capitalize on the megatrends of mobility, urbanization, water and agriculture and will align our portfolio accordingly.
- Our strongest growth driver will continue to be the Performance Polymers segment, with its rubber and plastics activities.
- Additional growth, especially related to the megatrends of agriculture, urbanization and water, will come from expanding activities in our Advanced Intermediates and Performance Chemicals segments.

Over the next five years we will continue to focus on generating organic growth by developing existing businesses. This is to be achieved by improvements to process efficiency, capacity expansion, pricing and, of course, product innovation. We will invest above all in our strongest businesses in the fastest-growing markets.

We will also continue to take advantage of external growth opportunities when they arise. In particular, we are on the lookout for small to mid-sized businesses that could strengthen our leadership positions in our existing businesses or broaden our portfolio. The most recent examples are the announced acquisition of DSM Elastomers and the purchase of Argentina-based Darmex S.A., a leading manufacturer of release agents and curing bladders for the tire industry. These acquisitions will strengthen LANXESS's reputation as a global leader in synthetic rubber production.

In the future too, our success will continue to be based primarily on our culture of focused innovation, which is aligned above all with the specific needs of our customers. The vast majority of our product innovations are directed toward meeting the new needs created by the megatrends mentioned above. This kind of targeted innovation is one of the main pillars of our corporate strategy.

Alongside our existing key topics of high-performance rubber and water, we will focus more closely on our high-tech plastics in 2011. Thanks to our efficient production facilities and intensive product and application development, our products are already ideally positioned in the competitive environment. However, the market for engineering plastics is growing rapidly because they are being used increasingly, especially in the automotive and electronics industries. We intend to take greater advantage of these growth opportunities.

"We expect to face major challenges in 2011."

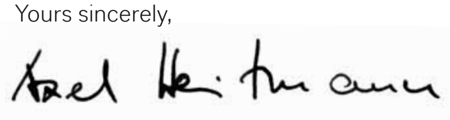
We expect to face major challenges in 2011. But LANXESS is now in ideal shape and has the tools and expertise to continue what has been a success story to date, even in an environment of slower growth. The economies of the industrial countries could be impacted by the ongoing high risk posed by excessive public debt in many countries and the uncertainty as to whether the global upswing is truly self-supporting. Nevertheless, we are confident that we will once again outperform the market in 2011.

In the interests of our stockholders and employees, we remain committed to sustainably increasing our corporate value and, with our products and services, contributing toward growing prosperity and improving people's quality of life. In doing so, we will continue to count on the confidence you, our stockholders, have shown in our company.

In conclusion, on behalf of the entire Board of Management, I would like to express special thanks to our dedicated and highly skilled employees around the world. Last year again, their commitment proved to be a major factor in our success. As part of the Challenge program, they accepted pay cuts which enabled us to retain our most valuable asset – our employees – during the crisis. This meant they were there for us when our sales markets recovered and we increased production.

Our success last year demonstrates the potential of our company and our employees. In order to achieve our objectives, we will continue to draw on and nurture this potential in the future.

Yours sincerely,



MANAGEMENT

Dr. Axel C. Heitmann
Chairman of the Board of Management

Axel C. Heitmann was born in Hamburg on October 2, 1959. After graduating in chemistry from Hamburg University and Southampton University, United Kingdom, and obtaining his Ph. D., Heitmann joined Bayer AG in 1989. Following a succession of international assignments for Bayer, he was appointed Chairman of the LANXESS AG Board of Management in September 2004. Axel C. Heitmann is married with two children.

Matthias Zachert
Chief Financial Officer

Matthias Zachert was born in Bonn on November 8, 1967. After completing a commercial apprenticeship in industry, he studied business administration, spending periods abroad in the United States and France. After that he held a number of senior positions with Hoechst and Aventis, where in 2000 he was appointed CFO of the International Region of Aventis Pharma. In 2002 Zachert joined Kamps as Financial Director. He was appointed Chief Financial Officer of LANXESS AG in September 2004. Matthias Zachert is married with two children.

Dr. Werner Breuers

Member of the Board of Management

Werner Breuers was born in Mönchengladbach, Germany, on December 9, 1958. He studied chemistry and obtained his doctorate from Aachen Technical University before beginning his career at Hoechst AG in 1989. After holding managerial positions at various companies in Germany and abroad, he latterly worked for the Basell Group as President of Basell Polyolefins Europe. Werner Breuers was appointed to the Board of Management of LANXESS AG effective May 14, 2007. He is married with two children.

Dr. Rainier van Roessel

Member of the Board of Management
(Industrial Relations Director)

Rainier van Roessel was born on August 4, 1957 in Oisterwijk in the Netherlands. He studied business administration at the University of Cologne, obtaining his doctorate in 1988. In the same year he joined Bayer AG. When the LANXESS organization was set up in 2004, he became Head of the Rubber Chemicals business unit, and in June 2006 he was additionally appointed Managing Director of LANXESS N.V., Antwerp, Belgium. Rainier van Roessel was appointed to the LANXESS AG Board of Management on January 1, 2007. He is married with three children.

STRATEGY

Achieving growth

ULTRAPURE WATER It is not just for human consumption that water has to be treated – the requirements for industrial applications are even more exacting. In particular, the electronics and photovoltaic industries need large amounts of ultrapure water. The water used to clean microchips, printed circuits and other components must be virtually free of contaminants so that it is non-conductive. Just one foreign molecule on a microchip could result in a short circuit with serious consequences. With its Lewatit® ion exchange resins, LANXESS makes a significant contribution to mastering this challenge.

GROWTH ALIGNED TO GLOBAL MEGATRENDS

Through quick and resolute action, LANXESS not only came through the global economic crisis unscathed, but actually emerged stronger than before. Growth is now our clear goal for the coming years. Through a combination of organic and external growth, we intend to report EBITDA pre exceptionals of around €1.4 billion in 2015.

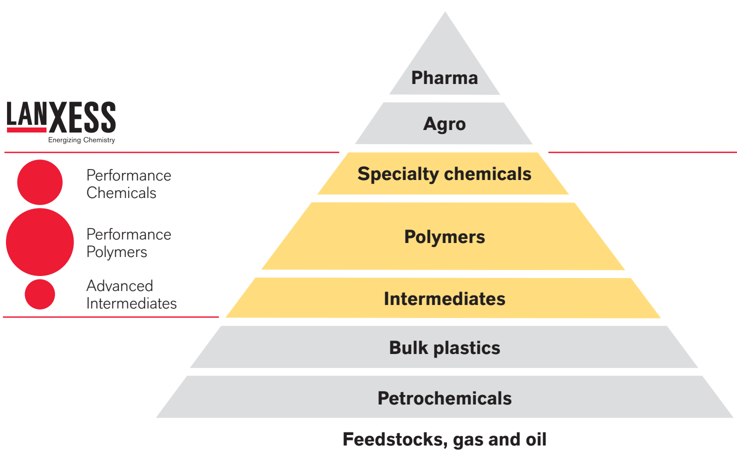
A STABLE COMPANY AT THE CORE OF THE CHEMICAL INDUSTRY

As one of the world's leading specialty chemicals companies, we are positioned at the core of the chemical industry. Our specialist expertise, our applications know-how and our capacity for innovation are demonstrated on a daily basis by our three segments: Performance Polymers, Advanced Intermediates and Performance Chemicals. Our aim is to position all businesses at the forefront of their respective markets.

The 13 business units in our three segments have global responsibility for their business operations and manage their activities autonomously as "entrepreneurs within the enterprise." This ensures short communication lines, flat hierarchies and motivated employees – all of which are crucial in ensuring that we can respond faster than many competitors to specific customer requirements and to changes in market and regulatory conditions.

LANXESS sees itself as a premium supplier. As well as ensuring reliable delivery of products in optimal quality, that means actively supporting our customers' innovation processes and thus adding measurable value. This is vital to strengthen customer loyalty, differentiate us clearly from our competitors, and enable us to remain highly competitive even in economically challenging times. Our distinctive innovation culture is therefore important to us. In recent years we have steadily increased our innovation budget and also created an Innovation Group Function as a central organizational unit to coordinate all research and development activities within the Group and handle cross-business unit projects.

LANXESS Focuses on the Core of the Chemical Industry



- Here we can perfectly leverage our expertise in chemicals and our applications know-how.
- We have excellent and long-standing customer relations.
- We see a lot of room for maneuver in these three segments.
- Our balanced portfolio in these segments reduces the volatility of our business.

The stability of our business development is rooted in our broad diversification, in terms of both product applications and the regions in which we operate. Our main customers are in the tire, automotive, consumer goods, chemical manufacturing, agrochemical and construction industries. We also supply products for electronics, water treatment, medical supplies, coatings, printing technology and packaging. This diversification means we are not dependent on individual customers. In 2010 our ten biggest customers accounted for around 25 percent of our business.

We have also steadily improved our regional diversification in recent years. In 2010, the fast-growing Asian and Latin American markets accounted for around 36 percent of Group sales.

SUCCESSFUL CRISIS MANAGEMENT

Our focus, positioning and entrepreneurial flexibility gave us the necessary strength to face the global economic downturn. Moreover, we responded rapidly to counter the crisis and, at the start of 2009, introduced Challenge09-12, an extensive range of specific measures focused on two main aspects.

Challenge09-12 – Specific Measures to Counter the Crisis

Flexible asset management	**HR measures**
• Cross-site capacity management • Reduction of critical minimum utilization • Variabilization of fixed costs • Contractor management • Digital production control	• Cut in working hours • Reduction in pay • Worktime accounts • Short-time working • QUEST[1]
• Pricing power • Working capital management • Cost reduction	• Job preservation • Cost reduction

1) Qualification, deployment and job management center

Through our Group-wide flexible asset management policy, we were able to rapidly adapt production to declining demand and reduce expenditures for raw materials, energy, infrastructure and logistics. In this way we were able to avoid overproduction and the resulting excess inventories.

The personnel measures taken affected the entire LANXESS workforce. All employee groups, including the Management Board, accepted reductions in their fixed and variable compensation, thus helping cut costs and avoid the need to dismiss our highly qualified employees. Without this solidarity it would not have been possible to resume normal business operations as soon as our markets began to recover. In light of the positive business trend, we announced in August 2010 that the cut in working hours and corresponding pay reductions in Germany would be suspended effective January 1, 2011. Some salary reductions were suspended retroactively as from July 1, 2010. Overall, we were able to revoke much of the Challenge09-12 program.

The competencies we used during the crisis are the key to ensuring the agile and focused management of our businesses. We will continue to apply these competencies and optimize them for the future.

AMBITIOUS GROWTH TARGET

Today, more than ever, LANXESS is a soundly financed and extremely well-positioned company. Our clear goal for the coming years is therefore growth. Translated into numbers, we aim to raise EBITDA pre exceptionals, our key financial indicator, to around €1.4 billion in 2015. To achieve this, all of our businesses are expected to report average annual EBITDA pre exceptionals growth of at least five percent.

Going forward, we will be building on our established strengths and continuing to align our product portfolio systematically to markets where we anticipate steady, above-average growth in the coming years. We see a local presence as an important success factor. Regionally, we will therefore be concentrating principally on expanding our businesses and production capacities in the booming BRIC countries (A) of Brazil, India and China. Our focus in recent years has been confirmed by the fact that these countries have recovered rapidly and strongly from the crisis and their growth rates are now well above pre-recession levels. Our own business data also reflect the growing significance of the BRIC countries. They will continue to play an important role in our corporate success in the future.

(A) Brazil, Russia, India and China

Focus on organic growth

Against the backdrop of improved business and supporting trends, we aim to generate a considerable amount of our planned growth organically – for example, through further investment, product innovations and improvements in process efficiency. To this end, we have already initiated a number of major projects. These include:

Performance Polymers segment

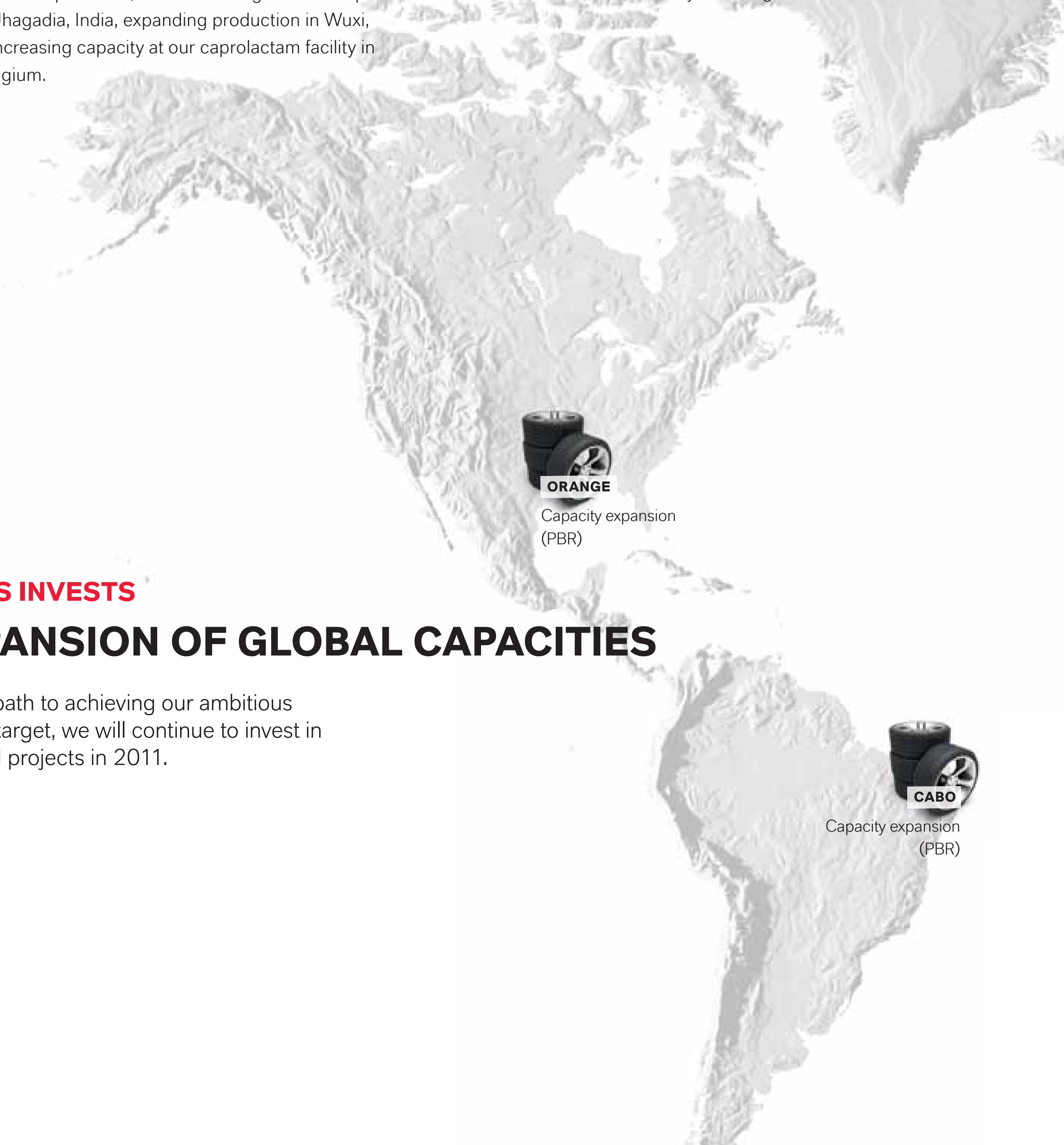
- The Butyl Rubber business unit is currently constructing a state-of-the-art butyl rubber facility in Singapore that is scheduled to start production in 2013. Costing some €400 million, this is the largest investment project in the history of LANXESS.
- At the same time, we are expanding our production capacities for butyl rubber at Zwijndrecht in Belgium.
- The Performance Butadiene Rubbers business unit is increasing production capacities for high-performance neodymium polybutadiene rubber at Dormagen, Germany; Orange, Texas, United States; and Cabo de Santo Agostinho, Brazil.
- To strengthen our Semi-Crystalline Products business unit's high-tech plastics operations, we are building a new compounding plant in Jhagadia, India, expanding production in Wuxi, China, and increasing capacity at our caprolactam facility in Antwerp, Belgium.

Advanced Intermediates segment

- A new production facility for formalin in Krefeld-Uerdingen, Germany, will safeguard the supply of key starting materials to the Basic Chemicals business unit for the manufacture of trimethylol propane, which is used in a wide range of applications.
- Through 2012, Basic Chemicals will also be expanding production capacities for synthetic menthol at the same site.

Performance Chemicals segment

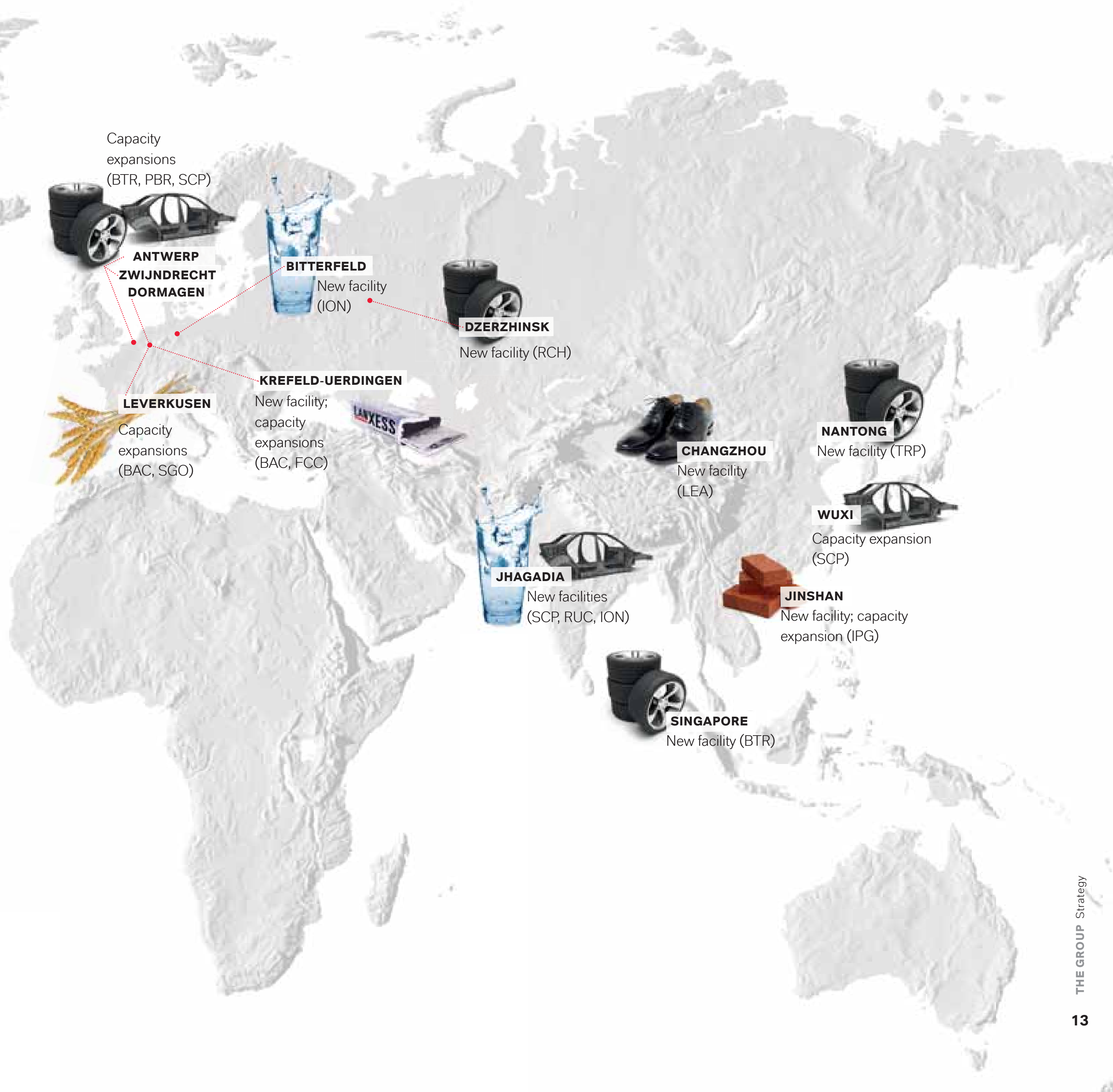
- We are strengthening the position of our Ion Exchange Resins business unit in water treatment products by building a new ion exchange resins plant in Jhagadia, India, and a production facility for membrane filtration technology in Bitterfeld, Germany.
- The Rhein Chemie business unit has started construction of its first Russian production facility in the Nizhny Novgorod region. This will supply additives and release agents to the rubber processing and tire industries there.
- Starting 2013, the Leather business unit will be supplying premium products to China, the world's largest market for leather chemicals, from a new facility in Changzhou.



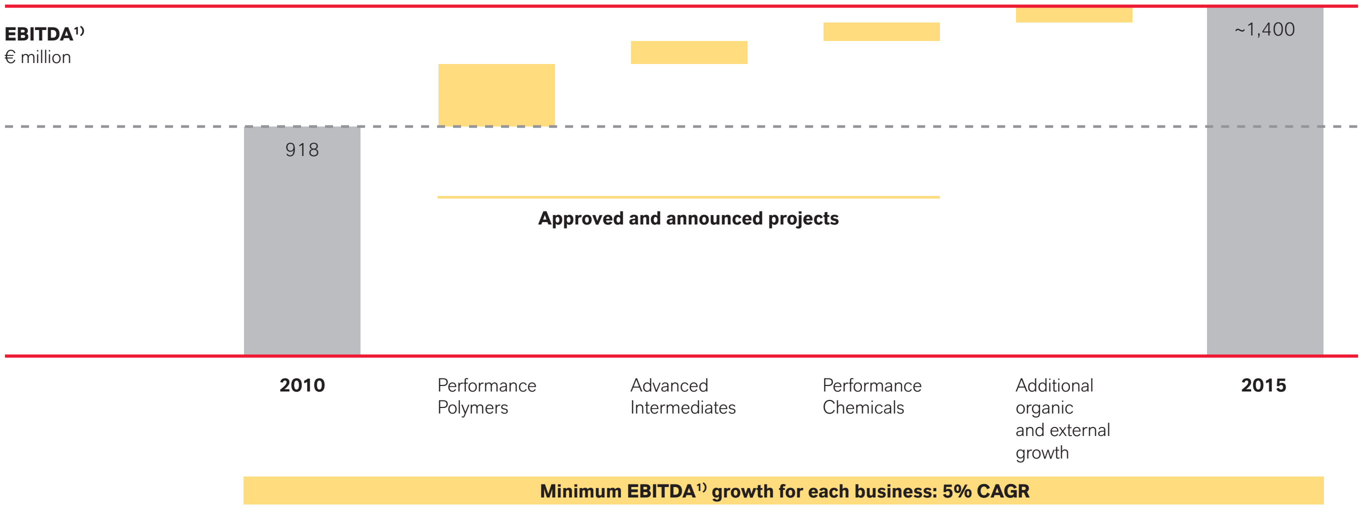
LANXESS INVESTS

EXPANSION OF GLOBAL CAPACITIES

On the path to achieving our ambitious growth target, we will continue to invest in selected projects in 2011.


Capacity expansions (BTR, PBR, SCP)
ANTWERP
ZWIJNDRECHT
DORMAGEN
BITTERFELD
New facility (ION)
DZERZHINSK
New facility (RCH)
KREFELD-UERDINGEN
New facility; capacity expansions (BAC, FCC)
LEVERKUSEN
Capacity expansions (BAC, SGO)
CHANGZHOU
New facility (LEA)
NANTONG
New facility (TRP)
WUXI
Capacity expansion (SCP)
JHAGADIA
New facilities (SCP, RUC, ION)
JINSHAN
New facility; capacity expansion (IPG)
SINGAPORE
New facility (BTR)

Each Business to Contribute to EBITDA[1] Growth



1) Pre exceptionals

Further information about these projects can be found in the segment sections starting on page 16 of this Annual Report. In 2011 we will be investing a total of €550 to €600 million in projects.

In addition, we are currently undertaking a comprehensive study to explore the feasibility of a major neodymium polybutadiene facility with an annual capacity of 100,000 to 150,000 tons in Asia. We expect demand for this high-performance rubber to exceed global supply by 2014.

Continuing our successful acquisition strategy
We also intend to contribute to our anticipated growth through acquisitions. Our M&A record shows that we understand how to strengthen our leadership positions through selective acquisitions. To date, we have acquired businesses with annual sales of around €600 million. Moreover, these have all had a positive impact on earnings per share after just one year, thanks to the new business and cost synergies generated.

Strengthening the Company through Selected Acquisitions

	Year	Cyclicality	Expected earning power	Economic drivers	
CISA (LEA)	2006	low	high	Vertical integration	Sales contribution €600 million
Petroflex (PBR)	2008	low	high	Global mobility trends	
Jinzhou Chemicals (IPG)	2008	moderate	high	Expansion of commitment in Asia	
Gwalior Chemicals (BAC)	2009	low	high	Strengthening of global position	
Jiangsu Polyols (BAC)	2009	low	high	Expansion of commitment in Asia	

We will continue to seek out small to mid-sized enterprises that will immediately benefit our existing core business.

These criteria are met by the DSM Elastomers business, which we agreed to purchase from Dutch company Royal DSM N.V. in December 2010. This acquisition strengthens the position of our Technical Rubber Products business unit in the steadily growing market for the synthetic rubber EPDM and gives us access to innovative ACE technology. Compared with conventional technologies, ACE (A) reduces energy and production costs for EPDM. It also broadens the application possibilities for these types of rubber. Closing of this €310 million transaction is contingent upon the approval of the antitrust authorities, which we expect to obtain in the first half of 2011. We anticipate that this acquisition will already make a positive contribution to earnings per share in the first year.

The acquisition of Argentinean company Darmex S.A., announced in January 2011, will make the Rhein Chemie business unit one of the world's leading suppliers of release agents for rubber products. This acquisition enhances our position in the growing Latin American region, which is an important market for tire producers, and gives us access to Darmex's bladder technology, a business that we intend to expand in the future.

We are also monitoring the market for attractive mid-sized businesses or technologies that are a good fit with our portfolio. With liquidity of more than €2 billion on the reporting date, we have the financial headroom to exploit attractive acquisition opportunities in the short term.

Participating in the global megatrends

All the organic and external growth activities described above improve our chances of benefiting to an above-average extent from the main global megatrends.

Mobility The growing desire for mobility, particularly in the BRIC countries and especially in China and India, together with the need to improve the environmental compatibility of mobility throughout the world opens up excellent perspectives for LANXESS. As the world's leading supplier of high-quality synthetic rubber, we stand to benefit from the increasing demand for high-performance tires. In addition, our Semi-Crystalline Products business unit offers the automotive industry future-oriented concepts for replacing metals with high-tech plastics that reduce vehicle weight and improve fuel efficiency.

Agriculture Rapid growth in the world's population is significantly increasing global demand for food. Our Saltigo and Basic Chemicals business units already market a wide range of products to help boost agricultural productivity and protect crops.

Urbanization Throughout the world, people are relocating from rural areas to cities. Current forecasts estimate that the urban population will grow by 40 percent in the next ten years. All these people will need homes, offices and an efficient infrastructure. These are the applications of our products for the construction sector, for example the inorganic pigments produced by our Inorganic Pigments business unit.

Water Population growth and climate change are steadily increasing the importance of water as a valuable resource. Studies indicate that demand for clean water will exceed the current supply by about 40 percent in 20 years. LANXESS aims to make a significant contribution to closing that gap. Products and processes marketed by our business units, for example Ion Exchange Resins, are playing an increasingly important role in the treatment of drinking water, wastewater and process water.

With these megatrends providing a strong tailwind and in light of our clear and established strategy, we are looking ahead optimistically to fiscal 2011.

OUTLOOK FOR 2011

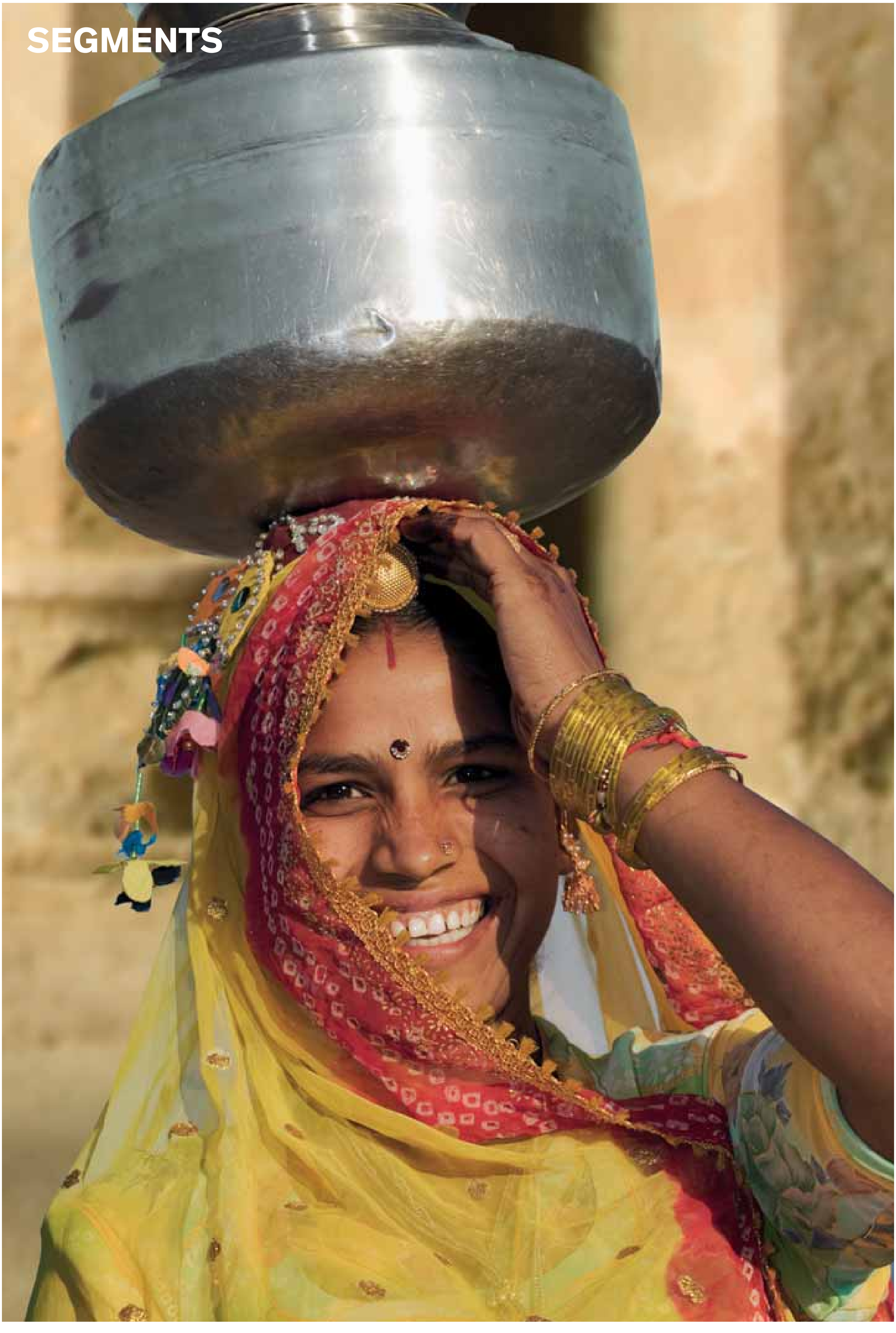
We expect the world economy to continue growing in 2011. While Asia's emerging markets will remain the motor of the global economy, only a slight improvement is expected in the industrialized nations. It is predicted that regional developments in our main customer markets will mirror these macroeconomic trends.

In recent years, the targeted expansion of our business activities in Asia, central and eastern Europe and Latin America have given us excellent positions that will enable us to benefit to an above-average extent from this development. At the same time we have done our homework, too. Having aligned our premium products with the global megatrends and achieved significant flexibilization of our cost base in recent years, LANXESS is competitive in every respect.

Against this backdrop and in light of the investments in organic and external growth we have made in the past and plan for the future, we are confident that we can already move a step toward our newly formulated mid-term growth target in 2011.

(A) Advanced Catalysis Elastomers

SEGMENTS



Improving quality

DRINKING WATER In many parts of the world, the groundwater from which people take their drinking water is contaminated with arsenic, a highly toxic semi-metal. LANXESS can help solve this problem, for example with mobile filter systems for domestic use. These contain an iron oxide specially developed by our Inorganic Pigments business unit to remove arsenic from drinking water and wastewater. The filter systems are easy to use, do not require any maintenance, and clean the water quickly and economically.

PERFORMANCE POLYMERS

The Performance Polymers segment brings together all our polymer activities and comprises the Butyl Rubber, Performance Butadiene Rubbers, Technical Rubber Products and Semi-Crystalline Products business units. They all hold leadership positions in their respective markets.

OVERVIEW OF THE BUSINESS UNITS

The Butyl Rubber business unit produces high-quality butyl and halobutyl rubbers for the tire and rubber industries. A key advantage of these products is their high impermeability to gas and moisture. The synthetic rubbers polybutadiene rubber (PBR), solution styrene-butadiene rubber (SSBR) and emulsion styrene-butadiene rubber (ESBR) produced by the Performance Butadiene Rubbers business unit are used especially for manufacturing modern, fuel-efficient tires. However, they are also an indispensable component of many everyday products such as footwear, yogurt pots and golf balls. As one of the leading suppliers of technical rubber products, the Technical Rubber Products business unit delivers materials that are used in functional components in a wide range of applications – from seals, hoses, profiles and cable sheathing to special films and adhesives. The Semi-Crystalline Products business unit is successful with the high-tech plastics Durethan® and Pocan® and their strategically important precursors. These products are used primarily in the automotive and electronics industries.

MOBILITY MEGATREND DRIVES GROWTH

With economic growth and prosperity on the rise, particularly in emerging markets and developing countries, our world is becoming increasingly mobile. In China alone, now the largest automotive market in the world, the number of vehicles sold grew in 2010 to more than 17.1 million. However, greater mobility goes hand in hand with increased emissions and higher consumption of resources. Making mobility more environmentally friendly is therefore one of the greatest technical challenges of our time. The business units in the Performance Polymers segment can use their pioneering technologies in two areas to significantly contribute toward successfully mastering this challenge.

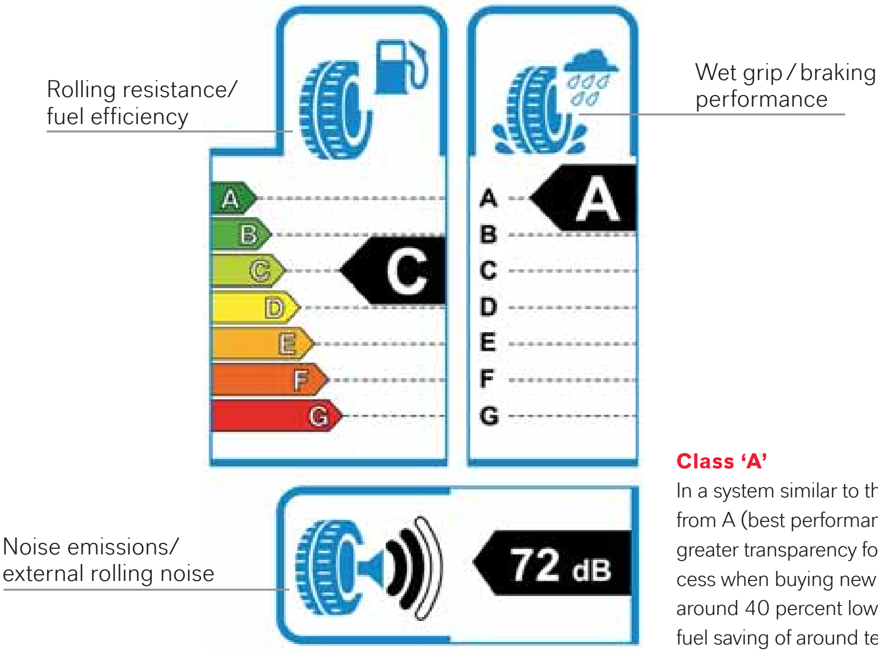
The age of “green” tires

The rolling resistance of tires accounts for around one quarter of a car’s fuel consumption. Improving the energy efficiency of tires is, therefore, the first important starting point for making mobility more environmentally friendly. As the market leader in high-performance rubbers, we make it possible to extend the “magic triangle” of tire technology, combining low rolling resistance with good wet grip and excellent mileage. If all the vehicles in the world were fitted with these tires, annual fuel savings of some 20 billion liters could be achieved and CO_2 emissions reduced by around 50 million tons each year. The success of electric mobility, too, will depend crucially on the extent to which tires with low rolling resistance can extend the still very limited range of electric vehicles.

Legislators have now also recognized the huge potential of these tires and introduced corresponding regulations. For example, fuel-saving tires are mandatory for new cars in the European Union from 2011. In addition, from November 1, 2012, all new tires in the European Union will have to be labeled to show their fuel efficiency, wet grip and noise emissions. Similar legislation is currently under review in the United States and South Korea. Japanese tire manufacturers voluntarily introduced a comparable labeling system at the start of 2010.

As a key supplier to leading tire manufacturers, LANXESS will benefit from these initiatives, which will result in significant and, above all, sustainable growth potential. This is because they will translate into an increase in demand for “green” tires, which can only be produced with high-tech synthetic rubber and additives. In order to satisfy this increased demand, we are expanding our production capacities worldwide.

Further expansion of production capacities In May 2010, we laid the foundation stone for a new, high-tech butyl rubber plant in Singapore. Costing around €400 million, it is our biggest-ever investment project. When this facility begins production in the first quarter of 2013, we will have available additional annual production capacities of up to 100,000 tons to meet the growing demand for butyl rubber in Asia. The plant will also set new standards in terms of environmental protection, with between 10 and 15 percent of the investment volume going into technologies that will cut energy and water consumption and reduce emissions. Alongside construction of the new plant, we also relocated the global headquarters of our Butyl Rubber business unit to Singapore as planned.



Class 'A'

In a system similar to the one already used for domestic appliances, classes from A (best performance) to G (worst performance) are intended to ensure greater transparency for consumers and support their decision-making process when buying new tires. The rolling resistance of category A tires will be around 40 percent lower than that of category G tires, which translates into a fuel saving of around ten percent.

Another groundbreaking ceremony took place in China in September 2010 when LANXESS-TSRC (Nantong) Chemical Industrial Company Ltd. – a joint venture company between LANXESS and the Taiwanese TSRC Corporation – began construction of a new facility for the manufacture of NBR products in Nantong, northwest of Shanghai, at a cost of around €36 million. Asia's most state-of-the-art NBR plant will start with an annual capacity of 30,000 tons and supply the fast-growing Chinese market with high-quality NBR grades from the first half of 2012.

In addition to these major new construction projects, we are also driving forward projects to expand our existing facilities.

For example, we are currently investing €20 million in increasing the annual production capacity of our butyl rubber plant in Zwijndrecht, Belgium, by ten percent – or 14,000 tons. The project is scheduled for completion in the second quarter of 2012.

With annual growth in demand for high-performance neodymium butadiene rubber (Nd-BR) forecast to reach almost ten percent, we are also expanding our capacities in this area, investing around €20 million to increase production by 50,000 tons a year at our sites in Dormagen, Germany; Orange, Texas, United States; and Cabo de Santo Agostinho, Brazil. These additional capacities should be available between the first quarter of 2011 and the first quarter of 2012.

Acquisition strengthens EPDM business Our position in the global market for the synthetic rubber ethylene-propylene-diene monomer (EPDM) has been improved by the acquisition of Dutch company DSM Elastomers at a cost of €310 million (excluding cash and liabilities), which we agreed with the parent company Royal DSM N.V. in December 2010. The transaction is contingent upon the approval of the antitrust authorities. We expect closing in the first half of 2011.

EPDM is used above all in the automotive industry but also as a modifier for plastics, in the manufacture of oil additives and in the wire and cable and construction industries. Single-digit growth is forecast for the global market in the next ten years, driven primarily by increasing demand from China and Brazil.

DSM Elastomers, headquartered in Sittard-Geleen, employs around 420 people worldwide and operates EPDM facilities with an annual capacity of approximately 200,000 tons. Our Technical Rubber Products business unit currently has an annual EPDM capacity of around 120,000 tons. We plan to make Sittard-Geleen the headquarters of the combined EPDM business.

However, it is not just the opportunity to expand our production capacities that makes this acquisition so important for us. This transaction will also strengthen our technology base by giving us access to the innovative ACE technology. DSM is now introducing this technology on an industrial scale at its Sittard-Geleen facility. Compared to conventional technologies, ACE reduces the energy and production costs for EPDM and at the same time increases the range of applications for these rubber products. We therefore intend to evaluate the feasibility of also converting our own facilities to ACE technology.

Investments in innovation Since our company was established in 2005, we have been committed to using sustainable technologies and processes. By investing in the U.S. biofuel and biochemical manufacturer Gevo Inc., we are underscoring our commitment to "green chemistry." The goal of this cooperation is to produce isobutene from renewable resources. Isobutene is conventionally produced in steam crackers using petroleum derivatives as a feedstock. Gevo is developing an alternative fermentation process using corn biomass. The companies aim to find an alternative route to source isobutene – a key raw material needed in the manufacture of butyl rubber.

We have also further strengthened our internal research and development resources for rubber. Opening the global R&D center for NBR in La Wantzenau, France, will enhance our ability to develop innovative and sophisticated high-quality products that are geared to our customers' specific requirements. We invested over €5 million in this project.

It was LANXESS's innovative strength that was key to the company being named "Supplier of the Year" at Tire Technology Expo, one of the world's leading trade fairs and conferences for the tire industry. Alongside the company's many activities aimed at developing innovative high-performance rubber materials, the panel also praised its initiative in establishing a powerful global network of manufacturers, customers and research institutes. In 2010, we also organized several international events designed to foster and expand this network. Our "Rubber Day" conferences in China, Brazil and India brought together leading experts from the rubber industry for discussion and an exchange of views. We aim to make this successful series of events a regular feature in the industry calendar.

Lightweight construction – a market with a promising future

The second important starting point for environmentally friendly mobility is the substitution of traditional materials, such as steel or aluminum, with innovative high-tech plastics and intelligent composites, which often exhibit better material properties. Using hybrid technology – a plastic/metal composite technology that combines the strengths of sheet steel and polyamide – the Semi-Crystalline Products business unit has for more than 20 years been developing innovative solutions that can be used to reduce the weight of vehicles and thus their fuel consumption without compromising on design and safety. Thanks to this know-how, we are the preferred partner to many major automotive manufacturers. As a result, we too are benefiting from the rising demand for cars, particularly in the BRIC countries. On the Asian market alone, we expect volume sales of high-tech plastics to grow annually by around ten percent, even reaching some 15 percent in China. We are responding to this market growth by increasing production of engineering plastics.

New capacities for precursors and end products At our site in Wuxi, China, we are already expanding the capacity of our state-of-the-art compounding facility for high-tech plastics for the second time since production started in 2005. This new expansion phase is scheduled for completion in mid-2011 and will boost our capacities by almost 50 percent to around 60,000 tons a year.

The move to build our first compounding facility in India at the new LANXESS production site in Jhagadia was prompted by the fact that many of the world's automakers, their suppliers and the producers of electrical and electronic goods are already operating in India or are investing in new sites there. The plant, which will cost over €10 million and have an initial annual capacity of 20,000 tons, is due to go on stream at the start of 2012. Together with the plant at Wuxi in China, it will supply the entire Asia-Pacific region with the high-tech plastics Durethan® and Pocan®.

Expansion of the caprolactam production facility at our Belgian site in Antwerp is scheduled for completion in 2011. The additional capacities that will then be available will safeguard the reliable and cost-effective supply of this key raw material, which is used in the manufacture of high-performance plastics.

Our Technical Rubber Products business unit is meeting the steady rise in demand for special elastomers by expanding EVM (A) capacities at our site in Dormagen, Germany. €9 million is being invested to increase production by 30 percent to 15,000 tons each year. The new capacities are expected to be available from the second half of 2012.

(A) Ethylene vinyl acetate rubber with methylene main chain

NUMEROUS DEVELOPMENT HIGHLIGHTS

Notwithstanding the excellent prospects for our rubber products on the global tire market, we also aim to meet the requirements of other promising key markets in the mid term. One notable strategic product in this regard is the new LANXESS Butyl 100, which is suitable above all for manufacturing high-quality seals. One potential application is in double glazing for windows, a technology which is already widely used in Europe but still offers excellent opportunities for growth elsewhere. Butyl 100 is also of interest to the adhesives industry.

With the new thermoplastic elastomer HIPEX, our Technical Rubber Products business unit is working with KRAIBURG TPE to fill an important gap in our elastomers portfolio. Developed during four years of close cooperation, the high-performance polymer is suitable for injection molding and, compared to other thermoplastic elastomers, has unusually high heat and oil resistance. In addition, this innovative material exhibits outstanding adhesion to engineering plastics. HIPEX is therefore ideal for injection molding high-end plastic components and is used for example in the cost-effective manufacture of flexible connections for the automotive sector.

In 2010, we supported the promising lightweight construction market with the introduction of many innovative solutions based on the outstanding properties of our high-tech plastic Durethan®.

The first front-end reinforced with both organic plastic and aluminum sheets represents a milestone in hybrid technology. This component is a beam in the engine compartment to which parts such as radiators and headlights can be attached. Organic plastic sheets are continuous fiber-reinforced thermoplastics combining high stiffness and strength with low density, making them excellent materials for lightweight construction. Compared to aluminum sheets, they can reduce the weight of components by an average of ten percent. Another advantage for automakers is that, unlike traditional metal materials, organic plastic sheets can be formed into virtually any shape by heating. One car featuring this component is the A8, Audi's new flagship model.

The same vehicle is also the first to be fitted with an injection-molded spare wheel recess made of highly reinforced polyamide 6. This material was chosen because it would have been practically impossible to produce the part's complex geometry using metal sheeting. Moreover, Durethan® permits the direct integration of numerous functions that would have required a large number of separate – and costly – operations if designed in metal. This component is just one of the exciting opportunities for using the highly reinforced polyamide 6 in the construction of large and geometrically complex structural components in all-plastic or hybrid design.

The various Durethan® grades from Semi-Crystalline Products are proving very successful for flame-retardant components in consumer electronics in Asian markets. Many equipment manufacturers are now voluntarily agreeing to give preferential treatment to plastics with halogen-free flame retardancy properties. There is particularly high demand for polyamides with additives that are not only flame-retardant but also contain no red phosphorus which prevents the use of bright colors and can cause corrosion. Our polyamide 6.6 Durethan® DP AKV 30 FN00 is the ideal product to meet these requirements.

One major advantage offered by LANXESS to its international customers in the field of high-tech plastics is the comprehensive range of services for developing innovative system solutions. In the future we aim to highlight this added value with our new HiAnt brand, which stands for specially tailored customer service and in-depth know-how in product, application, process and technology development.

HiAnt

The HiAnt brand name is derived from "high-tech" and "ant." Ants are renowned for their teamwork, interlinking through effective communication and success through combined effort. They can also carry many times their bodyweight. It is this property in particular that is the link to our many successful innovations in the lightweight construction of high-strength structural components in terms of materials, combinations of materials, design and processes.

ADVANCED INTERMEDIATES

The Advanced Intermediates segment comprises our activities in the area of basic and fine chemicals. Basic Chemicals produces a wide range of high-quality industrial chemicals, while Saltigo operates on the custom synthesis market, specializing in tailored solutions for customers in the agrochemical and pharmaceutical sectors. Both business units are leading suppliers in Europe and are consistently expanding their positions in other regions, too.

RISING DEMAND FOR FOOD CREATES OPPORTUNITIES FOR GROWTH

The world's population is growing steadily, particularly in the emerging economies. United Nations forecasts indicate that the global population will increase from its current level of almost 7 billion to around 9.2 billion in 2050. This development is a key driver of the agriculture megatrend because as the number of people on our planet increases, so too will the demand for food. For example, the demand for cereals alone is expected to increase by 1.5 percent each year through 2025. At the same time, however, expanding industrialization will reduce the amount of land available for agriculture, and it will only be possible to compensate this shortfall by vastly improving the efficiency of cultivation. The product portfolios of Basic Chemicals and Saltigo include many key intermediates for synthesizing agrochemicals that can help farmers protect their plants and increase their yields.

WELL EQUIPPED FOR THE FUTURE

Against this backdrop, fiscal 2010 was characterized by important steps toward further growth for both business units. We again initiated investment projects, particularly at our sites in Germany.

For the Basic Chemicals business unit, we were able to complete the expansion of the "aromatics network" at the Leverkusen site – underway since the end of 2008 – on schedule in the first quarter of 2010 at a cost of some €35 million. This globally unrivaled network of plants now boasts up to 60 percent greater capacity for monochlorobenzene, chlorotoluenes, cresols and their derivatives. Most of these additional volumes are contractually secured. Long-term reliability of supply is extremely important to our global customers – and this investment additionally underscores our commitment to ensuring this. The aromatics network also achieves internationally competitive manufacturing costs due to, for example, the efficient use of all the substances generated during the production process.

At our Krefeld-Uerdingen site, we are constructing a new formalin plant. On its completion, we will no longer be dependent on buying in this feedstock, which is needed for the production of trimethylolpropane (TMP). This is used, for example, in the manufacture of coatings, paints and lubricants. The new plant will eliminate transport costs and generate synergy effects in energy utilization, thus yielding significant cost benefits. Around €18 million will be invested in constructing the new plant and optimizing the processes used to produce TMP. Start-up of the facility is scheduled for the end of 2011.

In January 2011, we also announced plans to expand our menthol production operations in Krefeld-Uerdingen. Synthetic menthol is a key component of many aromas and pharmaceutical products. Working together with a producer of fragrances and flavorings, LANXESS is one of the leading manufacturers of synthetic menthol and thymol worldwide. Our entire output is coordinated with this contractual partner and its processes. This expansion project is scheduled for completion during the first half of 2012 at a cost of around €22 million.

In 2010, we successfully completed the integration of the businesses and production facilities of Indian company Gwalior Chemical Industries Ltd., which we acquired effective September 1, 2009. Headquartered in Mumbai, the company is among the leading producers of benzyl products and sulfur chlorides in India. These product groups are used in agrochemicals and fragrances, for example. The acquisition has not only significantly enhanced our agrochemicals business but has also strengthened the overall market position of Advanced Intermediates in this important growth region.

Equally successful was the integration of Chinese TMP manufacturer Jiangsu Polyols Chemical Co. Ltd., which we acquired in September 2009. The company is a perfect addition to the Basic Chemicals business unit, which is already a major TMP supplier in China.

Saltigo, the other business unit in our Advanced Intermediates segment, significantly expanded production in 2010, too. This was made possible by a cooperation agreement that is so far unique for LANXESS. A leading manufacturer of crop protection products and long-standing customer of Saltigo invested around €50 million in expanding three Saltigo facilities in Leverkusen to significantly enhance its capacity for synthesizing active ingredients for crop protection products. All the active ingredients and intermediates for the agrochemical industry that are produced in these facilities are supplied by Saltigo exclusively to this customer. All the building work was carried out while production continued at full capacity. This cooperation underlines the great confidence in Saltigo's expertise and technology as a specialist in synthesis A chemistry.

Saltigo has also expanded its portfolio of services for the pharmaceutical industry. Since October 1, 2010, the business unit has been developing processes for synthesizing active ingredients and intermediates for pharmaceuticals together with Reuter Chemische Apparatebau KG. This cooperation underlines Saltigo's focus on innovative cost optimization programs as part of its contract manufacturing business model.

In June 2010, Saltigo received an internationally accredited seal of quality from the U.S. Food and Drug Administration (FDA). The business unit scored top marks in the audit of its production and quality assurance systems in Leverkusen.

A Synthesis: a process that combines individual elements to form a compound or simple compounds to form a more complex new substance.

PERFORMANCE CHEMICALS

The Performance Chemicals segment groups together our seven application-oriented business units in the field of process and functional chemicals: Material Protection Products, Inorganic Pigments, Functional Chemicals, Leather, Rhein Chemie, Rubber Chemicals and Ion Exchange Resins. They are all among the top four suppliers worldwide in their respective niche markets.

OVERVIEW OF THE BUSINESS UNITS

The Material Protection Products business unit is one of the leading global manufacturers of preservatives and biocidal active ingredients. Inorganic Pigments is one of the world's biggest producers of iron oxide and chrome oxide pigments for a wide range of applications. Functional Chemicals provides the plastics industry and many other industries with plastics additives, phosphorus-based and specialty chemicals, and organic and inorganic colorants. As one of the few suppliers to the leather industry, the Leather business unit offers all the products needed to process leather. Rhein Chemie produces chemical specialties for the rubber, plastics and lubricant industries. Rubber Chemicals is among the world's main suppliers of high-quality rubber chemicals. The Ion Exchange Resins business unit is one of the leading international producers of ion exchange resins for water treatment.

EXPANDING BUSINESS IN RESPONSE TO THE WATER MEGATREND

Usable water is a rare commodity. Today, around one billion people have no access to clean water. Even in areas where water is available in sufficient quantities, it often cannot be used due to high levels of contamination. Population growth, air pollution and climate change will greatly exacerbate this situation in the decades ahead. In industry, too, production is inconceivable without pure water. Modern chemicals can help to greatly improve the supply of clean water.

Ion Exchange Resins strengthens its commitment to water

Water treatment products are gaining in significance thanks to their outstanding versatility, which is why the Ion Exchange Resins business unit plays a central role in our water activities.

At the end of 2010, the building and main production facility for our new plant to manufacture membranes for water treatment were completed on schedule at the Bitterfeld site. The facility is now ready for the pilot and development phase. Complementing our ion exchange resins, membrane filtration technology makes it possible to remove minute particles from water, along with undesirable substances such as nitrates, pesticides, herbicides, viruses and bacteria. The global membrane market is currently estimated to be worth around €1 billion, and this figure is set to continue rising. On successful completion of the pilot phase, we plan to bring the first products to market at the end of 2011. This pioneering project accounts for a total investment of some €30 million and will create 200 new jobs in the long term. Construction of the new facility is being accompanied by an extensive research and development program at the site and at other locations in the region. Already home to a plant for the production of ion exchange resins, Bitterfeld is thus becoming a key center for our water activities in Germany.

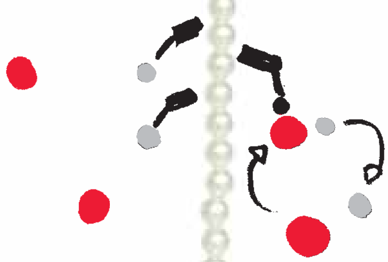
At the end of 2010, we also inaugurated our new state-of-the-art facility for the production of ion exchange resins in Jhagadia, India. Around 200 employees at the site manufacture products for industrial water treatment in the semi-conductor, pharmaceutical, food and energy industries. The Asia-Pacific region is already the largest market for ion exchange resins. Ongoing industrialization and continued population growth will result in an above-average increase in demand for clean water in the coming years. We can now serve this demand from one of the industry's most cutting-edge plants.

LANXESS SUPPORTS URBANIZATION MEGATREND

With urbanization continuing unabated, the United Nations estimates that around 70 percent of the world's population will live in cities by 2050 compared to just under 50 percent today. This trend is most evident in the emerging markets and developing countries. In China and India alone, around 100,000 people are migrating from the country to cities every day. It is believed that eleven new megacities – cities with more than 10 million inhabitants – will develop in these two countries by 2020. Our products serve a large number of customer industries which will profit from this trend.

Inorganic Pigments on a course of expansion

The Inorganic Pigments business unit is benefiting particularly from the construction boom in the emerging markets. Bayferrox® inorganic pigments are helping to make urban living spaces more colorful and inviting. The trend toward urbanization is greatly boosting demand for our products, which is also reflected in our production output. Our Krefeld-Uerdingen plant is the biggest facility of its kind worldwide with an annual capacity of 280,000 tons. In May 2010, around 25,000 tons were produced there, the highest monthly output since the plant started up in 1926.



Clever
beads

Lewatit® ion exchange resins consist of tiny polymer beads that can remove undesirable molecules from a solution – for example water – or replace these molecules with others.

In the year under review, we focused above all on driving forward growth in China, our most important market. In Jinshan, we successfully concluded the expansion of our production capacities for iron oxide yellow pigments. The plant can now produce up to 28,000 tons a year, making it the biggest manufacturing facility for these pigments in Asia. By the end of 2011, we will have invested approximately €6 million in this project to increase production capacities and improve environmental protection standards.

Also in Jinshan, in October 2010 we started up a new production plant for high-quality iron oxide black pigments with an annual capacity of 10,000 tons. This enables us to satisfy the growing global demand for these kinds of premium products. The new plant also sets high standards for environmental protection. It is one of the first facilities of its kind in China to be equipped with a state-of-the-art wastewater treatment plant. This reflects our strategy of implementing the latest environmental standards at all new plants – regardless of the local regulations currently in place. It is this approach that sets us apart from many local competitors, particularly in the emerging markets, and one that will give us a clear competitive edge in the medium term, as these regions, too, are gradually introducing much tougher environmental standards.

The new filtration equipment used to upgrade our color pigment facility at the Krefeld-Uerdingen site is also aimed at preserving resources. The investment of €3 million will improve plant safety, optimize internal logistics processes and reduce energy consumption.

MOBILITY MEGATREND ALSO SIGNIFICANT FOR PERFORMANCE CHEMICALS

The Rubber Chemicals and Rhein Chemie business units of our Performance Chemicals segment are also benefiting from the mobility megatrend. We have significantly improved our market access in key growth regions by constructing new production facilities and making acquisitions.

Since March 2010, Rubber Chemicals has been supplying high-quality antioxidants to the fast-growing Indian tire and rubber industry and rubber and fuel additives to the global markets from our Jhagadia site in India. We had previously relocated our production operations in India from Thane to Jhagadia and upgraded them with state-of-the-art technology.

In November 2010, we strengthened the Rubber Chemicals portfolio with the acquisition of two product lines from U.S. supplier Flexsys. We purchased selected parts of the primary accelerator business that will be integrated into our production facilities in Kallo, Belgium, and Bushy Park, South Carolina, United States. We are already a leading manufacturer of vulcanization accelerators with our Vulkacit® product line. As the second part of the acquisition, the established Perkalink® 900 anti-reversion agent supplements our portfolio of specialty rubber chemicals, which includes the anti-reversion agent Vulcuren®.

In May 2010, Rhein Chemie started construction of the first LANXESS plant in Russia. The business unit is building a facility in the administrative region of Nizhny Novgorod to manufacture polymer-bound additives and release agents for the rubber processing and tire industries. Following our official entry onto the Russian market in 2009, this construction project is a further milestone in our long-term BRIC strategy. The new plant will meet the high international standards for safety and sustainability and will be equipped with cutting-edge production technology. It is scheduled for completion in 2011.

For this business unit, we also announced in January 2011 the acquisition of Argentinean company Darmex S.A., a leading manufacturer of release agents and bladders for the tire industry. Headquartered in Buenos Aires, the company employs around 200 people at production facilities in Burzaco and Merlo, Argentina, and in Colonia, Uruguay. In a highly fragmented market, this acquisition makes Rhein Chemie one of the world's leading suppliers of release agents for rubber products. It also gives us access to Darmex's bladder technology. Bladders are used in the production or vulcanization of tires to give them their final shape. We aim to expand this area of business in the years ahead.

FURTHER INVESTMENTS AND COOPERATIONS

We also exploited other selected opportunities for the profitable expansion of our business activities in 2010.

In December 2010, for example, we announced plans for the Leather business unit to invest €30 million in the construction of a plant for leather chemicals in Changzhou in Jiangsu Province, China. With an annual capacity of up to 50,000 tons, the plant is scheduled to start up in the first half of 2013, producing premium leather chemicals such as Tanigan®, Isoderm®, Euderm® and Levotan® for the steadily growing local market. This investment will create around 150 new jobs.

For some time now, our Functional Chemicals business unit has been posting above-average growth of around 15 percent with its phthalate-free plasticizer Mesamoll®. We expect this trend to continue in the years ahead, which is why we have invested a mid-range seven-digit amount in expanding our production facilities in Krefeld-Uerdingen by 40 percent. The new capacities will be in place starting 2011. Growth of this product line has been boosted, above all, by Europe-wide approval of Mesamoll® II for use in packaging for dry and water-based foodstuffs. Mesamoll® II is therefore one of the few plasticizers approved in both the United States and the European Union for use in many types of packaging that come into contact with foodstuffs, other than fatty foodstuffs. This makes it interesting for the global toy industry as well.

Viva Argentina!

With the acquisition of Darmex S.A. in Argentina, our Rhein Chemie business unit has advanced to become one of the world's leading suppliers of release agents for rubber products.

The Material Protection Products business unit has strengthened its position as a leading supplier of phenolic active ingredients for disinfectants by acquiring a corresponding product line from Clariant. In future, we will be marketing the active ingredient under the trade name Preventol® PTAP. We have also signed a cooperation agreement with DrinkStar GmbH aimed at restructuring sales and technical support for Velcorin® cold sterilization technology. As of January 1, 2011, DrinkStar will provide support to Velcorin® customers in Germany, Austria, Switzerland, Scandinavia and eastern Europe. Excluded from this agreement are multinational groups, which we will now support directly.

NEW PREMIUM PRODUCTS: USER BENEFITS AND ENVIRONMENTAL COMPATIBILITY

In 2010, we again used our products and innovations to demonstrate that improved user benefits and environmental compatibility are not mutually exclusive.

Our Material Protection Products business unit will be launching “Natural Choice” as an attractive innovation for the beverage industry that will ideally complement Velcorin® cold sterilization technology. This natural stabilization system is the first to ensure the excellent storage stability of beverages without the addition of conventional preservatives.

Functional Chemicals has developed new applications for its construction material Bayfomox®, which boasts excellent flame-retardant properties. For example, it can now be used as a spray foam coating on construction components. This means the product’s outstanding fire endurance properties can also be applied in thin layers to flammable or fire-sensitive substrates. Moreover, Bayfomox® delivers improved heat insulation and additional soundproofing qualities compared with conventional coatings.

Sustainability is the focus of product and technological development by the Leather business unit. It has launched Retingan® ZF Plus as the successor to Retingan® ZF, the first genuine resin tanning agent containing no free formaldehyde. Retingan® ZF Plus achieves extremely even embossing in the production of stylish leather for furniture, cars and shoe uppers. The business unit is also optimizing its topcoat systems with particular focus on the automotive leather industry. Using a new roll applicator, technicians at the Leverkusen site are able to develop state-of-the-art topcoat formulations for our customers and advise them on technical issues.

Rhenomark® MP from Rhein Chemie enables tire manufacturers to switch easily to environmentally friendly tread marking inks. For an eco-friendly, water-based product, Rhenomark® MP sets new standards with its very short drying times. For the first time, tire manufacturers can replace solvent-based products without having to modify their production process. This gives them the option of switching to an environmentally friendly solution without suffering any economic disadvantage.

The Rubber Chemicals business unit has also launched Vulkanol® VP RUC 9210, a new and more environmentally friendly plasticizer for rubber products that remain flexible at low temperatures. It replaces the phthalate-based Vulkanol® 81 in the LANXESS portfolio. Both products are interchangeable in many cases without having to make any changes to the formulation.

A winner for LANXESS
The spectacular outer shell of the Soccer City Stadium in Johannesburg owes its unique appearance to high-quality Bayferrox® color pigments.

CORPORATE RESPONSIBILITY

Creating opportunities

WATER SUPPLY Some 1 billion people worldwide have no access to clean drinking water, while 2 billion people have no sanitary facilities. Within the context of our corporate responsibility activities, we have facilitated access to an adequate water supply and modern sanitary facilities for more than 10,000 children in Africa. Education about health care and personal hygiene also makes these children important ambassadors who pass on to their families the knowledge they have acquired about water as a valuable resource and how to use it responsibly.

CORPORATE RESPONSIBILITY

As an international specialty chemicals group, we bear a major responsibility toward people and the environment. Our entrepreneurial activities reflect this sense of responsibility. Safety, environmental protection, social responsibility, quality and commercial efficiency are all key corporate goals at LANXESS.

GOOD FOR BUSINESS, GOOD FOR SOCIETY

As an international specialty chemicals group, LANXESS takes sustainability very seriously. In our business activities we are committed to taking account of the demands of economics, ecology and society in equal measure. "Good for business, good for society." This short sentence perfectly sums up our approach to business. It reflects our conviction that our products and our expertise in the area of sustainable development can make a significant contribution to supporting our customers, protecting the environment and improving the quality of life of people everywhere. The greatest benefits of our corporate responsibility (CR) activities are achieved if they are balanced with entrepreneurial and, especially, economic objectives. They must therefore be linked to the company's core business or to its available expertise. Climate protection, water usage and education have been defined as the current key areas of activity for LANXESS.

Management system drives success We have established a globally integrated management system to breathe life into the concept of sustainable development in our everyday business. Strict quality and environmental standards in line with ISO 9001 and ISO 14001 are applied worldwide. Our central management system provides the necessary global structures to ensure sustainable work practices throughout the company. With this system, we have created a transparent framework of values and rules that unites management and employees across national borders.

In 2007, we started integrating all our sites worldwide into a single management system covered by a matrix certificate. The company regularly commissions external, independent experts to audit and verify the implementation status of this process. In 2010, a further 24 sites were added to the matrix certificate. For our sites in the United States, we have also received certification to RC14001 (RC = Responsible Care®). In the course of our positive business development last year, we acquired further new sites. These too will be brought into line with LANXESS's standards and integrated into the global matrix certificate.

In 2010, we also developed a new concept for introducing an energy management system (EnMS). The roll-out process has started at two pilot facilities. We plan to finish implementing and integrating EnMS into our global management system by the end of 2012.

All management systems are based on values and guidelines that provide a clear framework for a company's management and employees. LANXESS therefore started work at an early stage to define basic rules for the company.

Transparency and improved public dialogue are among the stated objectives of the Responsible Care® Global Charter launched by the International Council of Chemical Associations (ICCA). This is the only way to build confidence and trust in an industry that plays a crucial role in improving people's living standards and quality of life. LANXESS has supported this initiative since 2006, when it also became one of the signatories to the ICCA charter. For us, applying the Responsible Care® Global Charter to our business means working consistently to improve our processes and services in terms of environmental and climate protection, health, safety and quality. Amended in February 2011, our corporate directives (A) ensure that the principles of the charter are integrated into our guidelines and corporate strategy. We firmly believe that our company's future can only be safeguarded by acting responsibly.

Our Corporate Compliance Guideline (B) is a code of legal compliance and responsible conduct that is binding on all LANXESS employees and commits them to act in accordance with the law, apply the principles of Responsible Care® and demonstrate ethical conduct. In our view, such conduct also includes respect for human rights and the avoidance of child labor. The guideline covers issues such as competition, occupational, product and plant safety, environmental protection, and interactions with other people. To oversee its implementation, the Board of Management has established the Compliance Committee, comprising representatives from a range of specialist backgrounds. This Committee handles all referrals concerning compliance violations, with the goal of countering illegal or unethical conduct by LANXESS employees at an early stage or introducing suitable measures to prevent improprieties altogether.

All globally applicable LANXESS directives and guidelines are contained in a system that is accessible to every employee.

Global product stewardship The International Council of Chemical Associations (ICCA) launched the Global Product Strategy (GPS) initiative with the primary aim of establishing global standards for product stewardship and thus minimizing the impact of chemicals on human health and the environment. It goes without saying that LANXESS lends its full support to the implementation of the GPS initiative. From the moment that LANXESS was founded, we have sought to introduce global, uniform safety standards for the handling and transportation of products. Product safety is a top priority in all the processes along the value creation chain – from research and development, through production and transportation, to downstream processing and disposal. Product stewardship begins for us with the procurement of raw materials and services.

Our product portfolio also includes substances that are classified as hazardous. In order to prevent possible harm to health, we systematically test the properties of our products and draw our customers' attention to the risks associated with their use. LANXESS views product stewardship as a responsibility to continually improve product safety for the sake of both human health and the environment. Our Product Safety Directive steers the Group-wide observance of product stewardship throughout the product life cycle and secures the necessary participation of everyone involved in the supply chain. Our internal Central Product Surveillance Directive governs worldwide tracking of the health-related and ecological implications of raw materials and products.

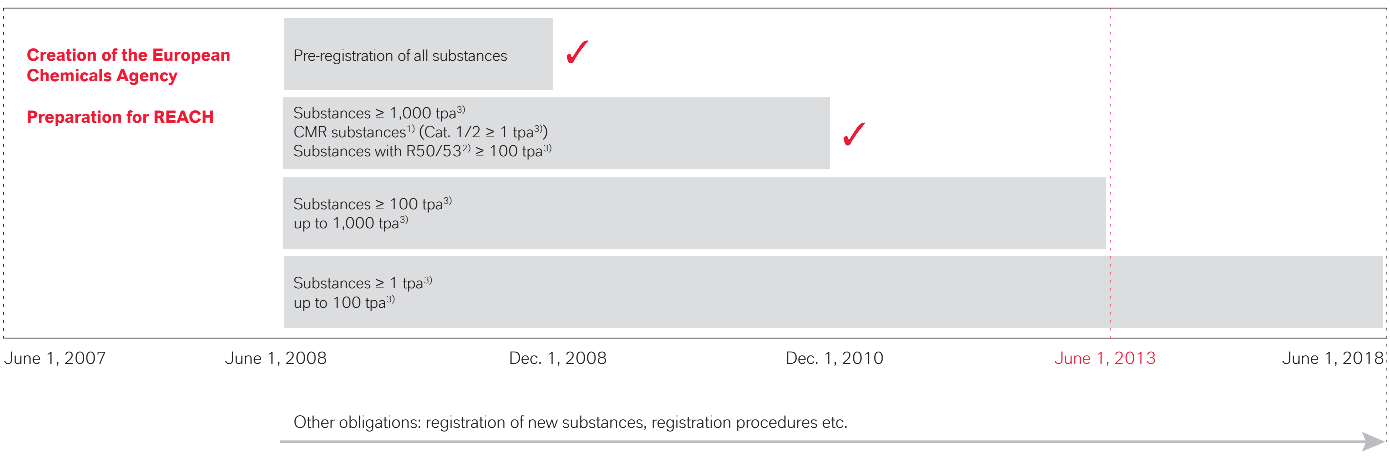
Successful product safety demands globally standardized substance data and systems for documentation and processing. These also ensure compliance and provide support for business operations worldwide. We control the transportation of our products around the world by employing standardized classifications and interpretations of transportation regulations for hazardous goods. Moreover, we operate a globally applicable electronic system for generating safety datasheets and managing our SAP system in terms of marketability and hazardous goods data. This system is regularly adapted to the GHS (C) in the various countries in the event of changes relating to hazardous goods and other amendments to legislation.

(A) LANXESS corporate directives: http://responsibility.lanxess.com/en/quality-environmental-pv/

(B) Corporate Compliance Guideline: http://lanxess.com/en/about-lanxess/values-visions/

(C) GHS: Globally Harmonized System of Classification and Labeling of Chemicals

REACH Implementation Schedule



1) CMR: carcinogenic, mutagenic and reprotoxic
2) Very toxic to aquatic organisms; may cause long-term adverse effects in the aquatic environment
3) tpa = tons per annum

Implementation of E.U. chemicals legislation We expressly support the protection goals of E.U. chemicals policy. During the first registration phase stipulated by the REACH regulation (A), we prepared dossiers for all 193 substances at LANXESS that are affected and submitted these to the European Chemicals Agency (ECHA) by the deadline of November 30, 2010. A further 250 substances from our portfolio are now due to be registered during the second phase, which runs until the end of May 2013. We expect to have to compile a total of some 750 dossiers over all three phases through 2018. Since REACH prescribes the stewardship of substances over their entire life cycle, we are cooperating very closely with our suppliers and customers.

In addition to REACH, there is another important regulation in E.U. chemicals policy – the CLP Regulation (B) – which serves to implement the international GHS initiative in the European Union. The objective of GHS is the global harmonization of existing classification and labeling systems used in various sectors, such as transportation and consumer, employee and environmental protection. The CLP Regulation (also sometimes referred to as the GHS Regulation) stipulated the classification and labeling of all chemical substances in the E.U. by December 1, 2010. We also met this deadline for all relevant substances in our portfolio.

(A) REACH: Registration, Evaluation and Assessment of Chemicals

(B) CLP: Classification, Labeling and Packaging

First stakeholder survey delivers important findings Current ecological and social issues and related opinions are very important to LANXESS. We therefore actively seek dialogue with key stakeholders on issues that are or may become relevant to our company and our economic success. We see this dialogue as an opportunity to actively engage in public debate and, at the same time, to receive direct feedback on our business activities, especially with respect to corporate responsibility.

The stakeholders of relevance to LANXESS are the groups, institutions and people with whom we are linked directly or indirectly through our business units and who therefore have a justified interest in our activities. The primary purpose of our dialogue with customers, employees, suppliers, and representatives of the capital market, politics, public authorities and NGOs is therefore to identify topics that we consider to be significant in terms of our corporate responsibility. At the same time, we endeavor to encourage mutual understanding and build trust through open and constructive dialogue.

Our first stakeholder survey was conducted in November and December 2010. Our aim was to find out how stakeholders rate LANXESS's performance in terms of corporate responsibility, and to identify the important issues, opportunities and risks in our industry and for our company.

In a telephone survey, we polled 30 people who are suitably representative of their respective stakeholder group. Around three quarters of them are based in Germany and around one quarter in other European countries. The questions covered matters such as how LANXESS exercises its corporate responsibility, the particular challenges relating to products and processes, and how stakeholders rate our communication on sustainability issues.

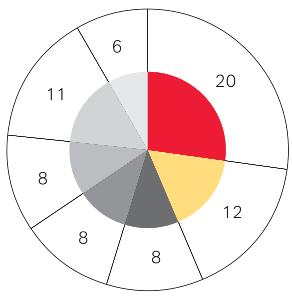
More than 90 percent of the stakeholders' responses confirmed the significance of sustainable development for specialty chemicals companies and, therefore, for LANXESS.

LANXESS's corporate responsibility performance is generally rated highly. Stakeholders consider our company to be well placed compared to relevant competitors.

Key Issues as Perceived by the Stakeholders

Number of mentions

- Corporate environmental protection
- Product stewardship
- Social responsibility
- Employees
- Management
- Other
- Not aware of any specific activities



The majority of stakeholders were aware of our process- and product-related environmental protection activities. We received a particularly high rating for resource conservation and product innovation. Explicit reference was made to projects such as our second nitrous oxide reduction plant, which started operation in 2009, and our water treatment technologies. The activities of the LANXESS education initiative during 2010 also received positive mention.

Stakeholders identified employee development, social commitment, green chemistry and supply chain management as important areas that represent both opportunities and challenges for LANXESS.

We will use the results and suggestions from the stakeholder survey to continue improving and extending our CR activities. One focus will be the dialogue LANXESS has initiated with the various stakeholders, something that we are keen to continue and intensify. In 2011, we are planning a round table discussion to debate particularly important issues with our stakeholders in person.

CR strategy recognized with external award In India, the leading analysis and research company Frost & Sullivan presented us with its Green Excellence Award in recognition of our efforts to combine sustainable development with profitability in the Indian chemicals sector. Praise was given to the innovative strength applied by LANXESS in the continuous improvement of its products and processes to minimize the risks to man and the environment.

EMPLOYEES

Our success is based primarily on the performance and commitment of our employees. Their achievements over the past fiscal year – when the effects of the economic crisis were still being felt – were exemplary and their solidarity contributed in large measure to LANXESS's successful participation in the economic recovery.

In November 2010, thanks to this positive business development, we were able to suspend some measures of the Challenge09-12 program retroactively for the year under review. We also gave our employees a share in the company's success in 2010, with special payments totaling €20 million made in December 2010.

As part of the Challenge09-12 program, LANXESS worked closely with employee representatives throughout the crisis year 2009 to successfully implement a further tool for handling the economic crisis in Germany. This was continued in the year under review. Employees affected by low capacity utilization levels in individual business units can use QUEST – a training, deployment and job management center – to help them prepare for and find new challenges. An internal team of consultants makes sure that employees are qualified for new tasks and finds them work both inside and outside the company. As of December 31, 2010, the center had already found a permanent solution or a new challenge for 66 percent of applicants. A further 20 percent approximately were in temporary positions.

Achieving corporate goals – mastering demographic challenges Extensive training and ongoing employee development ensure that we achieve our corporate goals and safeguard LANXESS's competitiveness.

In view of the challenge posed by demographic change, LANXESS cooperated closely with the employee representatives in 2009 to develop XCare, an extensive project for the German LANXESS companies based on the collective agreement on lifelong worktime and demography in the chemical industry. This project aims to find answers to the challenges posed by a steady rise in the average age of the workforce coupled with a shortage of skilled young people.

During the year under review, working groups implemented the first pilot projects grouped in five areas of activity – people and health; work and training; time and organization; career and family life; and savings and retirement provision. For example, workplace health and reintegration management agreements have been made, and specific health projects initiated at two sites. In addition, as part of the collective agreement on lifelong worktime and demography in the chemical industry, it was decided to introduce a long-term account that is now gradually being implemented. This special worktime account enables employees to build up credit from various time and income components, for example by converting their vacation allowance or by setting aside variable compensation components in addition to the collectively agreed annual contribution to the demographic change fund A. Employees can use this credit to flexibly tailor their transition into retirement.

No need to square the circle
We offer our employees a range of options for balancing a career and family life, including flexible working hours, part-time employment and home office arrangements.

Balancing career and family life remains a very important issue for a large number of LANXESS employees. 5 percent of our employees in Germany aged between 20 and 40 made use of the option to take parental leave. Of this figure, around 30 percent were fathers. In the years ahead, providing support to employees who act as carers to family members will also become increasingly important. All our employees in Germany have access to the expertise of "Familienservice," an experienced service provider offering advice on childcare or care for elderly relatives.

Our Zárate site in Argentina provides a further example of our extensive commitment to families. The LANXESS Club we run close to our production facility offers services such as special vacation programs which are open not only to our employees' children but also to all children in the local community. On average, more than 450 children use this offering each year. And many of our employees are involved as trainers or helpers.

Safeguarding the future Vocational training continues to play a key role in our drive to secure a future supply of employees and it reflects our corporate social responsibility. With the start of the new training year in 2010, 99 young people took the opportunity to start a technical, commercial or scientific training program at LANXESS, sometimes combining a regular job with a part-time training course. With a total of 380 trainees in 11 different career paths (as of December 31, 2010), LANXESS continues to train more young people than the company needs to meet its own requirements. Overall, the company invests around €10 million in vocational training each year. In recent years, despite the fall in employee figures, we have taken on – both directly and indirectly – 208 trainees on temporary and permanent contracts.

Each year, under the motto "Prepare for the Future," our international trainee programs attract highly skilled university graduates. Our aim is to prepare the participants for an international career within the LANXESS Group and establish a global pool of young managers with international experience. In fiscal 2010, we added marketing, controlling, finance and human resources programs. Since the initiative started, we have offered a wide range of entry-level positions to 40 university graduates with an interest in embarking on an international career.

Rewarding performance LANXESS employs a fair remuneration policy that is linked to the long-term success of the company and offers employees worldwide a transparent and market-oriented compensation system. Collective bargaining agreements provide the main basis for the compensation of non-managerial staff in Germany and numerous other countries. The fixed salaries of managerial staff are supplemented by performance-based compensation components that are linked, on the one hand, to the attainment of the Group's defined EBITDA targets and, on the other, to the employees' individual performance. For some time now, we have also offered a long-term incentive program for managers in Germany and a similar program in the United States, Canada, India and China. This stock performance plan compares the company's value against the Dow Jones STOXX 600 Chemicals^{SM} Index over a period of three years. Since participants make a personal investment and there is the chance that the stock will increase in value, the program is an attractive long-term incentive and a means of boosting employee loyalty.

(A) Since January 2010, on the basis of the collective agreement on lifelong worktime and demography in the chemical industry, employers pay an annual contribution of €300 per employee.

For the period 2010 to 2013, the Board of Management has drawn up a new long-term incentive plan (LTIP) for LANXESS. The Long-Term Stock Performance Plan 2010-2013 (LTSP) comprises four tranches, one commencing each year. This plan also compares the company's value against the Dow Jones STOXX 600 Chemicals^{SM} Index, but over a period of four years.

Positioning LANXESS as an attractive employer in the long term In fiscal 2010, our companies in Germany hired 135 new employees in various age groups. A total of 884 new employees joined the LANXESS Group worldwide. We focused particularly on specialists in production, technology and marketing. As part of its long-term growth policy, LANXESS is continuing to position itself as an attractive employer on all key markets. At present, we are still concentrating on the BRIC countries – and with considerable success. Having been voted one of Brazil's top employers on several occasions, we have now also received the equivalent accolade in China, scoring very well in the areas of "Compensation & Benefits," "Training & Development," "Career Development" and "Company Culture."

In the long term, we want to build a comprehensive employer brand that enables us to recruit, integrate and retain talented young people and professionals for LANXESS worldwide. We have worked closely with our employees to develop the basis for an employer brand with the goal of formulating an authentic image of LANXESS. This is the only way to create a credible picture of what it is like to work at LANXESS and to attract the right applicants to the company. This credibility is also reflected in the Fair Company accolade that we received from the "Handelsblatt/Junge Karriere" economic journal in honor of LANXESS's fair treatment of interns, for example through the payment of fair compensation and the provision of internships tailored to vocational training requirements.

In fiscal 2010, we continued our efforts to seek direct contact with talented young people, either by attending job fairs and university events or by organizing our own events to give teachers, children, university faculty and students the opportunity to find out more about the diverse technical and administrative career paths available at our company and to talk one-on-one with employees who can give them an insight into careers in the chemical industry. Establishing early contact with schools close to our sites in Germany, for example as part of specialist project weeks, and promoting science education at local high schools are two of the focal points of LANXESS's extensive education initiative, which we continued in fiscal 2010. Increasingly, this also includes providing support for additional qualifications at our project schools, such as the financing of a study group to learn Chinese. As a company, we consider such initiatives to be an essential part of our social responsibility.

Encouraging individual development LANXESS has put in place a multi-tiered process of global HR development conferences enabling us to review the potential of talented employees and assess the performance and leadership skills of management staff on a regular basis. Moreover, the Development Center has become an established tool worldwide for assessing the potential of future managers and supporting their development. Management workshops are a special way of fostering and recording the potential of top managers. The results of this multi-dimensional approach are an integral part of our HR development policy, which is augmented by systematic succession planning for key positions.

Career in sight
We use sophisticated HR development concepts to support our employees from career start to global management position.

In 2010, our manager training strategy continued to focus on the three key elements of our management framework – “Shaping strategies” (Head), “Inspiring employees” (Heart) and “Courage to make decisions” (Guts). Third-level managers worldwide have now taken part in this modular management program, with regular input from the Board of Management. We also provided our managerial staff with a wide range of consulting services, including personal coaching and 360-degree feedback. Special programs tailored to the requirements of trainee managers to prepare them for their future tasks were a further element in our structured management approach.

The LANXESS Forum, featuring high-caliber lectures with a subsequent plenary discussion, picks up societal trends and company issues, providing a platform for dialogue between employees and management. In 2010, the spotlight was on topics such as LANXESS’s specific opportunities and activities in India and cooperation with the global “Teach First” not-for-profit education initiative.

As the new main sponsor, we are providing Teach First Deutschland with total funding of €600,000 for an initial period through mid-2013. The organization, which is already established in a number of countries, has set itself the goal of helping schoolchildren who have had a difficult start in life, developing their individual talents and identifying career prospects for them. Specially qualified university graduates from all disciplines, who also have the requisite personal skills, act as fellows for a period of two years, helping schools in socially disadvantaged areas with education and schooling tasks. A particular focus in the future will be on fellows specializing in math and science. Activities at schools in North Rhine-Westphalia will start in 2011. In addition to financial support, we are also making a practical contribution through activities such as personal coaching for fellows and a mentor program involving our experienced management staff.

Development opportunities and diversity for international markets Our global alignment is a key strategic advantage. Today, LANXESS employs people from 60 countries across the world. Our successful focus on the BRIC countries is a deliberate strategy to increase proximity to local customers and markets. However, this inevitably also results in a more complex international working environment for many of our employees. LANXESS therefore provides both up-and-coming and experienced managers with the opportunity for international exchange through short-term assignments and longer stays abroad.

In 2010, 147 of our employees – around 5.3 percent of our managers – worked as expatriates outside their home countries. In addition to the possibilities of sharing know-how and acquiring intercultural skills, these overseas assignments also provide employees with the chance for personal development. Sending employees abroad will remain a central HR policy in 2011. To encourage the transfer of know-how between LANXESS companies, we are increasingly also sending non-managerial employees abroad for periods of up to twelve months for training purposes. Our long-term goal is still to equip local managers with expertise and international competencies.

Diversity also refers to the policy of providing equal opportunities for highly qualified women at the company. In the year under review, women accounted for 18.2 percent of all managers worldwide, which is slightly higher than the proportion of women employed overall by our company (17.7 percent).

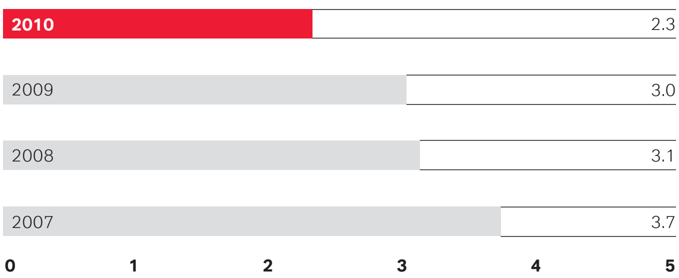
Occupational safety The health and safety of our workforce are among our top priorities. We aim to protect our employees from accidents through high standards in health protection and plant safety, and continuous improvements in workplace safety precautions. Thanks to our global electronic Incident Reporting System (IRS), we are able to record accidents and incidents using standardized procedures. The incidents that are documented include accidents involving people, transport accidents, environmental incidents and downtime caused by natural disasters or force majeure, for example. Important incidents are communicated worldwide via the intranet and by newsletter. Each event is carefully analyzed so that measures can be developed to prevent similar accidents or disruptions in the future.

Open to lateral thinking
Each year, our idea management system and the LANXESS Ideas Competition attract thousands of valuable suggestions on how we can improve cost-effectiveness, occupational safety and environmental protection.

Despite the very high safety standards in place at LANXESS, a fatal accident occurred at one of our plants in Leverkusen in 2010. As a result, we systematically reviewed the long-established safety procedure at all plants. A number of potential improvements were identified and these have now been implemented.

The lost time injury frequency rate (LTIFR), known in Germany as the MAQ (accident rate per million hours worked), is the key indicator used to assess occupational safety within the LANXESS Group. The LTIFR in 2010 was 2.3, which represents a significant improvement on the previous year (3.0). The goal remains to continue reducing this rate.

Work-Related Injuries to LANXESS Employees Resulting in Absence from Work (LTIFR)



Open to ideas When LANXESS employees have good ideas for improving work procedures, plants and processes, those ideas pay off. An idea management system fosters the development, processing and implementation of suggestions for improvements to ensure that LANXESS will continually receive proposals for enhancing cost-effectiveness, occupational safety and environmental protection. In 2010, employees at LANXESS's German companies submitted a total of 3,218 new suggestions, a rate of 467 per thousand employees. This is the highest rate since the company was established. In the same period, 1,266 ideas were implemented, yielding total savings of €4.8 million. Of these, 760 suggestions led to improvements in occupational safety and environmental protection. A total of €1.4 million was paid out to employees whose ideas were put into practice. The highest individual payment amounted to €162,000.

As a further incentive to attract ideas, the LANXESS Ideas Competition was launched in 2008. Each year, the company's organizational units can measure themselves in terms of team benefit. The focus is on identifying further cost-cutting potential, increasing both implementation and participation rates, and shortening processing times. In 2010, the Inorganic Pigments business unit won the Ideas Competition for the third year in succession. With its attractive, performance-related bonus system, our idea management system will continue to make a key contribution to our company's innovative strength and thus to its success.

ENVIRONMENT

As LANXESS sees it, conserving natural resources – for example, through the most efficient possible use of raw materials and energies – and identifying further potential for reducing emissions and waste are an ongoing mission, an inherent part of our ecological responsibility to which we must apply our expertise. The continuous improvement of environmental performance is a key corporate goal.

It is an established part of our strategy to equip all new production facilities in line with state-of-the-art environmental standards, even if the applicable local regulations are less stringent. This approach sets us apart from many local competitors, particularly in the emerging markets. It will also give us a clear competitive edge in the medium term, as these regions, too, are gradually introducing much tougher environmental standards.

Global HSEQ management HSEQ (health, safety, environmental protection and quality) management is an important part of LANXESS's integrated management system. From the outset, we have aligned this system toward ensuring uniform standards and reference bases for all LANXESS sites worldwide. The key performance indicators (KPIs) required for this purpose are recorded electronically, thus enabling us to systematically determine performance in each business unit and at each site and to develop them sustainably in the future.

The HSEQ Committee, comprising the company's senior executives under the direction of Board of Management member Dr. Werner Breuers, is tasked with ensuring compliance worldwide with the uniformly high quality management, occupational safety and environmental protection standards. The committee has responsibility for initiating and monitoring the global implementation of all necessary HSEQ directives, strategies and programs, as well as for defining HSEQ objectives and monitoring their achievement. It also defines the global strategy for the LANXESS Group's integrated quality and environmental management system in accordance with ISO 9001 and ISO 14001.

Systematic recording of key performance indicators We use an electronic system for the systematic global recording of KPIs in the areas of safety and environmental protection. This proprietary system enables us to define a broad range of KPIs for each business unit and location worldwide. These provide a valid database for internal and external reporting and map the progress we are making towards achieving globally applicable HSEQ objectives (see table on page 44). Data for all indicators except the LTIFR are gathered from all LANXESS production sites in which the company has a holding of more than 50 percent. The LTIFR is recorded at all sites in which LANXESS has a holding of more than 50 percent.

Environmental and Safety Performance Data*

	2009	2010
SAFETY		
Occupational injuries to LANXESS employees resulting in at least one day's absence (per million hours worked)[1]	3.0[0]	2.3
VOLUME SOLD[7] (in thousand tons)	5,130[++), 3]	6,361
EMISSIONS, WASTE AND WASTEWATER		
Emissions into air (in thousand tons)		
Emissions of greenhouse gases as CO_2 equivalents	1,638[++), 3), 4]	1,938[4]
Emissions of volatile organic compounds	6.7[++), 3]	7.8
CO emissions	0.7[++), 3]	0.95
NO_x emissions	2.0[++), 3]	2.48
SO_2 emissions	0.8[++), 3]	1.76
NH_3 emissions	0.2[++]	0.2
Particulate emissions	–[2]	–[2]
Emissions into water (in thousand tons)		
Total nitrogen	0.52[++]	0.55
Total organic carbon (TOC)	1.6[++]	2.1
Heavy metals (arsenic, cadmium, chromium, copper, mercury, nickel, lead, tin, zinc)	0.0057[+]	0.0049
Waste (in thousand tons)		
Total waste generated	203[++), 3]	255
• Hazardous waste	129[++), 3]	140
• Non-hazardous waste	74[++), 3]	115
Wastewater (in thousand cubic meters per day)		
Total wastewater	73[++), 3]	84
CONSUMPTION OF RESOURCES		
Total water consumption (in thousand cubic meters per day)	893[++), 3]	811
Cooling water consumption[8] (in thousand cubic meters per day)	691[++), 3]	709
Process water consumption (in thousand cubic meters per day)	202[3]	102
Energy consumption (in petajoules)	43[++), 5]	48[6]

*) The aggregate data for the LANXESS production sites include measured, calculated and estimated data. The criteria applied in 2009 and 2010 can be made available on request.
+) Indicator was assessed (limited assurance) by auditors Deloitte.
++) Indicator was assessed (reasonable assurance) by auditors Deloitte.
0) Deloitte assessed only the number of accidents at production sites resulting in one working day or more lost following the day of the accident (69[++)] of 79 cases).
1) LTIFR: accident rate per million hours worked resulting in one working day or more lost following the day of the accident, calculated for all employees, also at sites with no production
2) Not recorded
3) Values corrected compared with the values shown in the Annual Report 2009
4) Including the greenhouse gas potential of ozone-depleting substances
5) Excluding refrigeration; including regenerative energies and waste heat
6) Excluding waste heat; including refrigeration and regenerative energies
7) Including commercial products
8) Equivalent to circulating cooling water

Further details on data quality:
- In place of "Volume sold," volumes produced were reported in some cases.
- The data for "Emissions into air" and "Energy consumption" may not be complete as the use of diesel, other fuels and coolants may not have been fully reported.
- The emission factors applied for fossil fuels are based on calculations by the U.S. EPA (AP-42 from 1998).
- In accordance with the GHG Protocol (2004), the factors for calculating CO_2 are based on the global warming potential (time horizon: 100 years) defined in the IPCC Second Assessment Report (SAR 1995).
- It cannot be ruled out that the data for waste may not include all recycled waste and off-spec product.
- The wastewater and water indicators measured per day refer to production days. It cannot be ruled out that some of the values measured for calendar days may have been included in the aggregate data.
- The energy volumes given were calculated on the basis of simplified assumptions and typical substance values. It also cannot be ruled out that the data may include energy used by third parties and that some energies may have been reported twice.

We are aware of the challenge involved in defining and ensuring the use of standard indicators for all sites and regions. We are working to achieve continuous improvement in this regard.

In December 2010, auditors Deloitte evaluated the consistency of the data recording process and the appropriateness of the data recording system. For the first time, most of the HSE data for 2009 were audited to achieve a "reasonable assurance" rating and received an unreserved certificate.

Uniform standards for process and plant safety LANXESS operates at 42 production sites across the globe (as of December 31, 2010). The diversity of the Group's product portfolio necessitates the use of many chemical and technical processes. Uniformly high standards for planning, constructing and operating facilities are applied to ensure the maximum possible process and plant safety. We use a systematic approach to identify risks and hazard potential and to reduce these by implementing safety measures. To help us achieve this, we have established a comprehensive safety management system (SMS) that governs procedures in all safety-critical processes in our production facilities. All LANXESS facilities around the world must verify their safety standards with a certificate.

Regular monitoring and employee training ensure systematic implementation of the SMS. We have been carrying out compliance checks at LANXESS facilities in Germany since 2005. Experts conduct specific spot checks to assess whether all necessary measures are being taken to ensure the safe operation of facilities. Since 2007, compliance checks have also been carried out at key sites operated by LANXESS subsidiaries. In 2010, a total of 22 facilities were checked, 10 of these at LANXESS sites in Germany.

Safety also plays an important role in all our acquisition projects. Before making any acquisition, we carry out technical due diligence tests alongside the economic appraisals. Gap analyses are performed prior to the takeover and these are used as the basis for drawing up action plans to implement LANXESS's binding internal HSE standards at these locations.

Major progress in climate protection As a driving force in the chemical industry, LANXESS helps reduce or even eliminate greenhouse gas emissions using a range of cutting-edge technical solutions. Our measures are applied along the value-added chain – from energy generation through manufacturing processes to waste disposal.

We have been involved in the Carbon Disclosure Project since 2006, sharing data and information on climate protection and the reduction of emissions. The Carbon Disclosure Project is an organization representing international institutional investors who have joined forces in order to improve transparency for the financial market on questions linked to climate change and the requisite corporate guidelines.

Since 2007, we have succeeded in reducing our direct greenhouse gas emissions by around 50 percent worldwide. In Germany, our aim was to cut emissions of climate gases through 2012 by around 80 percent compared with 2007 levels. We achieved this target in 2009.

The opening of our second facility for cutting emissions of particularly harmful nitrous oxide (N_2O) at the LANXESS site in Krefeld-Uerdingen played a key role in this significant improvement. It has made LANXESS one of the few companies in the world to neutralize virtually all nitrous oxide emissions from adipic acid production. Opened at the beginning of 2009, the nitrous oxide reduction unit was named one of the 365 "Selected Landmarks for 2010" in the "Germany – Land of Ideas" initiative under the patronage of the then German President Horst Köhler. This, Germany's biggest series of events, was designed to honor projects that demonstrate special creativity and innovative strength.

One focus of our climate protection efforts is the sustainable generation and economical use of energy, achieved by, for example, switching over to one of the most efficient power plant technologies available – cogeneration. In 2010 alone, we invested some €80 million in projects for sustainable energy generation and started up four new cogeneration plants at our sites.

The first of these, opened in March 2010, was a sugar cane power plant producing electricity and steam at our Porto Feliz site in Brazil. This on-site power plant has a capacity of 4.5 megawatts and runs on bagasse, a fibrous component of sugar cane that is left over after sugar production. Thanks to the use of this sustainable, environmentally friendly raw material, energy can be produced on a completely CO_2-neutral basis. The start-up of the new power plant enables us to cut CO_2 emissions at the site to virtually zero. As a result, our climate gas emissions will decrease by around 44,000 tons of CO_2 per year compared with 2002 levels. An added bonus is that the new plant, which boasts efficiency levels of up to 90 percent, will deliver a long-term, reliable and cost-effective power supply for our site – thereby safeguarding our competitiveness. On World Environment Day, the city of Porto Feliz presented us with the "Environment Medal 2010" for our commitment to climate protection.

The new cogeneration plant at our Nagda site in India opened in October 2010. It also uses biomass – in this case waste from soya production. The plant supplies virtually all the site's energy requirements and reduces our CO_2 emissions by around 95,000 tons per year, which is equivalent to 70,000 tons of coal. Jhagadia, our second new site in India, benefits from a state-of-the-art infrastructure that also includes its own power plant fueled by natural gas.

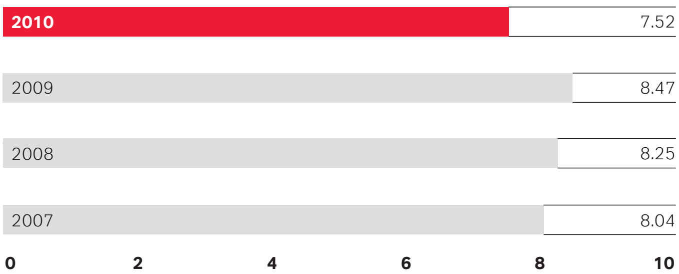
Our new block-type thermal power plant in the Belgian city of Zwijndrecht is equally effective. We have invested a total of €60 million in this joint project with the energy company Electrabel. The plant reduces CO_2 emissions by around 80,000 tons per year.

The use of isobutene from renewable resources will also make a significant contribution to cutting the direct and indirect greenhouse gas emissions of our butyl rubber business in the medium term. This manufacturing process is currently being optimized for industrial-scale use in collaboration with our new investment Gevo Inc. (see also page 20). Isobutene is an important raw material for the manufacture of butyl rubber and until now has usually been produced from petroleum derivatives. According to our calculations, switching to this technology would significantly improve the eco-balance of our butyl rubber.

We also aim to continually improve the energy efficiency of our production facilities. The X_Energy energy check is helping LANXESS to assess the energy efficiency of various company plants and to identify potential for optimization with the aim of improving energy efficiency and lowering resource consumption.

Energy Consumption in Relation to Volumes Sold

in gigajoules per ton of product



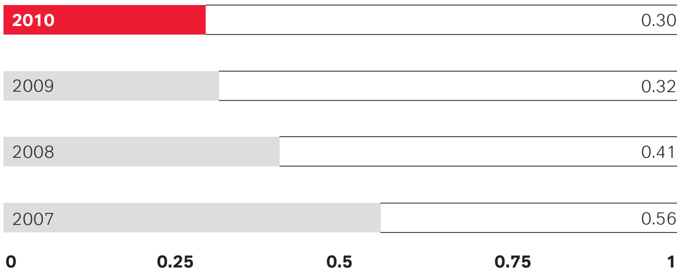
2008–2009 figures restated

The energy efficiency programs implemented to date are now yielding results. Our specific energy consumption is significantly lower compared with previous years.

In addition, the HSEQ Committee has decided to introduce an energy management system for LANXESS by the end of 2012. We have set ourselves the target of cutting each segment's specific energy consumption by 10 percent by 2015 (base year: 2010).

Greenhouse Gas Emissions in Relation to Volumes Sold

CO_2 equivalents in tons per ton of product



2009 figure restated

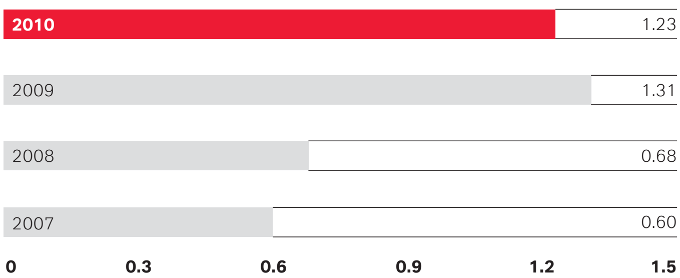
We have also been successful in reducing our emissions of greenhouse gases, halving specific emissions since 2007. Alongside many individual measures, the start-up of a second facility for the reduction of harmful nitrous oxide (N_2O) at our Krefeld-Uerdingen site at the start of 2009 had a major impact on the results.

For the first time, we recorded indirect CO_2 emissions worldwide (according to the GHG Protocol Scope 2). In 2009 and 2010, we had Scope 2 CO_2 emissions of 2.356 million tons and 2.443 million tons, respectively. The conversion factors used were provided by the energy producers for 2008 or 2009. Where these were not available, factors from the IEA (International Energy Agency) for 2008 were used.

Other atmospheric emissions The European Union's NEC (National Emission Ceiling) Directive has set maximum limits for the release of the atmospheric pollutants sulfur dioxide (SO_2), nitrogen oxides (NO_x), ammonia (NH_3) and volatile organic compounds. Starting 2011, these limits may no longer be exceeded. We specifically monitor sites that release relevant emissions and have worked quickly to take all the necessary precautions for ensuring compliance with these limits.

VOC Emissions in Relation to Volumes Sold

VOC in kilograms per ton of product



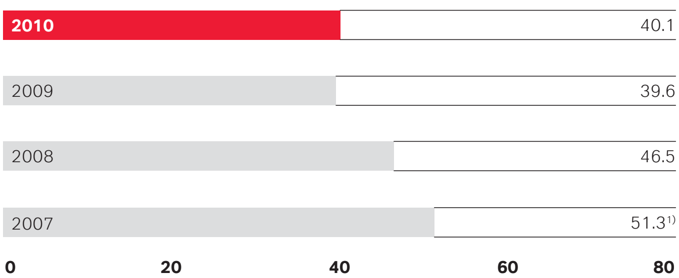
2009 figure restated

In the year under review, VOC emissions (A) fell only slightly in relation to volumes sold. The general increase in VOC emissions is attributable to our portfolio expansion, especially in Brazil.

Conserving resources LANXESS attaches great importance to the careful use of resources. The company aims to employ a consistent material flow management process – from the use of raw materials to the manufacture of the final product – so as to minimize the amount of waste produced. Some forms of waste can be used as secondary raw materials and are thus a valuable resource. Sustainable waste management therefore involves avoiding waste and using waste as raw materials or energy sources. The continued optimization of production processes helps maximize the reduction in off-spec product (B). Consequently, we have set ourselves the target of further reducing the volume of waste in the future. For example, numerous waste minimization measures were implemented to cut hazardous waste by around 33 percent compared with 2007 levels.

Total Waste in Relation to Volumes Sold

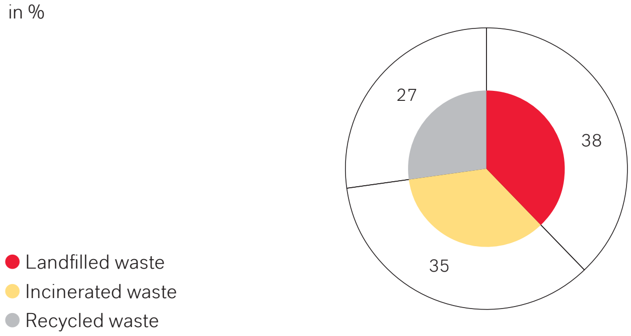
kilograms of waste per ton of product



1) Adjusted for one-time effects related to a production closure at the Krefeld-Uerdingen site; 2009 figure restated

Waste for Disposal

in %



The total amount of waste generated worldwide in relation to volumes sold has decreased by approximately 22 percent compared with 2007. Around half of our waste is classified as hazardous. The amount of waste we recycle almost doubled compared with 2009. While we still sent around half our waste to landfill in 2009, this figure has now been reduced to 38 percent of our total waste.

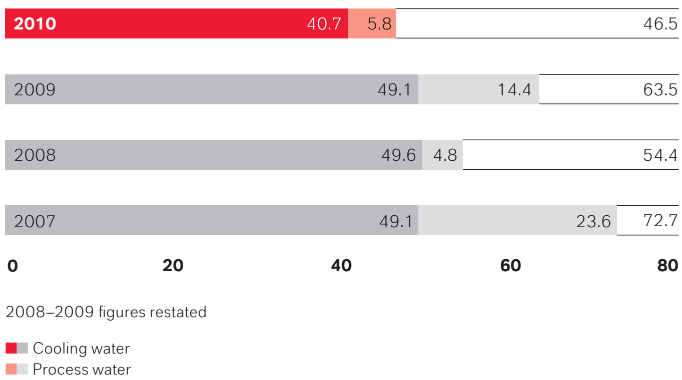
Solutions for clean water Our innovative products and technologies help our customers worldwide to clean, treat and conserve water. We also go to great lengths to minimize water consumption and pollution during production operations at our own plants.

State-of-the-art environmental technology is being used at our new ion exchange resin plant in Jhagadia, India. All wastewater is pre-cleaned in a separate ultra-modern treatment plant. This ensures that all used water is already close to drinking water quality when it leaves the company premises. It is then treated again in the chemical park's own treatment plant.

Our new production facility for iron oxide pigments at our Jinshan site in China makes no compromises when it comes to environmental protection either. This facility is one of the first in China to be equipped with a cutting-edge wastewater treatment plant connected upstream of an industrial treatment plant. Thanks to this closed-loop wastewater treatment, far less wastewater is produced than at other production facilities in the region. Overall, total water consumption in relation to volumes sold is demonstrating a clear downward trend.

Water Consumption in Relation to Volumes Sold

in cubic meters per ton of product



2008–2009 figures restated

(A) VOC: volatile organic compounds

(B) Product that does not meet the specified or standard requirements

HSEQ Targets for 2010

Target	Program/Measures	Target Date	Target Attainment
1. Improved occupational safety	No injuries	Ongoing	The number of accidents with working days lost declined to 61 compared with 2009 when 79 accidents with working days lost were recorded worldwide. Despite the high safety standards in place at LANXESS, a fatal accident occurred at a plant in Leverkusen in 2010.
	LTIFR of work-related injuries resulting in days of absence less than 2.5 (all business units, group functions and companies with a higher LTIFR will have failed to achieve their target)	2010	Various global safety programs are now yielding the desired progress. In 2010 the LTIFR was 2.3, an improvement on the prior-year figure of 3.0.
2. Improved environmental performance	Development of concepts based on the analysis of environmental KPIs	2010	Environmental performance was improved. A significant reduction in steam consumption and waste was recorded. Wastewater volumes were also reduced.
3. Climate protection	Introduction of a LANXESS energy management system	2010	Work started to implement an energy management system. The project is scheduled for completion in 2012.
	Consolidation of the business units' climate protection concepts from 2009	2010	CFC emissions were significantly reduced.
4. Implementation of REACH/GHS	Realization of measures required by REACH and GHS by the specified deadlines	2010	The Phase I registration process was completed on schedule in accordance with the project plan. Dossiers for more than 190 substances were successfully submitted to the ECHA by November 30, 2010. GHS implementation for the E.U. in ATRION was completed.
5. Consolidation of HSE data systems	Global harmonization of HSE data in ATRION	Ongoing	The global harmonization of HSE data systems (ATRION) was launched in 2009. The system was successfully introduced in Brazil in 2010 (i.e. more than 80% of all products traded by LANXESS can be tracked for compliance in one HSE system). Other judicial areas which presently have their own systems will be integrated in ATRION.
6. Optimization of transportation of (dangerous) goods	Global implementation of the Dangerous Goods and Transport Safety Directive	Ongoing	Implementation of the directive continued in 2010 and was extended to cover new sites.
7. Global management system	Integration of the remaining sites in Brazil (Caxias), United States, China (Liyang, Jinshan), India (Jhagadia, Nagda), Russia (Moscow) and Australia in the LANXESS matrix certificate	2010	Launched in 2007, the project to integrate the existing LANXESS sites with their own certificates in the LANXESS matrix certificate was completed in 2010. All other sites (previously without a certificate or newly acquired) are now being successively integrated in the matrix certificate. All sites planned for 2010, apart from Jhagadia and Liyang, were integrated in the matrix certificate.

HSEQ Targets for 2011

Target	Program/Measures	Target Date
1. Improved occupational safety	No injuries	Ongoing
	LTIFR of work-related injuries resulting in days of absence less than 2.0 in 2011 (all business units, group functions and companies with a higher LTIFR will have failed to achieve their target)	2011
2. Climate protection	Reduction in specific CO_2 emissions by 10% per business segment by 2015	2015
	Reduction in specific energy consumption by 10% per business segment by 2015	2015
	Footprint analyses for relevant products	2011
3. Environmental protection	Reduction in VOC emissions of 30% by 2015	2015
4. Implementation of an energy management system	Completion of the project by end of 2012	2012
5. REACH implementation – next level	Timely registration of substances > 100 tpa	2013
	Adaption of safety data sheets in accordance with REACH	2011
6. Adaption to national chemicals programs in non-E.U. countries	Compliance with requirements of national chemicals programs by the specified deadlines	2011
7. Continuation of GHS implementation	Implementation of measures required by GHS in the E.U. by the specified deadlines	2011
	Monitoring of GHS activities in non-E.U. countries and implementation by the specified deadlines	2011
8. Continuation of consolidation of HSE data systems	Global harmonization of HSE data in ATRION	2011
9. Improvement in transport safety and quality	Optimization of interfaces between external logistics providers and LANXESS to develop stable transport processes and to minimize operative risks Start of pilot project in January 2011	2011
10. Completion of the global matrix certificate (ISO 9001 & ISO 14001)	Inclusion of further sites in China (Liyang), Russia (Moscow) and India (Jhagadia) in LANXESS's global matrix certificate; as at November 2010	2011
11. Standardization of management system tools	Global provision, standardization and optimization of electronic management system tools by the end of 2012	2012

SOCIETY

As a company, we draw numerous benefits from the society in which we operate – well-trained employees, satisfied customers, legal and political stability and an excellent infrastructure. We believe it is only right that, in line with the concept of corporate citizenship, we assume responsibility and ensure that society also benefits from our success. Our social commitment is based on the same fundamental principle as our entrepreneurial activities – a consistent focus on a manageable number of projects that promise long-term success.

Our not-for-profit activities focus on providing support for science education in schools. After all, skilled employees are a crucial prerequisite for the sustainable success of our company, no matter where in the world it operates. We endeavor to encourage young people to develop a passion for chemistry at a young age, awaken their inventive spirit and make them aware of the diverse career opportunities that the LANXESS Group offers.

The LANXESS education initiative – a model for success In 2008, we launched an extensive LANXESS education initiative in North Rhine-Westphalia that underscores our clear commitment to Germany as a business location – and in particular to North Rhine-Westphalia as a base for the chemical industry. Since then, we have provided funding to schools in Leverkusen, Dormagen, Cologne and Krefeld-Uerdingen. LANXESS also offers interested and talented students the chance to gain work experience and to take part in vacation courses and workshops.

Water played a key role in our education initiative in 2010. Ten students from high schools in Leverkusen, Cologne and Krefeld participated in a three-day think tank, developing innovative approaches for using this valuable resource responsibly. Their efforts focused in particular on large- and small-scale cleaning processes. Under the motto “Living Waters,” students were asked to develop a communication concept for North Rhine-Westphalia, taking into account the E.U. water guidelines. Another workshop in November 2010 was devoted to social media and the question of how LANXESS can further improve the way it presents itself on these Internet platforms. During the three-day project, the participants focused on developing two new water-related LANXESS apps for the iPad and iPhone.

In 2010, for the second time, we supported the “NEAnderLab” high-tech laboratory at Hilden Vocational College. This laboratory is open to all schools in the Mettmann district and is one of currently 21 centers in North Rhine-Westphalia’s innovation initiative. The objective is to encourage as many school students as possible to study engineering and science subjects by providing a high-quality environment in which to learn. Our €70,000 donation is earmarked to buy analytical equipment for use in biotechnology and organic chemistry. This financial support also funds more staff to oversee students.

Over the past three years, we have invested around €2.5 million in the LANXESS education initiative. Feedback from teachers, principals and school authorities confirms that we have succeeded in significantly boosting the importance of the MINT subjects (A) in school timetables, in fundamentally changing the way these subjects are taught and in stimulating the demand for more courses. As a result, we have decided not only to continue with the LANXESS education initiative, but to extend it beyond North Rhine-Westphalia to other schools close to our sites in Germany. At the end of 2010, the first projects were started with high schools in Bitterfeld, Brunsbüttel and Mannheim.

New projects around the world We have also made some encouraging progress in expanding our international CR activities. Our focus on the BRIC countries is becoming increasingly evident.

In Brazil, we introduced a new strategy for all our local activities during 2010 by merging them under the “e3 initiative.” “e3” stands for education, ecology and economy. In the area of education, we are focusing on two projects. Since 2005, we have been supporting the Reading Rooms project. At our LANXESS sites in São Paulo, Porto Feliz, São Leopoldo, Duque de Caxias, Cabo de Santo Agostinho and Triunfo we now maintain 50 reading rooms equipped with books for children, young people and adults who would otherwise have no access to information or cultural activities. Our new Chemical Theater project provides chemistry lessons of a completely different kind. Actors seek to interest students in the exciting world of science by playing short scenes that explain the basic chemical principles in an entertaining way. We also foster scientific knowledge with the “Green Cycle” environmental competition which was launched in 2010 as part of the initiatives at our Cabo de Santo Agostinho and Porto Feliz sites. The nine winners at both sites not only received recognition for their environmental protection projects. LANXESS is also fully financing implementation of the projects.

With the “e3 initiative,” we introduced a new strategy for our corporate social responsibility activities in Brazil.

(A) MINT subjects: mathematics, information technology, natural sciences and technology

In Argentina, too, we are continuing our commitment to two major initiatives. Science and industry have joined forces in the Proquimia program to ensure that the chemists of the future have the skills needed by the market. LANXESS sponsors a range of educational activities that combine basic concepts in chemistry with socially relevant issues such as the environment and technology. The Educate to Grow initiative, meanwhile, aims to promote development in the Zárate region by supporting schools and not-for-profit organizations engaged in educational or social activities there. Since 2007, as part of this initiative, LANXESS has provided funding for sustainable education projects and helped those wishing to launch social projects by providing the fundamental know-how they need.

In India, we have donated a school bus as part of our LANXESS Education Project. This joint project with the not-for-profit organization Save The Children India (STCI) aims to provide socially disadvantaged children in Mumbai with a pre-school education so that they can attend state-run high schools later on and continue their education there. In practice, however, many children had to stop participating in the program because they were unable to get to school. The bus now picks up these underprivileged children and takes them to their lessons. This plays a key role in increasing school numbers and ensuring regular attendance.

A new LANXESS CR project in India is the long-term Teach for India program, part of the Teach to Lead initiative. It recruits top graduates from Indian universities who, after completing their studies, spend an initial period of two years teaching full-time at schools with insufficient funding. Our financial support, which amounts to €50,000 in each of the next three years, will fund current Teach for India projects in Mumbai. The funding will also help extend the project to other towns and cities in India, including New Delhi and Jhagadia, where LANXESS has sites. Since the end of 2010, we have also been supporting the Sewa Rural vocational training center in Jhagadia. Our donations buy useful equipment for the center and improve the services for students, for example through the installation of solar-powered street lights and a solar-powered boiler system.

A new partnership with India's ArriveSafe initiative focuses on road safety. The aim of this cooperation is to make the Indian population more aware that investing in high-quality tires improves road safety. Every year, more than 120,000 people die on India's roads – the highest fatal road accident rate anywhere in the world. Although relatively few road accidents are caused directly by defective tires, high-quality tires could prevent a significant proportion of these accidents, or at least make them less serious, as they significantly reduce braking distances and collision speeds.

The aim of the Xplore Science with LANXESS program initiated by our subsidiary LANXESS Corporation in the United States is to show young people that science can be exciting and that learning can be fun by introducing interactive and stimulating learning experiences. By getting involved in the classroom and supporting teachers, LANXESS employees are helping to build bridges with the scientists of the future. In 2010, we supported several events in the United States devoted to our spotlight topic of water. One highlight was during the World Environment Day Student Summit, when around 550 school students from around the world came together in a web conference to debate the links between water, the environment, energy and the economy.

All aboard!
We have donated a new school bus which enables disadvantaged children in India to regularly attend pre-school.

As a partner to school authorities, district councils and other local enterprises, our Canadian subsidiary in Sarnia provides teachers and children from kindergarten through to junior high school with materials for practical science lessons. Many LANXESS engineers and chemists have volunteered to take part in lessons, enriching these with their practical expertise.

Our first education project on African soil was initiated at the end of 2009. The LANXESS Center of Excellence, a learning center for mathematics and science, is located at the Alipore Road Primary School in Merebank, South Africa, where we operate a plant for the manufacture of leather tanning materials. In a freshly renovated and newly equipped school room, the 20 top math and science students from grades four to seven receive extra lessons. LANXESS provides the funding needed to pay for an additional teacher.

Clean water for Tanzania Our knowledge of water is a further focal point of our corporate responsibility. The best time to educate young people about access to clean water and to help them in their endeavors is during their first years at school. That is why we are supporting the African Medical & Research Foundation (AMREF), which is using our financial assistance to establish water supplies for 25 Tanzanian schools attended by approximately 10,000 students and provide the sanitary facilities they need. In addition to these infrastructure measures, AMREF also provides hygiene education for teachers and children. The students can then take this knowledge home with them and spread the safe water message in their daily lives. We are planning a further project with AMREF in South Africa in 2011.

Help where it is needed Although our social commitment is normally carefully thought out and influenced by strategic considerations, some events require a rapid and unbureaucratic response. We supported the aid effort which followed the earthquake tragedy in Haiti, donating US$200,000 to supply more than four million tablets and equipment for chemical water treatment. And the victims of the catastrophic floods in Pakistan benefited from €100,000 of immediate aid to the charitable organization Kindernothilfe e.V. What's more, LANXESS employees at numerous sites spontaneously started collections for the flood victims, and the company doubled the donations received.

Promoting art and culture For several years now, our cultural commitment has focused on encouraging young musicians. Formed in 2007, the young.euro.classic German-Chinese Festival Orchestra brings together in one ensemble some of the most talented young musicians from Germany and China. Marking the "LANXESS Water Year," the LANXESS young.euro.classic China Tour 2010 was dedicated to this precious resource. The highlight of the 2010 tour was a performance at the German pavilion at the EXPO in Shanghai. The then German President Horst Köhler was the guest of honor at the classical event – the official contribution to the cultural program on Germany Day at the EXPO.

In addition, we unveiled our new cultural initiative LANXESS SNYO Classic in May 2010 in Singapore. As part of a three-year partnership, LANXESS is supporting an exchange program for the Singapore National Youth Orchestra. The program is intended for young orchestral musicians who, by rehearsing with internationally renowned soloists, can benefit from the skill and experience of these music celebrities.

We are taking a completely new approach to transferring knowledge and encouraging scientific learning by becoming the main partner to lit.COLOGNE, Europe's biggest festival for literature in Cologne. At this annual event, high-profile authors and actors demonstrate how the written word can really be brought to life.

INVESTOR INFORMATION

Building trust

WATER FILTRATION A certain proportion of minerals is needed to make water taste good and keep it healthy. Cartridge water filter systems can be used in the home or at the office to maintain this balance. They are found in coffee machines, kettles, dishwashers and even in water pipes. The cartridges contain a mixture of ion exchange resins and other components tailored to meet the requirements of local water supplies. One in two cartridges is manufactured using Lewatit® ion exchange resins from LANXESS.

INVESTOR INFORMATION

LANXESS stock performed strongly in 2010 to reach a high of €59.49. Its value increased by some 124 percent over the year. This growth far exceeded the gains made by the company's benchmark indices as well as by Germany's leading index, the DAX.

The world's stock markets continued to recover in 2010. The German indices in particular performed very well over the course of the year and at the end of December had regained the levels last seen before the global economic and financial crisis. As the year progressed, the DAX topped the 6,000-point mark and by year end hit 7,000 for the first time in more than two years. The index closed 2010 at 6,914 points, a gain of 16 percent.

The MDAX, which includes LANXESS stock, posted an even better performance. In the period from January 1 to December 30, 2010 (last trading day), it rose 35 percent from around 7,500, breaching the 10,000-point mark for the first time since 2008. The MDAX ended 2010 at 10,128 points. LANXESS's benchmark index, the Dow Jones STOXX 600 Chemicals℠, trended higher like the German indices. With an increase of 23 percent, its performance was much improved from the previous year. The DJ STOXX 600 Chemicals℠ surpassed 500 points in October 2010 and stayed above that mark for the remainder of the period. It ended 2010 at 569 points, up a good 100 points over the year as a whole.

The significant recovery on the international equity markets last year was driven particularly by the U.S. Federal Reserve's continued pursuit of a low interest rate policy as well as the adoption of further measures aimed at stimulating the U.S. economy. These measures included a number of programs to repurchase government bonds, which marked another step in the central bank's easing of monetary policy. Most recently, the Fed announced in November 2010 its plan to buy back some US$600 billion in government bonds by the second quarter of 2011.

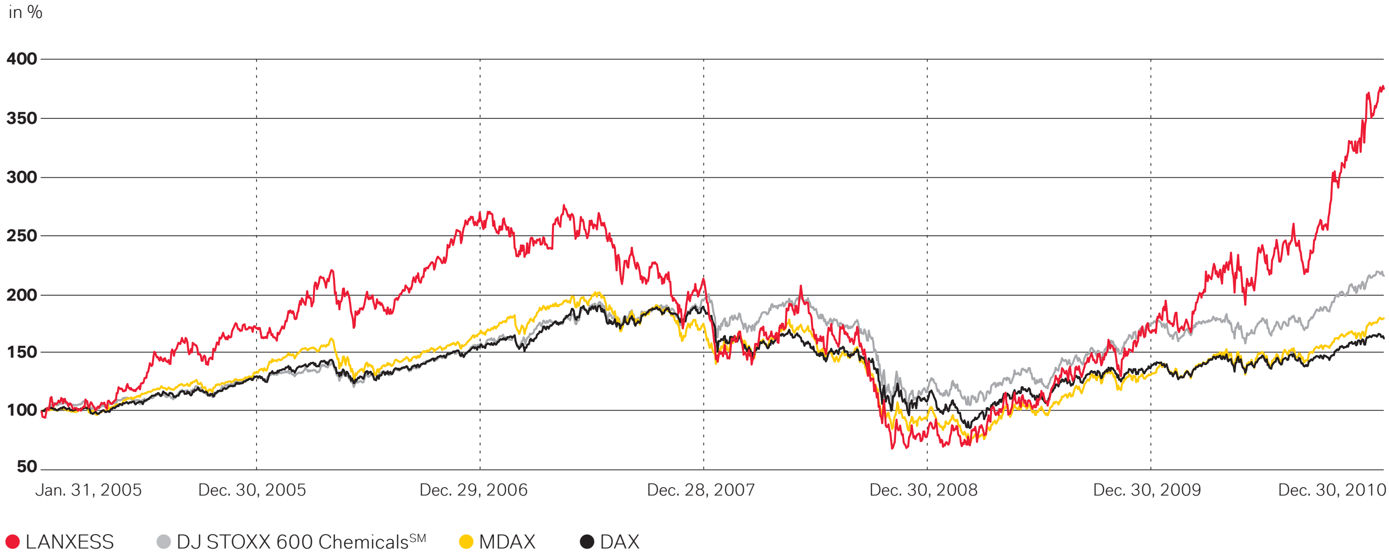
Germany's economic upswing gave its indices considerable additional momentum. Compared to other European economies, the recovery there has proved strong and resilient until now. This development was mirrored by DAX and MDAX companies, which reported increasingly positive business trends and a return to growth.

Despite the very gratifying developments overall on the equity markets, temporary price corrections occurred several times over the year. The main cause of these dips was the escalation of the European debt crisis, which made the stock markets highly volatile at times. Although the markets were calmed by the steps taken by the European Union, including the multi-billion euro rescue package and a support mechanism for financially ailing European economies, market participants did not view them as the ultimate solution.

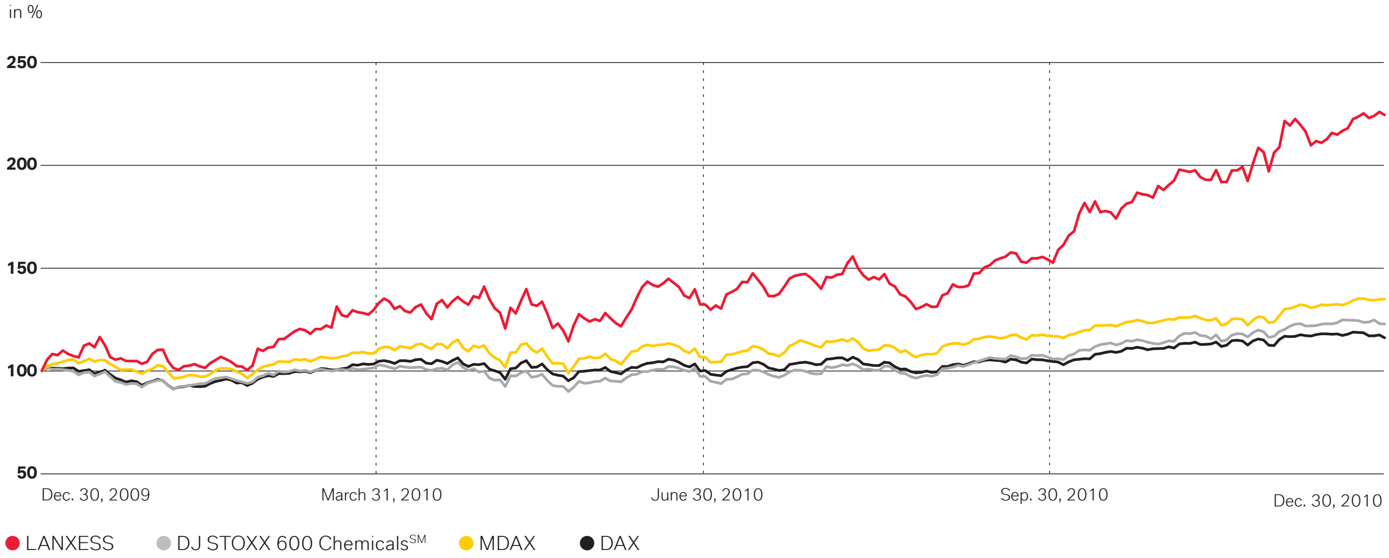
Despite this volatility, the positive sentiment displayed by investors in light of the global economic recovery prevailed for the full year and produced a sustained uptrend in the stock markets.

Overall, LANXESS stock performed better in 2010 than in any year since its initial listing. After starting the year at €27.76, the share price trended increasingly strongly, especially in the second half. From mid-September, LANXESS stock was trading above the €40 mark again, a level last seen at the beginning of August 2007. At the end of October 2010, it reached €50 for the first time. The share price remained above this price during the ensuing weeks and closed the year at €59.10. The general recovery on the equity markets was certainly a factor in this very solid price trend, but the capital markets also reacted favorably to company-specific news. LANXESS delivered a highly gratifying business performance, published very good results and raised its guidance for the full year 2010 in conjunction with its earnings releases for the second and third quarters. During its Capital Markets and Media Day held in September, LANXESS unveiled new medium-term targets. In 2015, the company is now aiming to post EBITDA pre exceptionals of around €1.4 billion, which is to be achieved through organic and external growth (see page 11 for more information).

Stock Performance since Listing



Stock Performance 2010



Performance Data 2010

		Q1 2010	Q2 2010	Q3 2010	Q4 2010	Year 2010
Capital stock/no. of shares[1]	€/no. of shares	83,202,670	83,202,670	83,202,670	83,202,670	83,202,670
Market capitalization[1]	€ billion	2.84	2.89	3.34	4.91	4.91
High/low for the period	€	35.23/25.89	38.55/30.26	41.80/33.16	59.49/40.65	59.49/25.89
Closing price[1]	€	34.12	34.82	40.19	59.10	59.10
Volatility[2]	%	–	–	–	–	52.66[5]
Trading volume	million shares	45.880	44.880	39.218	37.654	167.634
Average daily trading volume	shares	728,260	712,388	594,219	588,350	654,820
Earnings per share	€	1.25	1.57	1.42	0.31	4.56
Price/earnings ratio[1),3)]		–	–	–	–	12.96
Price/cash flow ratio[1),3),4)]		–	–	–	–	9.74

1) End of quarter:
Q1: March 31, 2010, Q2: June 30, 2010, Q3: September 30, 2010, Q4 and full year: December 31, 2010
2) Source: Thomson Financial
3) Data, especially cash flow, are influenced by exceptionals, which restricts the significance accordingly
4) Reference value: operating cash flow
5) Parameter: 200 days

Capital Market Information

Share class	No-par shares
Listing code	LXS
WKN (German securities identification number)	547040
ISIN	DE0005470405
Reuters/Bloomberg codes	LXSG.DE/LXS:GR
Market segment	Prime Standard
Trading venues	XETRA, Frankfurt, Munich, Stuttgart, Düsseldorf, Hamburg, Hanover, Berlin
Selective indices	MDAX, Dow Jones STOXX 600 Chemicals[SM], DAXsupersector Basic Materials, MSCI Germany Standard, MSCI Germany Mid Cap
Investment-grade ratings	Standard & Poor's: BBB (stable) Moody's: Baa2 (stable) Fitch: BBB (stable)

Other key capital market information related to the implementation of important global investment projects. In May, LANXESS announced the start of construction on the butyl rubber plant in Singapore, the largest single investment in the company's history. Other significant investments were made in all three segments (see page 16ff for details). At the end of the year, LANXESS announced its agreement with Royal DSM N.V. to acquire DSM Elastomers, which will strengthen the Technical Rubber Products business unit in the Performance Polymers segment.

Further positive impetus came from the inclusion of LANXESS stock as of December 1, 2010, in two important indices of Morgan Stanley Capital International (MSCI): the MSCI Germany Standard Index, which at the time comprised 54 companies, and the Germany Mid Cap Index, which has 24 companies (http://www.mscibarra.com/). The stock's inclusion in these indices significantly boosted trading in LANXESS shares on the first day and also helped support the stock price gains achieved before that date.

Last year, LANXESS proved its ability to return to growth swiftly and as a stronger company thanks to its successful and flexible crisis management in the challenging economic environment of 2009. Moreover, with the concrete medium-term growth targets and information about further strategic positioning unveiled in fall 2010, LANXESS underscored the sustainability of its growth path. The company's achievements in 2010 and its clearly defined growth targets for the future were also mirrored by the strong upward price trend of LANXESS stock, which significantly outperformed the DAX, MDAX and DJ STOXX 600 Chemicals[SM].

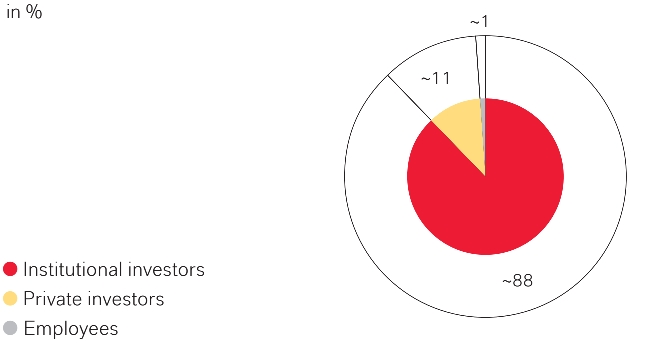
OWNERSHIP STRUCTURE

The majority of LANXESS shares are held by institutional investors whose strategy is oriented toward value or growth. In 2010, these investors held roughly 88 percent of LANXESS stock, which marks another year-on-year increase. Some of the investors in this group own a stake of at least 3 percent in LANXESS, which they are required to report in mandatory notices regarding shareholdings in LANXESS. Since 2007, these investors have included U.S.-based Dodge & Cox, a traditional institutional investor, and the U.K.-based J.P. Morgan Group (see table).

The remaining 12 percent of LANXESS shares are held by private investors and LANXESS employees. As in prior years, these investors were primarily located in Germany.

Stockholder Profile as of December 31, 2010

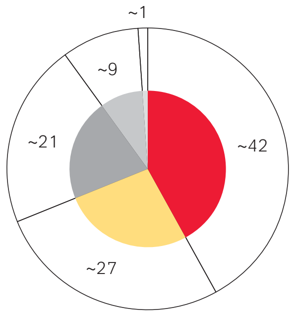
in %



The United States, United Kingdom and Germany have been the top countries in the regional breakdown of investors since LANXESS's initial listing. The United States continued to hold the lead last year with a share of 42 percent (2009: 48 percent). The share held by investors in Germany rose again, from around 24 percent in 2009 to 27 percent as of December 31, 2010. LANXESS has continued to strengthen its investor communications and roadshow activities over the past two years, especially in its home region (see Investor Relations Activities). As of December 31, 2010, investors in the United Kingdom held 21 percent of the company's stock, which is also higher than in the previous year.

Geographical Breakdown as of December 31, 2010[1)]

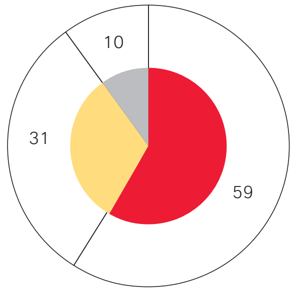
in %



1) Based on the stockholders identified

Recommendations as of February 1, 2011

in %



Reported Holdings of 3 percent or Above by Institutional Investors (up to and including February 1, 2011)

Dodge & Cox, San Francisco (U.S.A.)	9.93%
J.P. Morgan	4.88%[1)]
TIAA CREF Funds, New York (U.S.A.)	3.26%
Teachers Advisors, Inc., New York (U.S.A.)	3.19%

1) The reported shareholdings of J.P. Morgan include the interests held by several J.P. Morgan companies, all of which have submitted voting rights notices.

ANALYSTS

In fiscal 2010, around 30 sell-side analysts regularly issued their appraisals of the positioning and performance of the LANXESS Group. This means that LANXESS was tracked by the same high number of analysts as in 2009. Following the economic and financial crisis, one focus of last year's dialogue with analysts was the sustainability of the LANXESS Group's recovery, which is rooted in the main global megatrends of mobility, urbanization, agriculture and water. The need for an ongoing exchange concerning LANXESS's strategy to achieve its new growth targets became increasingly important following the Capital Markets Day 2010 (see also page 54). On the whole, the analysts again evaluated the LANXESS Group positively for the most part in 2010. 59 percent (2009: 62 percent) issued a buy recommendation on LANXESS shares, 31 percent (2009: 28 percent) said to hold our shares, while 10 percent (2009: 10 percent) gave a sell recommendation.

Summaries of analyst opinions from an independent service provider are available in the Investor Relations section of our website A under the Shares menu item.

ANNUAL STOCKHOLDERS' MEETING

With 61.09 percent of the voting capital present (2009: 60.94 percent), corresponding to 50,827,474 shares and the same number of votes, the number of voting stockholders represented at LANXESS's Annual Stockholders' Meeting on May 28, 2010, surpassed even 2009's record attendance. All the agenda items were passed by solid majorities. Detailed voting results are available to our stockholders on the Internet: http://stockholdersmeeting.lanxess.com.

The next Annual Stockholders' Meeting takes place on May 18, 2011, in the LANXESS arena at Willy-Brandt-Platz 1, 50679 Cologne.

DIVIDEND

In principle, LANXESS follows a consistent dividend policy. For the successful year under review, LANXESS plans a significant 40 percent increase in its dividend compared with 2009, which was marked by the financial and economic crisis. The Board of Management and Supervisory Board of LANXESS AG will propose to the Annual Stockholders' Meeting on May 18, 2011, that a dividend of €0.70 per share be declared for fiscal 2010. Subject to approval of the corresponding resolution by the Annual Stockholders' Meeting, the dividend will be paid on May 19, 2011.

BONDS

LANXESS has successfully issued three bonds so far. The first Euro Benchmark Bond was placed on the European capital market in fiscal 2005; two others were placed in 2009.

The first LANXESS bond with a volume of €400 million runs from June 2005 to June 21, 2012, and has an annual interest coupon of 4.125 percent.

A http://corporate.lanxess.com/en/investor-relations/

In April 2009, the company issued a bond with a volume of €500 million and a term of five years, maturing on April 9, 2014. The annual interest coupon is 7.75 percent. The third bond was issued in September 2009. With a volume of €200 million, this bond has a term of seven years and features a 5.5 percent interest coupon. The 2009 bonds were issued under LANXESS's Debt Issuance Program.

The issuance of these bonds enabled LANXESS to greatly improve its financial flexibility and successfully extend the maturity profile of its financial liabilities to 2016.

All of LANXESS's bonds are listed on the Luxembourg Stock Exchange. The term sheets are available in the Investor Relations section of our website under the Bond menu item. Further information about LANXESS bonds can be found on page 77.

RATINGS

The world's major rating agencies, Standard & Poor's, Moody's Investors Service and Fitch Ratings, reconfirmed their existing investment-grade ratings with stable outlook for LANXESS in fiscal 2010.

In their 2010 rating confirmations, the agencies highlighted the fact that LANXESS had mastered the challenges of the crisis very well thanks to its swift implementation of an extensive set of measures. They saw LANXESS organizationally and operationally well-positioned on the global markets to benefit from the economic recovery. They also noted the company's strong liquidity. In their confirmations, the rating agencies therefore assumed that LANXESS would deliver a very solid operating performance in 2010.

Standard & Poor's and Moody's have had LANXESS at a "BBB" and a "Baa2" rating, both with stable outlook, since 2007. Fitch has rated LANXESS a "BBB" with stable outlook since 2006.

INVESTOR RELATIONS ACTIVITIES

LANXESS continued its extensive range of investor relations activities in fiscal 2010. While the global economic and financial crisis still dominated investor communications in 2009, the focus in 2010 increasingly shifted to a broad and continuous dialogue with capital market participants about LANXESS's growth prospects and targets. The declared objective was to use various investor relations tools to further strengthen the intensive and proactive dialogue with investors and analysts and to sustain their confidence in the LANXESS Group.

High roadshow frequency maintained During fiscal 2010, LANXESS continued to use roadshows as the central tool for its intensive personal contacts with institutional investors. With roadshows involving the Investor Relations team and Board of Management held on approximately 70 days, their frequency matched the previous year's high level. LANXESS's roadshows were spread continuously throughout the year and were not confined to the world's major financial centers, but also stopped regularly in cities such as Amsterdam, Brussels, Copenhagen, Edinburgh, Lisbon, Madrid, Milan, Oslo, Singapore and Vienna. Alongside our intensive dialogue with institutional investors, we also strengthened communication with private investors.

Major conferences used as a forum In 2010, capital market conferences remained an important forum for providing information to analysts, investors and the media. LANXESS's Board of Management and Investor Relations team used major international conferences as a platform for communicating the company's performance in 2010 and the important strategic measures being taken to ensure its future growth. In addition to established capital market conferences held particularly in Frankfurt, London and New York, conferences organized by banks and renowned economic institutes and associations outside these major financial centers also provided key opportunities for exchanging views. For example, LANXESS's Investor Relations team gave presentations at conferences for private investors in Düsseldorf, Essen and Leipzig for the first time in 2010. The company will continue to seek a closer dialogue with private investors at such events again this year.

New targets communicated at LANXESS Capital Markets and Media Day The focus of LANXESS's conference for the media and capital markets held in Düsseldorf in September 2010 was on communicating the company's new targets for 2015. LANXESS's Board of Management presented detailed information to some 80 investors, analysts and bank representatives and 100 journalists about the company's new financial targets and the strategic alignment necessary for achieving the planned growth (see page 11 in the section on Strategy). In addition to the presentations made by members of the Board of Management, the heads of various LANXESS business units provided an extensive insight into the current and future development prospects of their businesses and their contribution to the company's growth.

These presentations and detailed information about LANXESS's growth strategy are available in the Investor Relations section of our website under "Events & Presentations."

Additional measures to promote exchange of information Alongside roadshows and face-to-face events, LANXESS uses regular conference calls as a means of maintaining a comprehensive exchange of information with capital market participants. In these calls, LANXESS's Board of Management explains newly released results or provides information about key strategic events, such as acquisitions. All conference calls are streamed live in the Investor Relations section of LANXESS's website, and recorded versions are available for download for one year.

The presentations from roadshows and major conferences are also made available in the Investor Relations section of the website on the date of the respective event. In addition, the Investor Relations pages of our website consolidate all investor relations publications, including investor news, LANXESS financial reports, voting rights notices and corporate governance disclosures, thus serving as a comprehensive source of information for all interested capital market participants.

LANXESS recognized for its capital market communications LANXESS's capital market communications again received top marks in outside rankings in 2010. The portfolio managers and analysts polled lauded the transparency and credibility of the company's communications as well as its active and continuous exchange of information with investor relations target groups. LANXESS CFO Matthias Zachert took first place in two of the world's most prestigious annual rankings in 2010. U.S. magazine Institutional Investor and the London-based Thomson Reuters Extel Survey, in cooperation with German business magazine "Wirtschaftswoche," both named Matthias Zachert best CFO in the European chemical industry. Some 2,000 investors and analysts were surveyed in the Institutional Investor ranking. The Thomson Reuters Extel Survey reflected the views of more than 10,000 investors and analysts.

In the Institutional Investor survey, sell-side analysts judged LANXESS's Investor Relations team to be the best in the European chemical industry. In the ranking of all sectors of German industry, the LANXESS team achieved second place, and in the Thomson Reuters Extel Survey it came second among all MDAX companies.

LANXESS's investor relations activities also ranked highest among MDAX companies for the first time in last year's Capital Investor Relations Prize survey. Some 400 fund managers and analysts evaluated the capital market communications of listed European companies. In addition to being the top-ranked IR team in the MDAX, LANXESS received the second highest point total of any company in the survey, regardless of index. IR Magazine in the U.K. honored LANXESS as having the best investor relations team among German companies.

These awards are a testament to the priority LANXESS gives to transparent, regular and timely communications with the capital market community. It is the declared objective of the Investor Relations team to sustainably and consistently pursue its intensive dialogue with the capital market community this year too.

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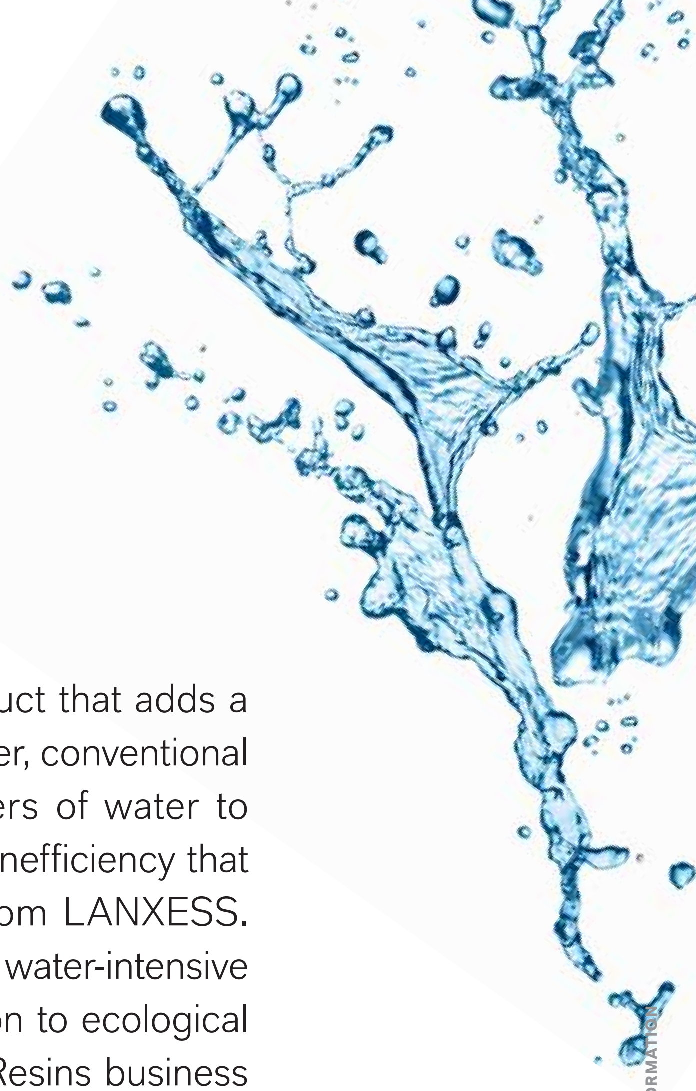
FINANCIAL INFORMATION

Improving efficiency



SAVING WATER Leather is a premium product that adds a touch of exclusivity to many areas of life. However, conventional manufacturing processes use up to 230 liters of water to produce just one square meter of leather – an inefficiency that can be overcome with intelligent solutions from LANXESS. Reusing the process water several times in the water-intensive tanning process makes a significant contribution to ecological performance. Our Leather and Ion Exchange Resins business units supply the products for achieving this. They have a minimal impact on water quality and can later be easily removed by filtration.

FINANCIAL INFORMATION

GROUP MANAGEMENT REPORT

LANXESS – GROUP STRUCTURE, BUSINESS AND STRATEGY

Group structure

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

The following are the principal companies wholly owned by LANXESS AG either directly or indirectly:

Principal Direct or Indirect Subsidiaries of LANXESS AG

Company Name and Headquarters	Function	Segments
LANXESS Deutschland GmbH, Leverkusen, Germany	Production and sales	All
LANXESS Butyl Pte. Ltd., Singapore	Production and sales	Performance Polymers
LANXESS Corporation, Pittsburgh, U.S.A.	Production and sales	All
LANXESS Elastomères, Lillebonne, France	Production and sales	Performance Polymers
LANXESS Elastômeros do Brasil S.A., Rio de Janeiro, Brazil	Production and sales	Performance Polymers
LANXESS Holding Hispania, S.L., Barcelona, Spain	Holding company	All
LANXESS Inc., Sarnia, Canada	Production and sales	Performance Polymers
LANXESS International SA, Granges-Paccot, Switzerland	Sales	All
LANXESS N.V., Antwerp, Belgium	Production and sales	Performance Polymers, Performance Chemicals
LANXESS Rubber N.V., Zwijndrecht, Belgium	Production and sales	Performance Polymers
Rhein Chemie Rheinau GmbH, Mannheim, Germany	Production and sales	Performance Chemicals
Saltigo GmbH, Leverkusen, Germany	Production and sales	Advanced Intermediates

Key additions to the Group portfolio In December 2010, we reached agreement with Royal DSM N.V. of the Netherlands to acquire its subsidiary DSM Elastomers. Assigned to the Performance Polymers segment, the acquisition strengthens the position of the Technical Rubber Products business unit in the steadily expanding EPDM synthetic rubber business. The transaction requires approval by the antitrust authorities and closing is expected in early 2011.

In May 2010, LANXESS and Taiwan-based TSRC Corporation established an equal joint venture in China named LANXESS-TSRC (Nantong) Chemical Industrial Company Ltd. Together with our partner in Taiwan, we are investing in a new technical rubber (NBR, or nitrile rubber) manufacturing plant in Nantong, China, northwest of Shanghai. The plant will supply the rapidly growing Chinese market with high-performance NBR grades and further strengthen the position of our Performance Polymers segment.

In the first half of 2010, LANXESS also invested in U.S. biofuel and biochemical manufacturer Gevo Inc. based in Englewood, Colorado, as part of a cooperation to produce isobutene from renewable resources. The companies aim to find an alternative route to source isobutene, a key raw material for the manufacture of butyl rubber.

Additions were made to the product portfolio of the Rubber Chemicals business unit in the Performance Chemicals segment with the acquisition in November 2010 of primary accelerator product lines and an anti-reversion agent from Flexsys, a subsidiary of U.S. company Solutia Inc. The primary accelerator activities acquired will be integrated into the production facilities in Kallo, Belgium, and Bushy Park, South Carolina, United States.

Management and control organization LANXESS AG has a dual management structure consisting of the Board of Management, which manages the company, and the Supervisory Board, which monitors the Board of Management with the assistance of an Audit Committee to advise on financial matters. The Board of Management shapes Group strategy and manages its resources, infrastructure and organization. As the Group management company, LANXESS AG is responsible for the allocation of resources, financing and communication with the company's key stakeholders.

For additional information, please see the Corporate Governance section of this Annual Report.

Compensation system and long-term incentive programs Compensation for the members of the Board of Management and Supervisory Board comprises both fixed and variable components. The Board of Management, selected subordinate management levels and certain other employee groups are entitled to participate in long-term, stock-based incentive programs.

Further details are given in the Compensation Report, which forms part of this Management Report.

Business

Business organization The LANXESS Group is structured in three segments with 13 business units, each of which conducts its own operations and has global profit responsibility. Group functions and service companies assigned to them support the business units by providing financial, legal, technical and other centralized services. Complementing this global alignment of the business units and group functions, the country organizations ensure the necessary proximity to markets and provide the organizational infrastructure required.

No material changes to the legal or organizational structures described above are planned in fiscal 2011.

The segments in brief Our three segments comprise a total of 13 business units.

Synthetic rubber and high-tech plastics manufacturing activities are combined in the **Performance Polymers** segment.

Performance Polymers

Business units	Butyl Rubber
	Performance Butadiene Rubbers
	Technical Rubber Products
	Semi-Crystalline Products
Sites	Dormagen, Krefeld-Uerdingen, Leverkusen, Hamm-Uentrop and Marl, Germany
	Antwerp and Zwijndrecht, Belgium
	La Wantzenau and Port Jérôme, France
	Sarnia, Canada
	Orange, U.S.A.
	Cabo, Duque de Caxias and Triunfo, Brazil
	Wuxi, China
Applications	Tires
	Automotive
	Electronics
	Electrical engineering
	Medical equipment

The business activities that LANXESS combines in its **Advanced Intermediates** segment make it one of the world's leading suppliers of basic and fine chemicals.

Advanced Intermediates

Business units	Basic Chemicals
	Saltigo
Sites	Dormagen, Krefeld-Uerdingen, Leverkusen and Brunsbüttel, Germany
	Baytown, U.S.A.
	Liyang, China
	Nagda, India
Applications	Agrochemicals
	Automotive
	Construction
	Dyestuffs
	Coatings
	Pharmaceuticals

The **Performance Chemicals** segment embraces the Group's application-oriented specialty chemicals operations.

Performance Chemicals

Business units	Material Protection Products
	Inorganic Pigments
	Functional Chemicals
	Leather
	Rhein Chemie
	Rubber Chemicals
	Ion Exchange Resins
Sites	Bitterfeld, Brunsbüttel, Dormagen, Krefeld-Uerdingen, Leverkusen and Mannheim, Germany
	Antwerp, Belgium
	Filago, Italy
	Vilassar de Mar, Spain
	Branston, United Kingdom
	Isithebe, Merebank, Newcastle and Rustenburg, South Africa
	Burgettstown, Bushy Park and Chardon, U.S.A.
	Zárate, Argentina
	Porto Feliz, Brazil
	Qingdao, Tongling, Shanghai and Wuxi, China
	Madurai and Jhagadia, India
	Toyohashi, Japan
	Sydney, Australia
Applications	Disinfection
	Wood preservatives
	Food and beverages
	Construction
	Colorants
	Leather
	Automotive
	Water treatment

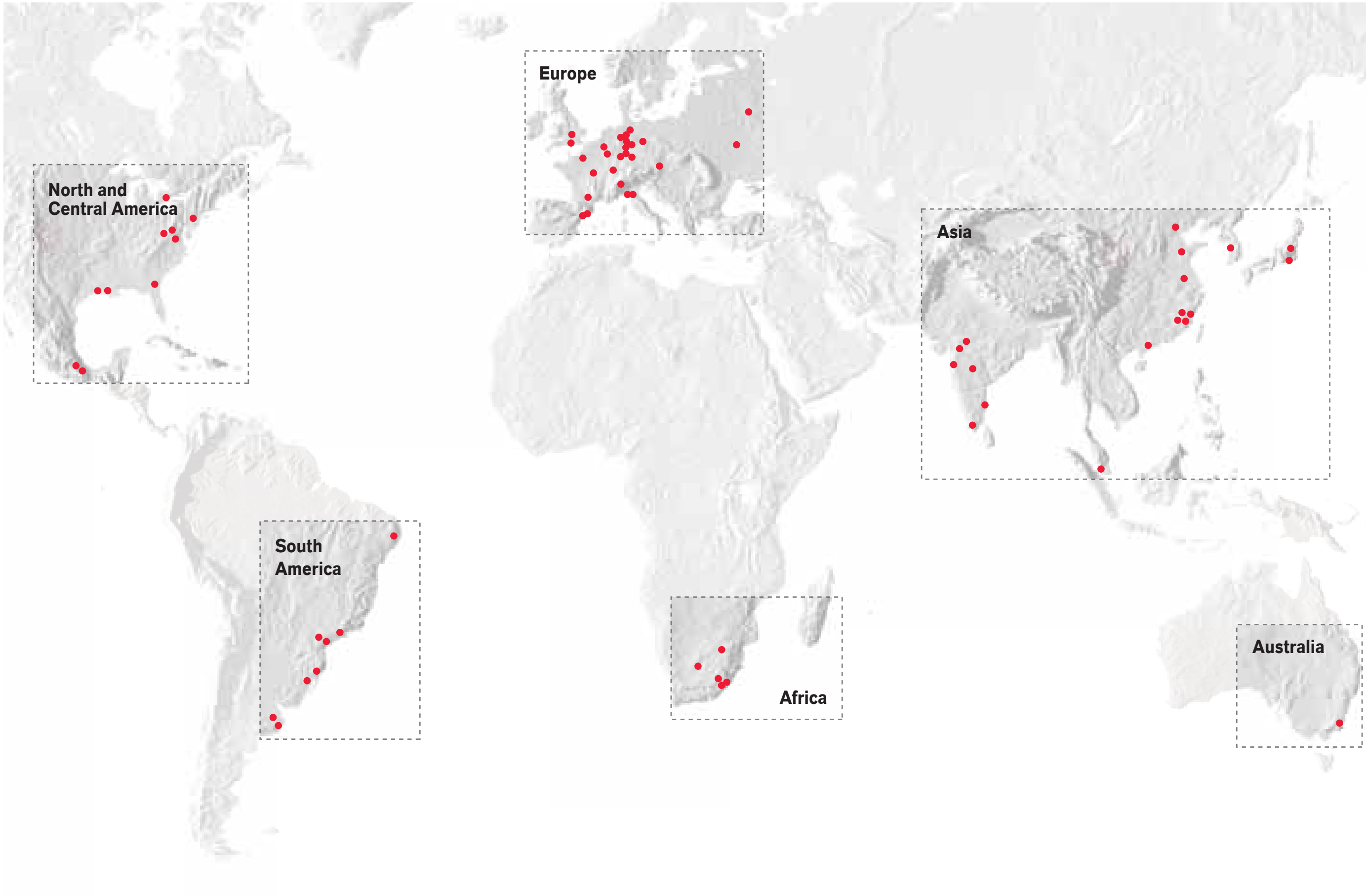
Strategy

The LANXESS Group is a globally operating chemicals enterprise with a portfolio ranging from polymers to basic, specialty and fine chemicals. All of the conditions are in place for long-term success in our core businesses.

These include a flexible asset structure, a diversified customer base, a global presence with regional flexibility and an entrepreneurial management structure.

We see ourselves as a reliable premium supplier of high-quality products that actively supports its customers' innovation processes and adds measurable value. This enables us to strengthen customer loyalty, set ourselves apart from the competition and remain highly competitive even in weaker phases of the economic cycle.

LANXESS has a Presence Throughout the World



Sustained megatrends offer potential for future success The future development we anticipate is shaped by four sustained megatrends:

- The increasing demand for mobility, particularly in China, India and other large emerging markets, and the simultaneous need to make mobility more environmentally friendly.
- The sharp increase in global food requirements due to a rapidly growing world population.
- Urbanization resulting in the migration of people from rural areas to cities. According to current forecasts, the number of city-dwellers will jump by 40% in the next ten years. All these people will need living space, offices and a robust infrastructure.
- The rising demand for water due to population growth and climate change will result in water becoming a commodity as valuable as oil in the not-too-distant future.

With the customized products and services offered by their business units, our segments make a valuable social and economic contribution to mastering the challenges presented by these megatrends in everyday life.

Earnings strategy Against this backdrop, we are consistently aligning our product portfolio with markets that promise steady, above-average growth in the coming years. With this in mind, our regional focus is mainly on expanding our businesses and production capacities in the booming BRIC countries, especially Brazil, India and China.

Our primary mid-term corporate goal is to increase EBITDA pre exceptionals to approximately €1.4 billion in 2015. The investment projects already underway are expected to make a sustained contribution of around €300 million to EBITDA pre exceptionals (see "Opportunity Report"). We expect to generate the remaining amount from organic growth as well as from targeted acquisitions. Our focus will be on organic growth.

Financing strategy A conservative, sustainability-based financing policy prepares the ground for dynamic business activity. The cornerstones of this policy are accessing international financial markets and securing long-term financial flexibility.

The primary objective in respect of capital requirements and capital coverage is reconciling competing requirements for profitability, liquidity, security and autonomy. For the most part, the target capital structure and debt level are based on the ratio systems used by the leading rating agencies for investment-grade companies.

We assign great importance to enabling our company to grow both as a result of its business operations and by means of specific financing measures. Our goal is to generate positive cash flow along with a positive contribution to earnings.

VALUE MANAGEMENT AND CONTROL SYSTEM

Value Management and Control System

		2006	2007	2008	2009	2010
EBITDA pre exceptionals	€ million	675	719	722	465	918
EBITDA margin pre exceptionals	%	9.7	10.9	11.0	9.2	12.9
Capital employed	€ million	2,640	2,660	2,989	3,475	3,750
ROCE	%	15.9	17.7	15.4	5.9	17.0
Days of sales in inventories (DSI)	Days	56.1	54.5	66.9	55.1	53.7
Days of sales outstanding (DSO)	Days	49.5	49.3	44.6	47.0	46.3
Net financial liabilities	€ million	511	460	864	794	913
Net debt ratio		0.8x	0.6x	1.2x	1.7x	1.0x
Investment ratio	%	3.8	4.3	5.4	6.8	7.4

To achieve its strategic goals, the LANXESS Group needs specific controlling parameters against which it can measure the success of its efforts. Such assessments are founded on a reliable, readily understandable financial and controlling information system. LANXESS is constantly working to further improve the information provided by the Accounting and Controlling group functions through consistent reporting of budget, forecast and actual data.

Financial performance The key controlling parameter for the LANXESS Group and the individual segments at present is EBITDA (earnings before interest, income taxes, depreciation and amortization) pre exceptionals. It is calculated from EBIT by adding back operational depreciation and amortization and any exceptional items. Every operational decision or achievement is judged by its sustainable impact on EBITDA.

Profitability Return on capital employed (ROCE) has been implemented as a controlling parameter at Group level. ROCE is a profitability ratio that indicates how efficiently we utilize our capital. This makes it an important criterion in investment decisions, for example. All new investment projects must exceed the Group's ROCE. ROCE is the ratio of EBIT pre exceptionals to capital employed. Capital employed can be derived from the data in the statement of financial position; it is defined as total assets less deferred tax assets and interest-free liabilities. Interest-free liabilities comprise provisions (except those for pensions), tax liabilities, trade payables, and material items included under "other liabilities." In addition, we use a simplified variant of ROCE, called "business ROCE," for planning and management of our business units.

EVA (economic value added) is also used as a parameter for value management in strategic planning and determining the long-term alignment of the business units.

Cost of capital Borrowing costs are calculated from risk-free interest, i.e., in LANXESS's case, from the return on a long-term German government bond plus a risk premium for industrial companies in the same risk category as LANXESS. The cost of equity reflects the return expected by investors from an investment in LANXESS shares. Equity investors demand a risk premium due to the greater risk involved in acquiring shares than in buying risk-free government bonds. This is known as a "market risk premium" and is calculated using the long-term excess return generated by a stock investment over an investment in risk-free government bonds and adjusted by the "beta factor" denoting the relative risk of an investment in LANXESS stock compared with that of the market as a whole.

At 17%, ROCE in 2010 was above our weighted average cost of capital (WACC), which was adjusted for comparability. After tax, the WACC amounted to 8.4% as of December 31, 2010. The net debt ratio dropped from 1.7 in the previous year to 1.0 as of December 31, 2010 as a result of the increase in earnings in 2010.

Capital employment To control working capital, we use two key performance indicators: DSI (days of sales in inventories) and DSO (days of sales outstanding). These represent inventories and receivables, respectively, in relation to sales. Another important performance indicator is business free cash flow, which indicates the business units' direct contributions to cash generation. It is calculated for the operating units by a simplified cash flow method.

Expenditures for property, plant and equipment are subject to rigorous capital discipline and are aligned systematically with those product areas with the greatest potential for success. Investment projects are prioritized on the basis of financial indicators such as the pay-off period, net present value and ROCE.

Debt The net debt ratio, which we use solely at Group level, is defined as net financial liabilities divided by EBITDA pre exceptionals. Net financial liabilities are the total of current and non-current financial liabilities, less cash, cash equivalents and near-cash assets. The financial liabilities reflected in the statement of financial position are adjusted here for liabilities for accrued interest.

Net Financial Liabilities

€ million	2006	2007	2008	2009	2010
Non-current financial liabilities	632	601	959[1]	1,462	1,302
Current financial liabilities	62	59	168	94	176
Less					
Liabilities for accrued interest	(12)	(11)	(14)	(47)	(41)
Cash and cash equivalents	(171)	(189)	(249)	(313)	(160)
Near-cash assets	0	0	0	(402)	(364)
	511	**460**	**864**	**794**	**913**

1) After deduction of €27 million in specific exchange hedging of financial liabilities

LEGAL ENVIRONMENT

There were no changes overall in the legal environment in 2010 that had any material impact on the cash flows, financial condition or results of operations of the LANXESS Group.

BUSINESS CONDITIONS

The economic environment In 2010, the global economy continued the recovery started in late 2009 and grew by 3.9%. However, the pace of growth flattened later in the year after a strong initial six months. Government stimulus packages contributed significantly to the economic recovery, but at the same time sharply increased the debt levels of the respective economies. The financial markets reacted to this development with considerable uncertainty, and highly indebted countries could only refinance debt at much higher interest rates. Exchange rates also fluctuated widely.

On the whole, the economic recovery was more robust than we had forecast a year ago. However, the very mixed performance we anticipated in the various regions did occur. For instance, the emerging markets continued the rapid expansion seen in 2009, whereas the pace of recovery from the crisis varied in the industrialized countries. Brazil (7.5%), China (9.9%) and India (8.5%) posted high growth rates, as did other Asian economies. In contrast, the recovery of the established economies presented a very inconsistent picture. Some economies in the European Union exhibited marked weaknesses, while Germany's performance was gratifying without fully offsetting the sharp drop in economic output caused by the crisis.

The upturn in the global economy was also reflected in the global capital markets. The Dow Jones and the FTSE 100 Index gained 11% and 10% year on year, respectively, while the DAX added around 16%. Only Japan's Nikkei declined by 3%. Central banks worldwide continued to pursue their low-interest policy to shore up the economic recovery. In this environment, LANXESS's market capitalization increased considerably, with the price of LANXESS shares rising by 124.4% over the course of the year.

The exchange rate between the euro and the U.S. dollar was again very volatile during 2010. The value of the U.S. dollar surged against the euro up to the middle of the year due to the massive debt problems of some European countries. In the second half, the euro recovered substantially, but the pace of this improvement slowed by year end. At the close of 2010, the euro was worth US$1.34, which represented an increase in the value of the U.S. currency of approximately 7% in 2010. Its average price for the year was US$1.33. Due to the positioning of our business, a stronger U.S. dollar generally has a positive effect on LANXESS's earnings. In the LANXESS Group, centralized hedging activities limit any impact that cannot be neutralized by ensuring that production and sales take place in the same currency area.

Against the backdrop of the global economy's positive showing, raw material prices continued the upward trend begun in 2009 in the reporting period. As a purchaser primarily of petrochemical raw materials, particularly butadiene, LANXESS is impacted by this trend, as it leads to higher production costs.

The chemical industry The global economic upturn also led to stronger demand for chemicals and correspondingly brisker trade in 2010. A temporary, but not significant, increase in demand came from customers replenishing inventories that had been drastically depleted during the crisis. Production in the chemical industry expanded by 8.5% in 2010. This growth is therefore well over the 4.5% we forecast, reflecting our more cautious assessment of economic performance and the development of our key customer markets at the beginning of the year.

In the industrialized countries, the recovery that emerged in late 2009 continued, although here also the pace of growth slowed toward the end of 2010, mirroring the general economic trend. Production in Europe expanded by a considerable 10.8%, with Germany in particular displaying very robust growth of 17.2%. In contrast, the United States reported below-average growth of 4.8%. The rapid growth in the emerging markets was unchanged compared to the prior year. China (+12.5%), India (+10.1%) and Brazil (+8.5%) remained the drivers of this growth.

GDP and Chemical Production in 2010

Change vs. prior year in real terms (%) (projected)	Gross domestic product	Chemical production
Americas	3.4	5.3
NAFTA	3.0	4.8
Latin America	6.1	7.2
EMEA	2.4	10.8
Germany	3.6	17.2
Western Europe	1.8	10.3
Central and Eastern Europe	3.3	14.5
Asia-Pacific	6.8	11.0
Japan	4.4	10.6
China	9.9	12.5
India	8.5	10.1
World	**3.9**	**8.5**

Evolution of major user industries **Tire industry** production benefited on the one hand in the original equipment business from the positive performance of the automotive industry. On the other hand, it was boosted by the continued high level of demand for replacement and snow tires. Overall, the tire industry raised output by 14% compared with 2009. The main driver of this growth remained China, where production increased by 18%. Other Asian countries and Brazil also saw production grow by more than 10%. After steep declines in 2009, output in the industrialized countries rose sharply again thanks to the original equipment business and a robust replacement tire market. In North America and Japan, production increased by 14% and 15%, respectively.

At 24%, the recovery in global production in the **automotive industry** proved to be much stronger than we had anticipated. This upturn was chiefly the result of still-high growth rates in the emerging markets China (+31%) and India (+36%). The established industrialized countries of Japan (+20%) and the United States (+38%) also posted healthy growth again following the sharp declines of 2009, although production did not return to pre-crisis levels. As the crisis in European automobile production was cushioned somewhat by vehicle scrappage allowances, the recovery there was not as vigorous as in the other regions. Production in Western Europe was up 11%, but still well behind growth in Eastern Europe (+22%) and Russia (+84%), where vehicle scrappage allowances were also used to stimulate the auto industry and, due to the steep drop in 2009, the baseline figure was correspondingly low.

The production of chemicals for the **agricultural industry** increased significantly over the course of the year against the backdrop of rising prices for agricultural products caused by the growth in demand for biofuels and the increasing demand for basic foodstuffs. The total market grew by 8%, with production in China expanding by 9% and in India by 6%.

In 2010, the **construction industry** posted slight growth of 0.3% buoyed by public-sector projects. However, this growth was powered almost exclusively by the emerging markets of Asia, especially China (+9.8%) and India (+8.9%), and Latin America (Brazil +12.9%). The public sector was the largest contributor to growth in 2010.

Evolution of Major User Industries in 2010

Change vs. prior year in real terms (%) (projected)	Tires	Automotive	Agrochemicals	Construction
Americas	13.1	30.4	7.6	(2.4)
NAFTA	14.1	37.8	6.6	(4.1)
Latin America	10.4	13.4	8.9	6.8
EMEA	9.2	13.8	8.3	(1.6)
Germany	4.7	13.0	17.3	1.4
Western Europe	3.0	11.1	8.3	(2.2)
Central and Eastern Europe	18.0	21.5	12.5	(4.3)
Asia-Pacific	17.2	28.1	8.3	4.4
World	**14.2**	**24.2**	**8.1**	**0.3**

KEY EVENTS INFLUENCING THE COMPANY'S BUSINESS

The main stimulus to business performance in 2010 stemmed from the significant recovery of the global economy, particularly in Latin America and Asia.

The chief drivers of this trend were the automotive and tire industries, which primarily benefited the Performance Polymers segment. The development of the construction and chemical industries proved to be robust in Asia, whereas the picture in Europe was marked by differing trends.

Due to the tangible increase in automotive production, particularly in China, demand for both original equipment and replacement tires grew. This in turn led to correspondingly strong demand for our high-performance rubber and also buoyed the business performance of the Performance Chemicals and Advanced Intermediates segments.

The businesses acquired in 2009 from Gwalior in India and Jiangsu Polyols in China were successfully integrated into LANXESS and contributed to our good performance.

The sharp rise in raw material prices observed during the course of the year did not have a sustained impact on our business due to the systematic implementation of our price-before-volume strategy.

COMPARISON OF FORECAST AND ACTUAL BUSINESS

Comparison of Forecast and Actual Business

	Forecast 2010	Actual 2010
Key conditions		
Gross domestic product, world	+2.5%	+3.9%
Gross domestic product, China	+8.9%	+9.9%
Gross domestic product, India	+7.2%	+8.5%
Growth of chemical industry	+4.5%	+8.5%
Tire industry	+5.0%	+14.2%
Automotive industry	+2.0%	+24.2%
Agrochemicals	+4.0%	+8.1%
Raw material prices	Increasing	+25.4%
Research and development		
R&D budget	+10%	+14.9%
Earnings: segments		
Performance Polymers	Increasing demand	Sales +58%, 29% from volume
Advanced Intermediates	Benefiting from recovery	Sales +20%, 9% from volume
Performance Chemicals	Increasing demand	Sales +29%, 23% from volume
Earnings: Group		
EBITDA pre exceptionals	Significantly improved	+97.4%
Seasonality of sales	1st half > 2nd half	€3.4 billion < €3.7 billion
Financial condition: Group		
Cash outflows for capital expenditures	approx. €450–470 million[1)]	€501 million

1) Based on reporting for first 9 months of 2010

Against the backdrop of its alignment and positioning in the past, the LANXESS Group expected at the end of fiscal 2009 that demand would rise and earnings would improve considerably compared with 2009, which was dominated by the global economic crisis.

As predicted at that time, no fundamental changes were made to the Group's strategy or to its legal and organizational structure in fiscal 2010.

Key industries, particularly the tire and automotive sectors, very solidly outperformed the growth rates we forecast, preparing the ground for the increase in demand in the segments.

The improvement in demand in 2010 is clearly reflected in the earnings of the segments, and especially in the strong volume effect on sales, which indicates that demand has normalized at or around pre-crisis levels. This development was driven primarily by the expected recovery in the emerging markets, including China and India, whose economies rebounded to a greater extent than was anticipated.

The Group's results of operations improved substantially as forecast, although the seasonality expected in sales did not occur due to unusually strong demand from the LANXESS Group's customer markets in the second half of the year. Moreover, rising raw material prices over the course of the year led to an increase in sales in the second half due to a corresponding adjustment of selling prices.

As generally expected, the price of the raw materials used by the Group increased by around 25% overall. In line with the price-before-volume strategy, this price increase was passed on to the market and did not have any material effects on the Group's results of operations.

In view of the importance of research and development, the cost of this function rose by 14.9% year on year and therefore exceeded the forecast increase.

The global Challenge09-12 package of measures implemented in 2009 and aimed at cutting costs and boosting efficiency produced the desired effect in all functions in the first half of 2010. This was due to flexible production asset management and the fact that all LANXESS employees contributed to the savings by foregoing some of their compensation. In view of the sustained positive business performance in the second half of the year, the measures were gradually suspended. As a result, we did not achieve the full cost savings originally planned for 2010.

In the year under review, the cash outflow for capital expenditures totaled €501 million, around €30 million more than the figure forecast during the course of the year. This was mainly due to faster progress in constructing our new butyl rubber plant in Singapore.

Because of the solid financial position secured already in 2009 and the high level of liquidity, there was, as announced, no need for substantial refinancing in 2010.

BUSINESS PERFORMANCE OF THE LANXESS GROUP

- Sales up 40.8% in fiscal 2010 largely due to significant price-volume effect
- Increased demand in customer industries
- Latin America posts strongest sales development
- EBITDA pre exceptionals nearly doubled to €918 million
- EBITDA margin pre exceptionals of 12.9% tops pre-crisis level
- Net income of €379 million, up from €40 million in previous year
- Earnings per share of €4.56, up from €0.48
- Solid statement of financial position and financing structure
- Increase in working capital due to current and expected business performance
- Net financial debt up moderately to €913 million despite extensive investment programs

Key Financial Data

€ million	2009	2010	Change in %
Sales	5,057	7,120	40.8
Gross profit	1,101	1,739	57.9
EBITDA pre exceptionals	465	918	97.4
EBITDA margin pre exceptionals	9.2%	12.9%	–
EBITDA	422	890	> 100
Operating result (EBIT) pre exceptionals	204	635	> 100
Operating result (EBIT)	149	607	> 100
EBIT margin	2.9%	8.5%	–
Financial result	(117)	(114)	2.6
Income before income taxes	32	493	> 100
Net income	40	379	> 100
Earnings per share (€)	0.48	4.56	> 100

Sales and earnings Fiscal 2010 was characterized by robust demand in all of the LANXESS Group's customer markets. Sales rose significantly by 40.8% from €5,057 million in the prior year to €7,120 million. Positive portfolio and exchange rate effects – the latter relating especially to the U.S. dollar – came to 5.2% and operational sales improved by 35.6%. Sales volumes expanded in all segments with figures in the final quarter reflecting the high level seen throughout the year. Due to higher raw material prices, selling prices also exceeded those of the previous year in all segments, particularly in the Performance Polymers segment. Sales contributed by the businesses acquired in India and China in fiscal 2009 generated a positive portfolio effect of 1.0%.

Effects on Sales

Approximate data in %	2010
Price	13.2
Volume	22.4
Currency	4.2
Portfolio	1.0
	40.8

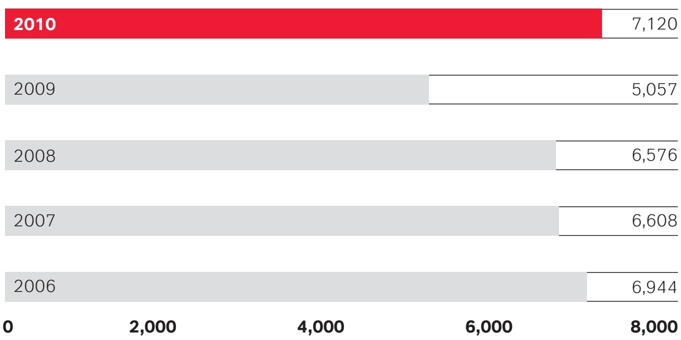
The Performance Polymers segment performed very positively throughout the year, expanding sales significantly by 58.4% compared with the previous year, when business was weak due to the economic crisis. The recovery in demand resulted in a strong double-digit percentage increase in volumes. A sharp rise in raw material prices against the prior year led to a correspondingly steep increase in selling prices, although prices for some strategic materials had stabilized by the end of the year. The positive operating performance was further enhanced by favorable currency effects.

Sales by the Advanced Intermediates segment also increased by a substantial 19.7%, mainly on account of volume effects. Increased raw material costs resulted in higher selling prices in this segment as well. Currency effects and the portfolio additions made in India and China in fiscal 2009 also contributed to this positive development.

In the Performance Chemicals segment, the sales trend was equally satisfactory in 2010, with growth of 29.3%. Here, too, the key driver was a significant increase in volumes. Selling prices were raised slightly over the prior year. Exchange rates also had a positive impact.

Group Sales

€ million



LANXESS grew sales significantly in all regions, with positive momentum coming above all from Latin America, where the Performance Polymers segment in particular was a major growth driver and more than doubled its sales. This positive regional performance is representative of the improvement in demand worldwide in nearly all our customer industries in fiscal 2010.

Sales by Segment

€ million	2009	2010	Change in %	Proportion of Group sales in %
Performance Polymers	2,388	3,782	58.4	53.1
Advanced Intermediates	1,104	1,321	19.7	18.6
Performance Chemicals	1,530	1,978	29.3	27.8
Reconciliation	35	39	11.4	0.5
	5,057	**7,120**	**40.8**	**100.0**

Order book status Most of the LANXESS Group's business is not subject to long-term agreements on fixed volumes and prices. Instead, our business is characterized by long-standing relationships with customers and revolving master agreements.

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

Gross profit The cost of sales did not rise as steeply as sales, increasing by 36.0% over the prior year to €5,381 million. As a result, our gross profit margin improved considerably, from 21.8% to 24.4%. The prices for strategic raw materials – especially butadiene, cyclohexane and isobutylene – climbed substantially year on year, although the price of butadiene stabilized in the fourth quarter. Group-wide, the higher prices were passed on in full to the market so our price-before-volume strategy remained intact. Earnings were also impacted positively by consistently strong demand from customer industries throughout the year and the resulting volume growth, particularly in Performance Polymers and Performance Chemicals. At approximately 85%, capacity utilization was well above the prior-year figure of around 70%, which was low due to the economic crisis. Scheduled maintenance shutdowns meant that capacity utilization in the fourth quarter fell slightly below the level for the year as a whole. Idle capacity costs were substantially down from the previous year. The optimization of production cost structures over several years was accretive to earnings. While gross profit was improved by positive currency changes, other operating expenses included losses from hedging transactions.

EBITDA and operating result (EBIT) Selling expenses rose by €116 million to €646 million in fiscal 2010, mainly due to higher freight charges as a consequence of the increase in volumes. However, the ratio of selling expenses to sales receded from 10.5% to 9.1%.

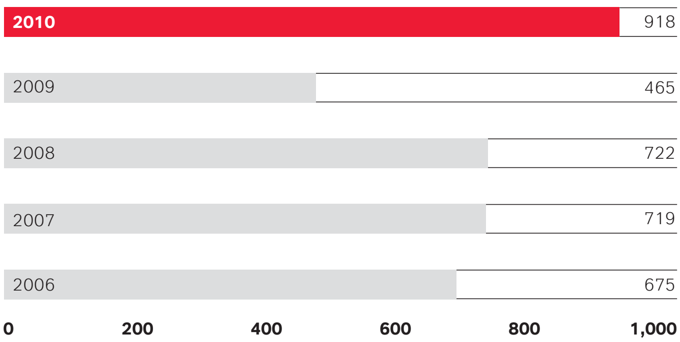
By contrast, research and development costs increased by 14.9% to €116 million, underscoring the planned expansion of research activities as part of the LANXESS Technology Initiative. On account of the disproportionately high increase in sales, the ratio of research and development costs to sales was just 1.6% after 2.0% the previous year. The number of employees in R&D was 519 as of December 31, 2010, up from 489 on December 31, 2009.

General administrative expenses climbed from €235 million to €298 million in 2010. Reasons for this included the suspension of the Challenge09-12 package of measures and an increase in employees' variable compensation due to the company's positive performance in 2010. These expenses accounted for 4.2% of sales, down from 4.6% in the previous year.

Other operating expenses, net of other operating income, decreased by €14 million to €72 million. The exceptional charges of €28 million included in this figure, all of which impacted EBITDA, related mainly to various restructuring projects and portfolio measures. In the prior year, exceptional charges amounted to €55 million, €43 million of which affected EBITDA. These were associated primarily with personnel measures in connection with the Challenge09-12 program, as well as restructuring and efficiency enhancement measures at various LANXESS sites.

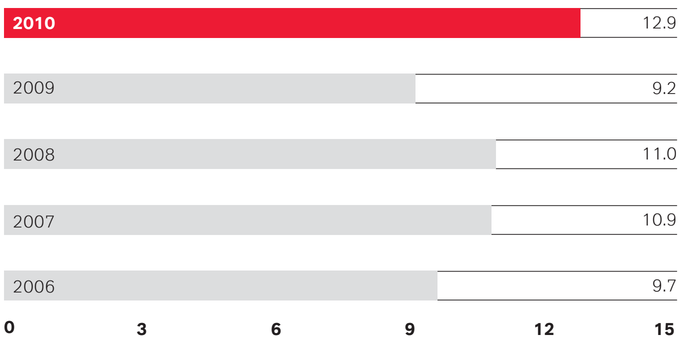
EBITDA pre Exceptionals

€ million



EBITDA Margin Pre Exceptionals

in %



The operating result before depreciation and amortization (EBITDA) pre exceptionals nearly doubled to €918 million in 2010 from €465 million the year before. This earnings hike was driven by an increase in volumes and aided by the fact that the significant raw material cost increases were quickly passed along in selling prices. This trend was supported by tangible positive shifts in currency parities resulting from the fall in the value of the euro compared with the same period of the previous year, as well as by the portfolio effect from the acquisitions made in India and China in 2009. The Group's EBITDA margin pre exceptionals improved by a substantial 3.7 percentage points, from 9.2% to 12.9%.

EBITDA Pre Exceptionals by Segment

€ million	2009	2010	Change in %
Performance Polymers	250	585	> 100
Advanced Intermediates	154	222	44.2
Performance Chemicals	182	281	54.4
Reconciliation	(121)	(170)	(40.5)
	465	**918**	**97.4**

EBITDA pre exceptionals of the Performance Polymers segment more than doubled year on year. Higher raw material costs were passed on in full to the segment's customers. Moreover, the significant increase in volumes had a tangible impact on earnings. Volume effects were also a key factor in the improved earnings of the Advanced Intermediates segment. In addition, higher raw material costs enabled the segment to raise selling prices. The acquisitions successfully concluded in India and China in 2009 made a positive contribution to earnings. EBITDA pre exceptionals of the Performance Chemicals segment was similarly influenced by strong volume growth in all business units. Positive selling price and currency effects were also accretive to earnings. The decline in EBITDA pre exceptionals reported in the reconciliation is attributable to performance-related, one-time payments at the end of the fiscal year, higher expenses for long-term compensation programs and the hedging result.

The operating result (EBIT) improved very substantially from €149 million to €607 million in fiscal 2010.

Reconciliation of EBIT to Net Income

€ million	2009	2010	Change in %
Operating result (EBIT)	**149**	**607**	**> 100**
Income from investments accounted for using the equity method	8	16	100.0
Net interest expense	(73)	(83)	(13.7)
Other financial income and expenses – net	(52)	(47)	9.6
Financial result	**(117)**	**(114)**	**2.6**
Income before income taxes	**32**	**493**	**> 100**
Income taxes	7	(112)	< (100)
Income after income taxes	**39**	**381**	**> 100**
of which:			
attributable to non-controlling interests	(1)	2	> 100
attributable to LANXESS AG stockholders (net income)	40	379	> 100

Financial result The financial result came in at minus €114 million in fiscal 2010, compared with minus €117 million for the prior year. Income from investments accounted for using the equity method contains the interest in the net income of Currenta GmbH & Co. OHG. Net interest expense rose, primarily due to the bonds placed during 2009 to safeguard the Group's long-term liquidity. The interest portion of interest-bearing provisions resulted in lower expenses than in the prior year, mainly because of interest rate adjustments, while the net exchange position worsened against the prior-year period.

Income before income taxes Due to the significant increase in EBIT and the nearly unchanged financial result, income before income taxes jumped €461 million to €493 million.

Income taxes In fiscal 2010, the Group had tax expense of €112 million, compared with tax income of €7 million the year before. The Group's tax rate was 22.7%, after a non-relevant negative tax rate of 21.9% in the previous year. Last year's positive tax effect was largely caused by varying regional contributions to earnings and the calculation of taxes using country-specific tax rates.

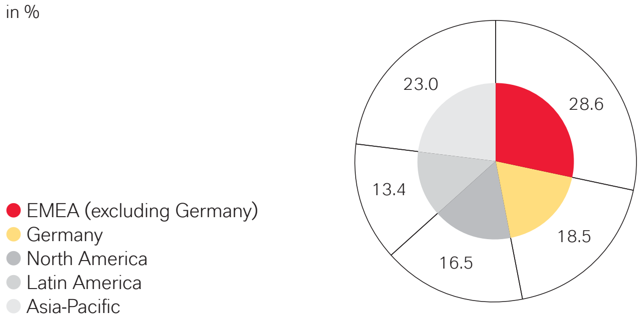
Net income, earnings per share The LANXESS Group's net income increased significantly by €339 million year on year to €379 million. €2 million (2009: minus €1 million) was attributable to non-controlling interests.

With the number of LANXESS shares in circulation unchanged, earnings per share improved substantially year on year, from €0.48 to €4.56 due to the high level of net income.

BUSINESS TRENDS BY REGION

Sales by Region

in %



Sales by Market

	2009		2010		Change
	€ million	in %	€ million	in %	in %
EMEA (excluding Germany)	1,557	30.8	2,038	28.6	30.9
Germany	1,063	21.0	1,320	18.5	24.2
North America	781	15.4	1,174	16.5	50.3
Latin America	515	10.2	955	13.4	85.4
Asia-Pacific	1,141	22.6	1,633	23.0	43.1
	5,057	**100.0**	**7,120**	**100.0**	**40.8**

EMEA (excluding Germany) In the EMEA region (excluding Germany), the LANXESS Group recorded sales of €2,038 million, €481 million or 30.9% more than in 2009. Adjusted for portfolio and currency effects, sales grew by 29.8%. The key driver of this trend was the Performance Polymers segment with a growth rate in the mid double-digit percentage range. A much lower, but also double-digit, growth rate was posted by the Performance Chemicals segment. The Advanced Intermediates segment saw growth in the high single-digit range. In geographical terms, the sales trend was due to the pleasing, double-digit percentage increases in sales in the Middle East and in eastern and western Europe, with the emerging markets expanding most substantially. The countries where growth was particularly gratifying were Russia, Turkey, South Africa, the Netherlands, Italy and France.

The EMEA region (excluding Germany) accounted for 28.6% of Group sales, down 2.2 percentage points on the prior-year level.

Germany In Germany, the LANXESS Group's sales came to €1,320 million in 2010, up €257 million, or 24.2%, over the previous year. Strong double-digit growth rates in the Performance Polymers and Performance Chemicals segments were the chief reason for this substantial increase. Although sales grew more slowly in the Advanced Intermediates segment than in the other two segments, it nonetheless posted an increase in the high single digits.

Germany's share of Group sales fell from 21.0% to 18.5%.

North America In this region, LANXESS generated sales of €1,174 million in 2010 resulting from significant year-on-year growth of €393 million, or 50.3%. After adjustment for currency changes and portfolio effects, sales improved by 43.1%. With a growth rate in excess of 50%, the Performance Polymers segment contributed particularly to this development. Also very positive was the performance of the Performance Chemicals and Advanced Intermediates segments, where business grew by substantial double-digit percentages.

The North American share of Group sales edged up from 15.4% to 16.5%.

Latin America The LANXESS Group posted its largest percentage sales increases for 2010 in Latin America. Sales there jumped by €440 million, or 85.4%, to €955 million. Adjusted for currency and portfolio changes, sales growth was 75.6%. Growth was strongest in Performance Polymers, where sales more than doubled. The other two segments each increased sales by double-digit percentages. With high double-digit growth rates, Brazil contributed particularly to the expansion of sales in Latin America.

Latin America's share of Group sales rose to 13.4% from 10.2% in the previous year.

Asia-Pacific The Asia-Pacific region continued to develop very positively with sales increasing by €492 million, or 43.1%, to €1,633 million in 2010. After adjustment for currency changes and the portfolio effects from the businesses acquired from Gwalior and Jiangsu Polyols, sales were up by 31.9%. Performance in all segments was very solid. In percentage terms, the strongest performer was the Advanced Intermediates segment, where sales growth was just under 50% even after adjustment for portfolio effects. The other segments also generated clear double-digit growth. Positive momentum came from all parts of the region, with China, Japan, India and Korea the main contributors to growth.

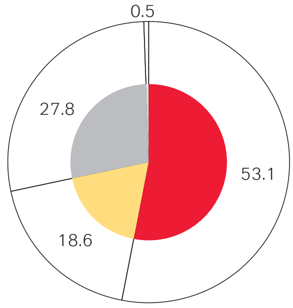
Asia-Pacific's share of Group sales rose slightly year on year, from 22.6% to 23.0%. It was therefore the Group's second-strongest region, ahead of Germany.

SEGMENT INFORMATION

- Performance Polymers: strong market recovery and volume expansion yield profitable growth
- Advanced Intermediates: strong earnings with agricultural business recovering at year end
- Performance Chemicals: volume growth lifts earnings on specialty chemicals

Sales by Segment

in %



- Performance Polymers
- Advanced Intermediates
- Performance Chemicals
- Reconciliation

Performance Polymers

	2009		2010		Change
	€ million	Margin %	€ million	Margin %	in %
Sales	2,388		3,782		58.4
EBITDA pre exceptionals	250	10.5	585	15.5	> 100
EBITDA	242	10.1	586	15.5	> 100
Operating result (EBIT) pre exceptionals	114	4.8	442	11.7	> 100
Operating result (EBIT)	105	4.4	443	11.7	> 100
Cash outflows for capital expenditures[1]	133		302		> 100
Depreciation and amortization	137		143		4.4
Employees as of Dec. 31	4,375		4,393		0.4

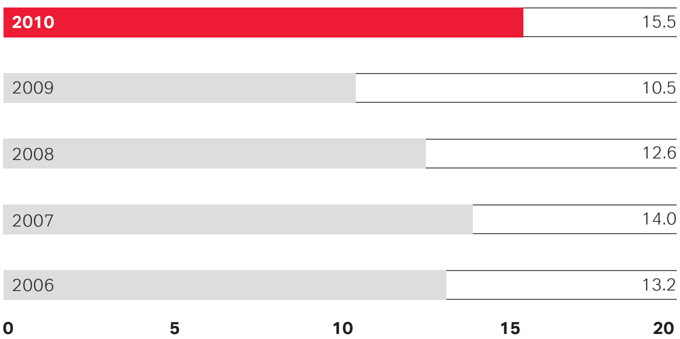
1) Intangible assets and property, plant and equipment

In fiscal 2010, the **Performance Polymers** segment posted an extremely positive performance which was sustained through the final quarter. Compared with the prior year, when business was weak due to the crisis, sales increased by 58.4%. Thanks to strong demand, which improved further in the fourth quarter, volumes grew by 28.5%. A sharp increase in procurement prices for raw materials, especially butadiene and cyclohexane, was passed on to the market through timely price increases in all business units, giving a positive price effect of 24.9%. The favorable development of prices and volumes was further supported by a positive exchange-rate effect of 5.0%, resulting primarily from the stronger U.S. dollar.

All of the segment's business units recorded a substantial increase in demand from all principal customer industries. The Butyl Rubber and Performance Butadiene Rubbers business units, with their close business relationships to the tire industry, benefited from improved demand in the market for replacement and original equipment tires. This development was supported by the statutory snow tire requirement passed by German lawmakers. For the year as a whole, the Performance Butadiene Rubbers business unit generated the segment's highest sales growth. In the Technical Rubber Products and Semi-Crystalline Products business units, brisker demand and extensive marketing activities in 2010 produced a substantial increase in volumes. The drivers of this growth proved to be western Europe and Latin America, where sales more than doubled.

EBITDA Margin of Performance Polymers

in %



EBITDA pre exceptionals of the Performance Polymers segment more than doubled from €250 million in the previous year to €585 million, again highlighting LANXESS's strong market position. The EBITDA margin improved from 10.5% to 15.5% due to price and volume effects. Across the entire segment, higher raw material costs were passed on in full to the market by way of higher prices. Substantial volume growth in all business units produced a tangible improvement in earnings. The segment's capacity utilization was well above the prior-year level. Capacity utilization in the fourth quarter was comparable to the rest of the year despite planned maintenance shutdowns at year end. In addition, earnings were improved by the systematic adjustments to cost structures in past years and an increase in sales of high-performance products. Favorable exchange rates also had a positive impact, while bonus payments to employees at the end of the year had the opposite effect.

Exceptional income of €1 million, which positively impacted EBITDA, was recorded in fiscal 2010. This was related to past efficiency improvement measures. The exceptional charges of €9 million incurred in the prior year, €8 million of which affected EBITDA, related mainly to costs for personnel adjustments under the Challenge09-12 program.

Advanced Intermediates

	2009		2010		Change
	€ million	Margin %	€ million	Margin %	in %
Sales	1,104		1,321		19.7
EBITDA pre exceptionals	154	13.9	222	16.8	44.2
EBITDA	143	13.0	222	16.8	55.2
Operating result (EBIT) pre exceptionals	106	9.6	166	12.6	56.6
Operating result (EBIT)	95	8.6	166	12.6	74.7
Cash outflows for capital expenditures[1]	53		69		30.2
Depreciation and amortization	48		56		16.7
Employees as of Dec. 31	2,858		2,791		(2.3)

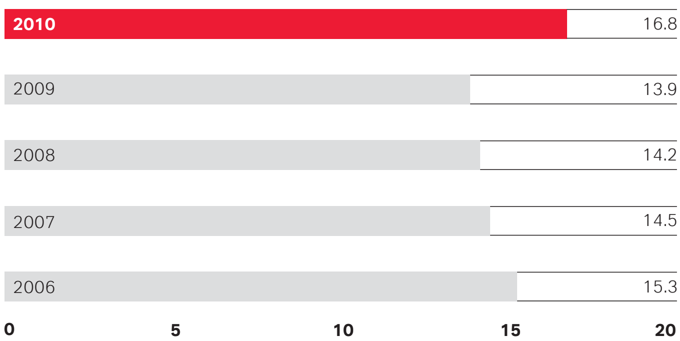
1) Intangible assets and property, plant and equipment

Sales in the **Advanced Intermediates** segment climbed €217 million, or 19.7%, to €1,321 million in 2010. Volume growth of 8.6% was the largest contributor to this development, while selling prices were raised 4.6% due to higher procurement prices for raw materials. Alongside favorable currency shifts of 2.2%, a portfolio effect of 4.3% from the successfully integrated businesses acquired in India and China also had a positive impact on sales.

In the Basic Chemicals business unit, strong demand generated higher volumes in the automotive and related industries throughout the year, including the fourth quarter, which was impacted by planned maintenance shutdowns. Business with the construction sector and the coatings industry grew as well. Demand for agrochemicals, especially precursors for fungicides, recovered at the end of the year. The Saltigo business unit also benefited from this development and saw volumes of pharmaceutical precursors edge up over the prior-year level. The rise in procurement prices for raw materials in the Basic Chemicals business unit led to an increase in selling prices. From a geographical perspective, business performance in Asia-Pacific was distinctly better than in other regions.

EBITDA Margin of Advanced Intermediates

in %



EBITDA pre exceptionals in the Advanced Intermediates segment climbed by a substantial €68 million, or 44.2%, to €222 million. The EBITDA margin improved from 13.9% to 16.8%. The key factor here was the aforementioned volume effect, particularly in the Basic Chemicals business unit. This effect was supported by the recovery of demand in the agricultural sector at the end of the year, which benefited both business units. The segment's capacity utilization exceeded the prior-year level and further improved at year end after the planned maintenance shutdowns. Increased procurement prices for raw materials resulted in higher selling prices. In addition to favorable currency shifts, the businesses acquired in India and China in 2009 produced a positive portfolio effect. The one-time payments to employees at year's end had a correspondingly negative effect on earnings.

In 2009, exceptional items amounted to €11 million, all of which impacted EBITDA. These charges related mainly to costs associated with the Challenge09-12 program.

Performance Chemicals

	2009		2010		Change
	€ million	Margin %	€ million	Margin %	in %
Sales	1,530		1,978		29.3
EBITDA pre exceptionals	182	11.9	281	14.2	54.4
EBITDA	171	11.2	276	14.0	61.4
Operating result (EBIT) pre exceptionals	117	7.6	214	10.8	82.9
Operating result (EBIT)	100	6.5	209	10.6	> 100
Cash outflows for capital expenditures[1]	80		114		42.5
Depreciation and amortization	71		67		(5.6)
Employees as of Dec. 31	4,675		4,907		5.0

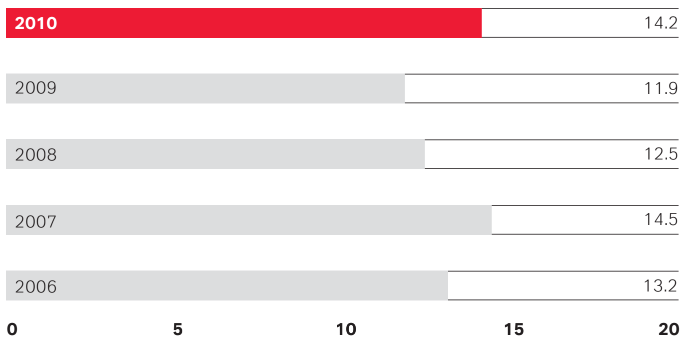
1) Intangible assets and property, plant and equipment

Sales in the **Performance Chemicals** segment rose 29.3% in fiscal 2010 from €1,530 million to €1,978 million. The main driver of this trend was volume growth of 23.4% over the previous year. Selling prices were raised by 1.6%. Operational sales advanced in all of the segment's business units. Shifts in exchange rates had a 4.3% positive effect.

All business units benefited from the stronger demand during the fiscal year and expanded volumes. The Rubber Chemicals and Rhein Chemie business units, which generate a significant proportion of their revenues from customers in the automotive industry, saw the most substantial volume growth. Selling prices were slightly higher than in the prior year. The Leather business unit also experienced a strong upturn in demand from the apparel, furniture and auto industries, an effect reinforced by the increased selling prices for chrome ore. The Inorganic Pigments business unit posted volume gains despite the modest development of the construction sector in the western industrialized countries. The selling prices of iron oxide pigments were also raised. While the segment's prices remained stable, volumes receded slightly at the end of 2010 due to seasonal influences relating especially to demand from the construction and beverage industries. On the whole, all sales regions performed well during 2010, but Germany produced the strongest growth.

EBITDA Margin of Performance Chemicals

in %



EBITDA pre exceptionals for the Performance Chemicals segment was up 54.4% from €182 million to €281 million, chiefly due to the significant volume growth in all business units. Positive selling price and currency effects were also accretive to earnings. Capacity utilization significantly exceeded the prior-year level overall, but tailed off in the fourth quarter against the high levels of the first three quarters of the year as a result of maintenance shutdowns in the Rubber Chemicals and Leather business units and seasonal demand trends in the Material Protection Products and Inorganic Pigments business units. Segment earnings also benefited from improvements in cost structures, particularly in the Rubber Chemicals, Leather, Functional Chemicals and Inorganic Pigments business units. The EBITDA margin rose from 11.9% to 14.2% despite one-time payments to employees at the end of the year.

The segment's exceptional items of €5 million, which affected EBITDA, related to restructuring expenses in the Functional Chemicals business unit, where global competitiveness was increased by optimizing production structures and realigning the marketing organization. In the prior year, exceptional items amounted to €17 million, €11 million of which affected EBITDA. They related to expenses in connection with the Challenge09-12 measures and, in particular, restructuring expenses in the Functional Chemicals business unit. This unit's colorants production at the site in Lerma, Mexico, was transferred to existing facilities in Leverkusen, Germany.

Reconciliation

€ million	2009	2010	Change in %
Sales	35	39	11.4
EBITDA pre exceptionals	(121)	(170)	(40.5)
EBITDA	(134)	(194)	(44.8)
Operating result (EBIT) pre exceptionals	(133)	(187)	(40.6)
Operating result (EBIT)	(151)	(211)	(39.7)
Cash outflows for capital expenditures[1]	9	16	77.8
Depreciation and amortization	17	17	0.0
Employees as of Dec. 31	2,430	2,557	5.2

1) Intangible assets and property, plant and equipment

The EBITDA pre exceptionals of minus €170 million reported in the **Reconciliation** (against minus €121 million in the prior year) was due in part to a hedging loss and to the suspension of Challenge09-12 measures. The exceptional charges of €24 million, which impacted EBITDA, primarily related to expenses for restructuring activities and portfolio adjustments. Such expenses mainly included personnel adjustment costs, expenses for the closure or partial closure of facilities, and costs for the preparation and execution of corporate transactions, to the extent that these expenses and income cannot be allocated accurately to the segments or business units. The exceptional charges in 2009 amounted to €18 million, of which €13 million impacted EBITDA.

FINANCIAL CONDITION

- Solid statement of financial position provides basis for growth in 2011
- Total assets increase, mainly due to capital expenditures and currency effects
- Working capital increases with business recovery
- Equity ratio improves
- External financing of pensions through further allocations under CTA
- Net financial liabilities rise to €913 million due to capital expenditures

Structure of the Statement of Financial Position

	Dec. 31, 2009		Dec. 31, 2010		Change
	€ million	in %	€ million	in %	in %
Assets					
Non-current assets	2,382	47.0	2,738	48.3	14.9
Current assets	2,686	53.0	2,928	51.7	9.0
Total assets	**5,068**	**100.0**	**5,666**	**100.0**	**11.8**
Equity and liabilities					
Equity (including non-controlling interests)	1,445	28.5	1,761	31.1	21.9
Non-current liabilities	2,504	49.4	2,454	43.3	(2.0)
Current liabilities	1,119	22.1	1,451	25.6	29.7
Total equity and liabilities	**5,068**	**100.0**	**5,666**	**100.0**	**11.8**

Structure of the statement of financial position Total assets of the LANXESS Group amounted to €5,666 million as at December 31, 2010, an increase of €598 million, or 11.8%, on the prior year. This was primarily due to capital expenditures, currency effects and the increase in working capital, the latter resulting from the significant upturn in demand, higher raw material prices and the positive business performance expected for the first quarter of 2011. The ratio of non-current assets to total assets rose from 47.0% to 48.3%. Equity rose due to the very good net income. At the end of 2010, the equity ratio had improved to 31.1% from 28.5% in the previous year.

Non-current assets rose by €356 million, or 14.9%, to €2,738 million. This was mainly attributable to a €352 million increase in intangible assets and property, plant and equipment to €2,357 million due to currency effects and investments. Cash outflows for purchases of property, plant, equipment and intangible assets, at €501 million, were up a considerable €226 million over the prior-year figure of €275 million. Depreciation and amortization totaled €283 million in the same period (2009: €273 million). In the previous year, this figure included €12 million in impairments reported as exceptional items. The decrease in the carrying amount of investments accounted for using the equity method was due in particular to the distribution of the pro-rated earnings of Currenta GmbH & Co. OHG for 2009 and the effects from accounting for pensions reported in other comprehensive income. The pro-rated earnings of this company compensated in part for these effects in 2010. Like Currenta, LANXESS-TSRC (Nantong) Chemical Industrial Company Ltd., Nantong, China, which was established in the second quarter of 2010, was also accounted for using the equity method.

Current assets increased by €242 million against the end of 2009, to €2,928 million. The ratio of current assets to total assets declined to 51.7% from 53.0% in the previous year. Inventories grew by €245 million to €1,094 million because of higher raw material prices, business expansion and an increase in inventories of finished goods in preparation for the positive business performance expected in the first quarter of 2011. Days of sales in inventories (DSI) improved tangibly, from 55.1 to 53.7. Trade receivables increased by a substantial €209 million against the previous year to €942 million, due to the strong expansion in business in fiscal 2010 and to currency effects. There were no material defaults. At 46.3, days of sales outstanding (DSO) were reduced to below the prior-year level of 47.0. As a result of advance tax payments made for 2010, income tax receivables advanced by €38 million to €69 million. The total of cash, cash equivalents and near-cash assets, part of which were used to repay non-current financial liabilities, was €524 million, a reduction of €191 million from the end of 2009.

Equity, including that of non-controlling interest, amounted to €1,761 million, up from €1,445 million in the previous year. The equity ratio increased from 28.5% to 31.1%. Among the factors in the equity increase were the high net income and a smaller currency translation adjustment. This positive effect was partially offset by the dividend payout to LANXESS AG stockholders in May 2010 and by changes in the values of hedging transactions also recognized in other comprehensive income.

Non-current liabilities declined by €50 million, or 2.0%, to €2,454 million, mainly on account of the early repayment of financial liabilities in the amount of €155 million. However, there was a slight increase in other provisions. Adjustments to discount rates and currency effects resulted in higher provisions for pensions. The allocation of €75 million (2009: €30 million) under the contractual trust arrangement (CTA) offset this increase. The ratio of non-current liabilities to total assets was 43.3%, down from 49.4% at the end of 2009.

Current liabilities rose by €332 million to €1,451 million. Trade payables grew by €178 million to €664 million as a result of higher raw material prices and increases in purchasing volumes linked to business growth. Other current provisions increased marginally on account of higher provisions for the annual variable compensation for employees, among other factors. Current liabilities to banks were up by €88 million year on year. The ratio of current liabilities to total assets was 25.6% as of December 31, 2010, up from 22.1% at year end 2009.

Net financial liabilities increased by €119 million, or 15.0%, from the previous year to €913 million. The reasons for this development included the reduction in liquid assets due to the extensive capital expenditures made in fiscal 2010.

Capital expenditures LANXESS makes targeted capital expenditures to increase its international competitiveness, focusing on attractive growth opportunities in highly profitable businesses. The goal is to enhance the premium nature of LANXESS products and services. Capital expenditures are made primarily where the long-term perspectives are good and the expenditures sustainably improve our position, which in 2010 meant the major growth regions of the world as well as Germany. Capital expenditure budgets were allocated to individual operating segments in line with strategic targets. As a rule, capital expenditures are financed out of the cash flow from operating activities or, if that is insufficient, from other available liquidity or credit lines.

In 2010, capital expenditures for property, plant and equipment and intangible assets came to €529 million, compared with €342 million the year before, and led to cash outflows of €501 million (2009: €275 million). Depreciation and amortization totaled €283 million in the same period (2009: €273 million). In the previous year, this figure included €12 million in impairments reported as exceptional items. Adjusted for these impairments, capital expenditures in support of our growth strategy exceeded depreciation and amortization by a substantial 87% (2009: 31%).

Capital expenditures focused primarily on measures to expand or maintain facilities or to increase plant availability, and projects to improve plant safety, enhance quality or comply with environmental protection requirements. About 66% of the capital expenditures in 2010 went towards expansion or efficiency improvement measures, while the rest went to replace existing facilities. This underlines our goal of generating further organic growth through investment.

The Group's key ratios developed as follows:

Ratios

in %		2006	2007	2008	2009	2010
Equity ratio	Equity[1] / Total assets	34.0	37.7	29.2	28.5	31.1
Non-current asset ratio	Non-current assets / Total assets	41.1	44.6	47.2	47.0	48.3
Asset coverage I	Equity[1] / Non-current assets	82.5	84.4	61.7	60.7	64.3
Asset coverage II	Equity[1] and non-current liabilities / Non-current assets	172.4	165.1	151.8	165.8	153.9
Funding structure	Current liabilities / Total liabilities	44.0	42.3	40.0	30.9	37.2

1) Including non-controlling interests

In regional terms, 36% of capital expenditures in 2010 were made in Germany, 17% in the EMEA region (excluding Germany), 14% in North America, 6% in Latin America and 27% in Asia-Pacific. Major capital expenditures in Germany mostly comprised our investments to increase capacities and modernize facilities in all segments and to build a new plant for the Ion Exchange Resins business unit. The large share of capital expenditures made in the Asia-Pacific region is due primarily to the construction of a new butyl rubber plant for the Butyl Rubber business unit in Singapore, the largest investment project in our company's history.

In the Performance Polymers segment, the entire capital expenditures of €302 million led to cash outflows (2009: capital expenditures of €171 million, €133 million of which were cash outflows). Depreciation and amortization amounted to €143 million (2009: €137 million). In this segment, the major capital expenditures were made in the Butyl Rubber business unit. Capital expenditures in the Advanced Intermediates segment amounted to €97 million (2009: €82 million). Cash outflows came to €69 million (2009: €53 million), exceeding the depreciation and amortization of €56 million (2009: €48 million). This figure includes investment by the Basic Chemicals business unit to expand the aromatics production network at the Leverkusen site. Expenditures of €28 million (2009: €29 million) were also made by the Saltigo business unit for the construction of facilities for major customers, who provided investment subsidies for this purpose. In the Performance Chemicals segment, cash outflows for capital expenditures came to €114 million (2009: €80 million). These expenses exceeded the depreciation and amortization of €67 million (2009: €71 million). The capital expenditures related mainly to the construction by the Ion Exchange Resins business unit of plants at the sites in Bitterfeld, Germany, and Jhagadia, India, for products used in water treatment and the production of ultrapure water.

The following table shows major capital expenditure projects in the LANXESS Group.

Expansion of investment portfolio Please see the "Key additions to the Group portfolio" section of this Management Report for more information on the subsidiaries and affiliates added to the LANXESS portfolio in fiscal 2010, including the equity investment in the new NBR joint venture in China.

Financial condition

- Operating cash flow before change in working capital significantly higher
- Expanded business activities requires more cash tied up in working capital
- Capital expenditures financed out of operating cash flow
- Liquidity reserve for attainment of growth targets

The cash flow statement shows inflows and outflows of cash and cash equivalents by type of business operation.

Cash Flow Statement

€ million	2009	2010	Change
Income before income taxes	32	493	461
Depreciation and amortization	273	283	10
Other items	21	(51)	(72)
Net cash provided by operating activities before change in working capital	**326**	**725**	**399**
Change in working capital	239	(220)	(459)
Net cash provided by operating activities	**565**	**505**	**(60)**
Net cash used in investing activities	**(771)**	**(450)**	**321**
Net cash provided by (used in) financing activities	**258**	**(214)**	**(472)**
Change in cash and cash equivalents from business activities	52	(159)	(211)
Cash and cash equivalents as of December 31	313	160	(153)

Selected Capital Expenditure Projects 2010

Segment	Site	Description
Performance Polymers		
Butyl Rubber	Singapore	New butyl rubber plant, start-up Q1 2013
Butyl Rubber	Zwijndrecht, Belgium	Expansion of production capacity for butyl rubber
Performance Butadiene Rubbers	Dormagen, Germany Cabo de Santo Agostinho, Brazil Orange, U.S.A.	Expansion of production capacities for performance rubbers
Semi-Crystalline Products	Wuxi, China	Expansion of production capacities for engineering plastics in the compounding facility
Advanced Intermediates		
Basic Chemicals	Leverkusen, Germany	Expansion of aromatics production network
Basic Chemicals	Krefeld-Uerdingen, Germany	Construction of new formalin plant, start-up end of 2011
Saltigo	Leverkusen, Germany	Expansion of production capacities for the synthesis of active ingredients for crop protection
Performance Chemicals		
Inorganic Pigments	Krefeld-Uerdingen, Germany Porto Feliz, Brazil Jinshan, China	Process and plant optimization to expand production capacities for iron oxide pigments
Functional Chemicals	Krefeld-Uerdingen, Germany	Expansion of production capacities for Mesamoll®
Leather	Changzhou, China	Construction of a leather chemicals plant, start-up first half of 2013
Rhein Chemie	Dzerzhinsk, Russia	Construction of a plant to produce rubber chemicals
Ion Exchange Resins	Jhagadia, India	Construction of a plant to produce ion exchange resins
Ion Exchange Resins	Bitterfeld, Germany	Construction of a plant for membrane filtration technology, start-up 2011

Cash provided by operating activities, before changes in working capital, increased by €399 million to €725 million in fiscal 2010 compared with the crisis year 2009. In particular, income before income taxes grew by a substantial €461 million over the previous year to €493 million, with depreciation and amortization of €283 million remaining at the prior-year level. The change in other items is primarily due to higher income tax payments in the year under review.

The significant increase in working capital was attributable to the strong recovery in operating business. Whereas the working capital measures initiated in the crisis year 2009 resulted in a reduction in current assets and net cash inflows of €239 million, the expansion of business and increase in raw material prices in the year under review necessitated an increase in working capital of €220 million. This was financed from the significant cash inflows yielded by operating activities.

LANXESS's investing activities in fiscal 2010 resulted in a cash outflow of €450 million, down from €771 million in the previous year. The reduction was the result of the cash inflows from financial assets, which stemmed primarily from the sale of short-term money market funds. Available liquidity had been invested in these financial instruments in 2009. The planned increase in disbursements for intangible assets and property, plant and equipment of €226 million from €275 million to €501 million partially offset this effect. A further €75 million (2009: €30 million) was paid into LANXESS Pension Trust e.V. during the reporting year for the external financing of the company's pension obligations.

Free cash flow – the difference between the cash inflows from operating activities and the cash used in investing activities – increased by €261 million from minus €206 million in 2009 to €55 million in the year under review.

Net cash used in financing activities came to €214 million. Whereas the main focus in the crisis year 2009 was on obtaining financing and safeguarding liquidity, it was possible in 2010 to repay €251 million on loans, in some cases ahead of time. Borrowing consisted essentially of two new loans totaling approximately €170 million. In addition, a €42 million outflow was accounted for by the dividend paid to the stockholders of LANXESS AG in May (2009: €42 million). Interest payments and other financial disbursements of €91 million were €38 million higher than the previous year, due to the increase in borrowing in 2009 and the interest payments made on this for the first time in 2010.

The net change in cash and cash equivalents from business activities in fiscal 2010 was minus €159 million (2009: €52 million). After taking into account other changes in cash of €6 million, cash and cash equivalents at the closing date amounted to €160 million (2009: €313 million). Taken together with near-cash assets (short-term investment of liquid assets in money market funds) of €364 million (2009: €402 million), the Group retained a sound liquidity position of €524 million as of December 31, 2010 (2009: €715 million).

Principles and objectives of financial management LANXESS pursues a conservative financial policy characterized by secured long-term financing. Our aim is to be able to provide sufficient liquidity to our business operations at all times, regardless of cyclical fluctuations in the real economy or financial markets. The target capital structure and debt level are largely aligned to the ratio systems of the leading rating agencies for investment-grade companies. In addition to liquidity risk, financial management also covers other financial risks, such as interest and foreign exchange risks. Here too, we aim to mitigate the financial risks that arise and increase planning reliability, partly by using derivative financial instruments. Detailed information about the management of these risks is contained the Risk Report and in Note [33], "Financial instruments," to the Consolidated Financial Statements. Our ability to weather the global financial and economic crisis with our ratings intact, a distinction achieved by only a few European chemical companies, underscores the success and accuracy of our financial management.

LANXESS Group ratings Access to the capital markets and good relations with German and international commercial banks are essential in the implementation of our financial management objectives. Accordingly, ongoing dialogue and communication with banks, investors and rating agencies are of crucial importance. In fiscal 2010, the latter continued to assess LANXESS's creditworthiness with ratings of BBB and Baa2. They also emphasized that our conservative financial policy coupled with the aforementioned objectives is a very important factor in the retention of these ratings.

Development of LANXESS Ratings and Rating Outlook Since 2006

	2006	2007	2008	2009	2010
Standard & Poor's	BBB–/positive May 18, 2006 BBB–/stable Sept. 18, 2006	BBB/stable July 31, 2007	BBB/stable May 16, 2008	BBB/stable May 28, 2009	BBB/stable Sept. 1, 2010
Moody's Investors Service	Baa3/positive June 12, 2006	Baa2/stable July 17, 2007	Baa2/stable July 25, 2008	Baa2/stable May 26, 2009	Baa2/stable May 19, 2010
Fitch Ratings	BBB/stable June 15, 2006 (initial rating)	BBB/stable May 31, 2007	BBB/stable Dec. 4, 2008	BBB/stable July 20, 2009	BBB/stable Dec. 17, 2010

Financing analysis LANXESS started fiscal 2010 with a very sound financial and liquidity position resulting from the extensive measures implemented to further improve our financial footing and secure our entrepreneurial flexibility in fiscal 2009.

There was no material change to this situation in fiscal 2010. The improvement in earnings from business operations financed the growth in current assets and the increase in capital expenditures in property, plant and equipment. The cash used in financing activities came as planned from the liquidity reserves created in 2009. The cash and cash equivalents item in the statement of financial position declined accordingly to €160 million (2009: €313 million), while near-cash assets decreased to €364 million (2009: €402 million).

LANXESS launched a €2.5 billion debt issuance program in March 2009. Using this documentation base, aligned with the prevailing market conditions, bonds can be placed very flexibly on the capital market.

The financing measures implemented in the year under review served primarily to further improve the maturity structure of our financial liabilities. Promissory notes totaling €130 million could therefore be repaid early in spring and summer 2010, as could a €100 million investment loan in December. At the same time, we took advantage of the favorable credit environment to arrange a new investment loan of €93 million with a term of seven years. These transactions were the main reason for the decline in long-term borrowings from €1,375 million to €1,221 million.

Short-term borrowings increased from €36 million to €124 million, due primarily to a loan of around €67 million obtained in Brazil at attractive terms and denominated in local currency.

Other financial commitments amounted to €2 million, as in the previous year.

Finance leases were used to further diversify financing sources. These were reported as financial liabilities in the statement of financial position. As of December 31, 2010, this item amounted to €90 million, against €96 million in the previous year. Minimum non-discounted future payments relating to operating leases totaled €235 million (2009: €75 million). This increase was mainly attributable to the construction of the new production facility in Singapore.

As of December 31, 2010, LANXESS had no material financing items not reported in the statement of financial position in the form of factoring, asset-backed structures or project financing, for example.

LANXESS's total financial liabilities, i.e. net of accrued interest, fell from €1,509 million in 2009 to €1,437 million as of December 31, 2010. Net financial liabilities – the total financial liabilities net of cash and near-cash assets – rose by €119 million, from €794 million to €913 million.

Of the total financial liabilities, some 97% bear a fixed interest rate over the term of the financing, the same proportion as in the previous year. Interest rate changes therefore do not have a material effect on LANXESS's financial condition considering the current financing structure. The average proportion of loans and bonds denominated in euros was 94% (2009: 92%). The weighted average interest rate for financial liabilities in the LANXESS Group was 5.9% at year end 2010 (2009: 6.0%).

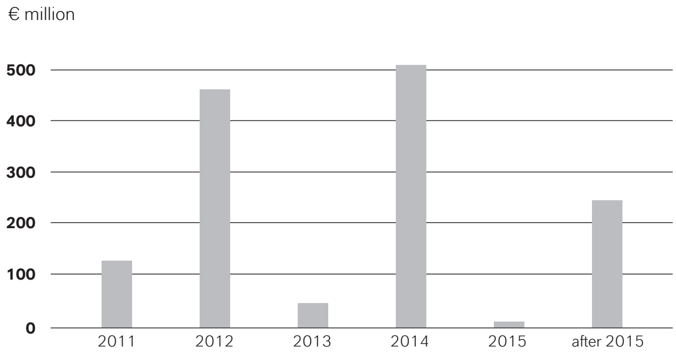
The following overview shows LANXESS's financing structure as of December 31, 2010 in detail, including its principal liquidity reserves.

Instrument	Amount in € million	Maturity	Interest rate in %	Financial covenant[1]
Eurobond 2005/2012 (€402 million)	401	June 2012	4.125	no
Eurobond 2009/2014 (€500 million)	496	April 2014	7.750	no
Eurobond 2009/2016 (€200 million)	198	September 2016	5.500	no
Investment loan	93	December 2017		no
Other loans	159	n/a		no
Finance lease	90	n/a		no
Total financial liabilities	**1,437**			
Cash	160	<= 90 days		
Near-cash assets	364	<= 90 days		
Total liquidity	**524**			
Net financial liabilities	**913**			

1) Ratio of net financial liabilities to EBITDA pre exceptionals

Thanks to the extensive financing measures taken in 2009 and 2010, the maturity structure of our financial liabilities improved significantly. At the time this report was prepared, LANXESS therefore had no need for substantial refinancing. The outstanding approximately €402 million amount of the Eurobond issued in 2005 does not mature until June 2012.

Maturity Profile of LANXESS Financial Liabilities as of Dec. 31, 2010



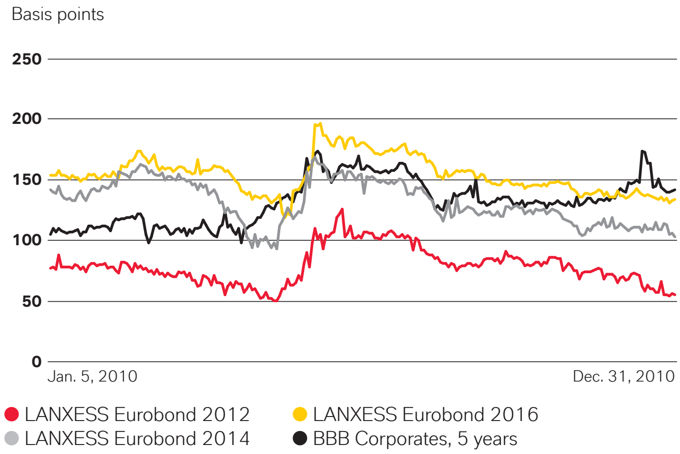
Liquidity analysis In addition to cash of €160 million and the investments in highly liquid AAA money market funds of €364 million, LANXESS has additional sizeable liquidity reserves in the form of undrawn credit facilities.

By far the most important of these is the syndicated credit facility of €1,408 million that is valid until November 2014 and remained undrawn at the end of 2010. This credit facility is designed as an operating line of credit and to provide funds for capital investment. It corresponds to market requirements in the European syndicated loan market for investment-grade companies with a BBB rating. In addition to the rights and obligations of the parties to syndicated loan contracts, a financial covenant was also made to the group of banks for the duration of the credit facility. The essence of this is that the net financial debt excluding pension obligations must not exceed 3.5 times EBITDA pre exceptionals. As of December 31, 2010, this ratio was 1.0, down from 1.7 in the previous year. Just like the stable ratings issued by the rating agencies, this is a good indicator of LANXESS's extremely sound financial management. Refinancing measures in the past two years enabled LANXESS to reduce the share of financial liabilities that are subject to financial covenants to just this syndicated line of credit. LANXESS had unused credit lines totaling around €1,550 million as of December 31, 2010.

The total of liquid assets and undrawn credit lines gives us continued liquidity scope of more than €2 billion. Given the ongoing volatility of the capital markets and in view of our growth targets, this liquidity reserve is an expression of our forward-looking and conservative financial policy. The Group's solvency is safeguarded for the long term.

Bond Performance – Evolution of Credit Spread An important indicator for corporate bonds, apart from the absolute change in price, is the relative valuation of the risk specific to the issuer in comparison to a reference interest rate. This credit risk premium is expressed in what is known as the "credit spread." Due to the higher default risk associated with longer bond maturity, long-term bonds generally feature a wider credit spread. This, and factors such as liquidity and trading volume, also applies to the various LANXESS bonds. The chart below shows the evolution of the credit spreads of the LANXESS bonds and the average credit spread of corporate bonds with a BBB rating and a five-year maturity in comparison to the interest rate swap curve.

LANXESS Eurobond Spreads vs. BBB Corporates Index (bps)



After a very volatile period on the bond markets in 2009, credit spreads for corporate bonds stabilized considerably on the whole in 2010, but were still strongly influenced by uncertainties on the financial markets.

The market situation was positive in the first quarter of 2010, and no material changes in credit spreads were observed, either for LANXESS bonds or bonds in the BBB-rated reference group. In the second quarter, however, the financial markets became increasingly nervous about the risk of default associated with government bonds. Concern about the creditworthiness of Greece worsened in April. After a slight improvement in LANXESS's credit spreads at the start of the second quarter, May saw LANXESS bonds also caught up in the growing tide of uncertainty. Our credit spreads increased by up to 100 basis points in step with the BBB-rated corporate bond market. Later on in the year, the European debt crisis put pressure on government and corporate bond markets in the peripheral eurozone states. This caused investors to increasingly seek out bonds of issuers based in the core European countries, a trend that was also reflected in the positive development of the credit spreads of LANXESS bonds. At year end, these spreads were not only well below the level at the beginning of the year, but they also more or less outperformed the BBB-rated reference index.

MANAGEMENT'S SUMMARY OF THE FISCAL YEAR

Fiscal 2010 was characterized by the unexpectedly strong recovery of global demand after 2009, a year marked by economic crisis. Due to the measures we resolutely implemented in 2009 to limit the effects of the economic crisis and preserve the company's operational and strategic opportunities, LANXESS benefited from the return to economic growth in 2010.

We succeeded in boosting sales by 40.8% year on year. Adjusted for currency and portfolio effects, operational sales rose by 35.6%, mainly due to increased volumes. The driver of this development was Latin America with the largest percentage sales growth. Asia-Pacific, still ahead of Germany as the second most important region for the LANXESS Group, also posted substantial increases in sales, contributed mainly by our Performance Polymers segment.

Our price-before-volume strategy remained intact in 2010. EBITDA pre exceptionals nearly doubled year on year, and the EBITDA margin exceeded its pre-crisis level. Earnings per share also improved considerably due to the high after-tax income.

Thanks to our conservative accounting and financing policies, our statement of financial position is solid. Of special note is the improved equity ratio of 31.1%. The increase in total assets is attributable mainly to investments and currency effects. Working capital also rose due to LANXESS's current and expected business performance.

Our liquidity position is solid, as shown by the statement of financial position, and additional substantial liquidity reserves are also available. Of the total financial liabilities, some 97% bear a fixed interest rate over the term of the financing, the same proportion as in the previous year. Interest rate changes therefore do not have a material effect on the LANXESS Group's financial condition considering the current financing structure.

Net financial liabilities totaled €913 million. In fiscal 2010, the rating agencies reconfirmed the LANXESS Group's creditworthiness with ratings of BBB and Baa2.

In view of this business performance and our sound liquidity and financing positions, we believe that our company's business situation is positive overall and provides a suitable foundation for implementing the profitable growth targets we have set.

Business Ratios – Multi-Period Overview

€ million	2006	2007	2008	2009	2010
Earnings performance					
Sales	6,944	6,608	6,576	5,057	7,120
EBITDA pre exceptionals	675	719	722	465	918
EBITDA margin pre exceptionals	9.7%	10.9%	11.0%	9.2%	12.9%
EBITDA	638	513	602	422	890
Operating result (EBIT) pre exceptionals	421	472	462	204	635
Operating result (EBIT)	376	215	323	149	607
EBIT margin	5.4%	3.3%	4.9%	2.9%	8.5%
Net income	197	112	183	40	379
Earnings per share (€)	2.33	1.32	2.20	0.48	4.56
ROCE	15.9%	17.7%	15.4%	5.9%	17.0%
Liquidity					
Cash flow from operating activities	409	470	492	565	505
Depreciation and amortization	262	298	279	273	283
Cash outflows for capital expenditures	267	284	342	275	501
Assets and liabilities					
Total assets	4,205	4,049	4,592	5,068	5,666
Equity (including non-controlling interests)	1,428	1,525	1,339	1,445	1,761
Equity ratio	34.0%	37.7%	29.2%	28.5%	31.1%
Pension provisions	520	470	498	569	605
Net financial liabilities	511	460	864	794	913
Employees (as of December 31)	16,481	14,610	14,797	14,338	14,648

EMPLOYEES

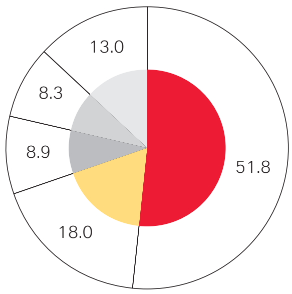
As of December 31, 2010, the LANXESS Group had a total of 14,648 employees. This was 310 more than a year earlier, primarily as a result of business expansion in Asia plus additional new hires within the framework of LANXESS's growth strategy.

In the EMEA region (not including Germany), the total number of employees as of December 31, 2010 was 2,638, up from 2,625 in the previous year. In Germany, the headcount dropped from 7,626 to 7,590. The number of employees in North America rose from 1,261 as of December 31, 2009 to 1,309, while Latin America saw its workforce expand from 1,152 to 1,215. At the reporting date, we also had a higher headcount in Asia-Pacific, where the increase in the number of employees from 1,674 to 1,896 reflected the expansion of our activities in this region.

Personnel expenses totaled €1,141 million in fiscal 2010 (2009: €981 million). Wages and salaries, at €912 million (2009: €770 million), accounted for the greater part of this figure. Social security contributions were €160 million (2009: €162 million), while pension plan expenses totaled €61 million (2009: €45 million), and social assistance benefits came to €8 million (2009: €4 million).

Employees by Region

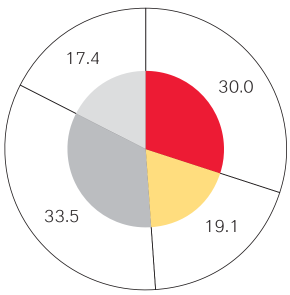
in %



- Germany
- EMEA (excluding Germany)
- North America
- Latin America
- Asia-Pacific

Employees by Segment

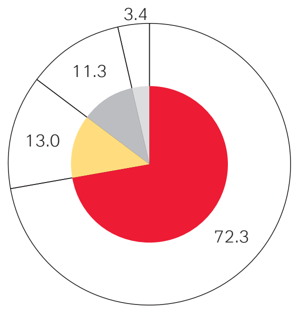
in %



- Performance Polymers
- Advanced Intermediates
- Performance Chemicals
- Other

Employees by Functional Area

in %



- Production
- Marketing
- Administration
- Research

Working conditions and HR policy Our success is fundamentally based on the performance and commitment of our employees. The only way to reach our corporate goals and ensure our competitiveness is through focused and sustainable training and development of our workforce. LANXESS has positioned itself favorably in the competition for the best skilled employees by encouraging an active sense of social responsibility, providing attractive jobs in an international environment and development opportunities, offering performance-based, market-rate compensation, and promoting a management culture based on open dialogue.

In addition to mastering the challenges resulting from demographic change, the top long-term human resources goal is to continue to build a comprehensive employer brand that we aim to use worldwide to recruit, integrate and retain talented young executives and experienced experts for LANXESS. We have worked closely with our employees to develop the basis for an employer brand with the goal of formulating an authentic image of LANXESS. In 2010, we launched a globally uniform corporate HR brand by means of a LANXESS-wide advertising campaign and extended the use of electronic media to address our target groups.

A major challenge during the year under review was the human resources aspect of managing the transition from dealing with the economic crisis to supporting the growth process. On account of the gradual economic recovery in 2010, the Challenge09-12 measures were partially suspended in November 2010 with retroactive effect for the full year.

Under the shadow of the first quarter, the usual annual salary adjustments for employees not covered by the collective agreement were postponed until the second half of the year. In April 2010, however, all these employees received a 1.5% increase in line with the increase agreed in the 2010 wage negotiations for employees paid under the collective agreement. Then, on the strength of our ultimately very encouraging business performance, all employees were paid an additional bonus as their share in our business success.

In the crisis year 2009, as part of the Challenge09-12 program in Germany, LANXESS had worked closely with employee representatives to successfully implement a further tool, which we continued to use in the reporting period. QUEST, a qualification, deployment and job management center, is an internal job placement office for employees affected by the capacity reductions in individual business units. A team of internal consultants supports employees in gaining qualification for new tasks and finds them work both inside and outside the company. By December 31, 2010, a permanent solution or a new challenge had been found for 66% of the employees affected. On average, a fifth of the workforce took up temporary positions inside and outside the LANXESS Group.

Compensation and Stock Plan We strive for a fair compensation system linked to our company's success and employees' individual performance. Compensation systems that include variable compensation components in addition to fixed remuneration have been implemented for more than 80% of our employees.

Additionally, to celebrate the fifth anniversary of the LANXESS spin-off, we launched a stock plan in 2010 for all permanent employees in Germany under which shares with an average value of €37.69, acquired by LANXESS on the stock exchange, were issued to the beneficiaries free of charge. Roughly 90% of employees participated in this plan. At the reporting date, our employees and Board of Management members held around 1% of the company's shares through stock plans.

In 2010, 77% of managerial staff participated in the Stock Performance Plan, which has already run for three years. The Board of Management launched a new LANXESS Long-Term Incentive Plan (LTIP) for the years 2010 to 2013. The 2010-2013 Long-Term Stock Performance Plan (LTSP) comprises four tranches, one beginning each year. This plan will also compare the performance of LANXESS stock against the Dow Jones STOXX 600 Chemicals^{SM} Index over a period of four years.

Vocational training Providing vocational training for young people has always been a high priority at LANXESS. It helps to safeguard the company's future and is an element of our social responsibility. In 2010, we strengthened the marketing activities for our vocational training programs, attended all major regional career fairs and visited schools. In Germany, young people can opt to combine vocational training at LANXESS with university studies, or they can complete a traditional scientific, technical or commercial training program in our plants and departments. In addition to the combined IT vocational training and degree program, we will strengthen our natural sciences offering in the future with a combined program of university studies and vocational training in the fields of technical chemistry and business administration. With a view to leveraging expertise and synergies, we are supported by the Training Department of our affiliate Currenta GmbH & Co. OHG for some aspects of theoretical training and for organizational and administrative functions.

Across Germany, 380 young people were being trained in 11 different career paths as of the December 31, 2010 reporting date. Even in economically challenging times, LANXESS once again provided solid training opportunities for significantly more young people than were needed to meet the company's own requirements. In total, we invest around €10 million per year in initial vocational training. Despite declining employee numbers and the economic crisis, we have directly or indirectly hired 208 trainees for temporary and permanent positions in recent years and also participated in the special collective wage agreement in Germany aimed at facilitating young people's entry into the workforce.

Under the slogan "Prepare for the Future," we attract particularly highly skilled university graduates for our international trainee program every year. Through the end of 2010, 40 highly qualified university graduates had taken part in various intakes of our trainee program. The aim is to prepare the participants for an international career within the LANXESS Group and establish a global pool of young managers with international experience.

Employee development We assign great importance to motivating employees throughout their entire career at LANXESS to undertake continuing professional development and accept new challenges within the Group. To promote the talents of individual employees, LANXESS has established a systematic, multi-stage process of global employee development conferences where future managerial employees from around the world are regularly evaluated with regard to their potential. In 2010, the LANXESS Academy continued promoting leadership and management skills with nearly all first-, second- and now also third-level managers from around the world attending its modular programs as part of the uniform leadership system that has been in effect throughout the LANXESS Group since 2008.

Occupational safety The lost time injury frequency rate (LTIFR), known as MAQ (injuries for every million hours worked) in Germany, is the key indicator used to assess occupational safety within the LANXESS Group. The LTIFR in 2010 was 2.3, a substantial improvement on the previous year (3.0). This shows the success of our "A Greater Sense of Safety" initiative, which aims to encourage all employees to give more consideration to health and safety issues and our HSE directives.

Idea management When LANXESS employees have good ideas for improving work processes, safety and environmental protection, or for preventing errors, those ideas pay off. An idea management system systematically encourages suggestions for improvements to ensure that we will constantly be provided with new ways to improve cost-effectiveness, occupational safety and environmental protection. In 2010, the employees from LANXESS companies in Germany submitted a total of 3,218 new suggestions, a rate of 467 per thousand employees. This is the highest number of suggestions submitted since the company was established. In the same period, 1,266 ideas were implemented, yielding total savings of €4.8 million. Of these, 760 suggestions were related to occupational safety and environmental protection.

COMPENSATION REPORT

The structure of the compensation system and the level of compensation for the members of the Board of Management are determined by the Supervisory Board. The appropriateness of compensation is regularly reviewed. The criteria for determining the appropriateness of compensation for an individual Board of Management member include, in particular, his duties, his personal performance, and the LANXESS Group's position and future prospects. The compensation structure is also designed to be competitive in the international market for highly qualified executives and provide the motivation to successfully work toward sustainable corporate development.

In the course of the reappointment of Dr. Werner Breuers and Dr. Rainier van Roessel as members of the Board of Management, the Supervisory Board established a new contractual basis for the work of all four members of the Board of Management, which became effective on January 1, 2010. This takes into account and implements the provisions of the German Law on the Appropriateness of Management Board Compensation and the German Corporate Governance Code and ensures that the contractual conditions for all members of the LANXESS Board of Management will remain broadly uniform in the future.

In 2010, in addition to the annual base salary, the compensation of the members of the Board of Management included three variable components linked to LANXESS's annual performance and, particularly, its multi-year performance.

The fixed compensation comprises the annual base salary and remuneration in kind, the latter consisting mainly of the tax value of perquisites such as the use of a company car. The aggregate amount of fixed compensation came to €2,578 thousand in fiscal 2010.

The annual performance-based component, known as the Annual Performance Payment (APP), is based on the Group's attainment of defined EBITDA targets and remains equivalent to 115% of the annual base salary in the event of 100% target attainment. The APP is capped at 150% of the amount of the compensation component thus calculated. Compensation from the performance-based APP in fiscal 2010 totaled €4,010 thousand. Actual payments in 2011 may differ from this amount, which was calculated in advance. For the previous year Dr. Heitmann received €60 thousand, Mr. Zachert €40 thousand, and Dr. Breuers and Dr. van Roessel €32 thousand each.

The following table shows details of the annual compensation paid to individual members of the Board of Management of LANXESS AG.

Annual Compensation of the Board of Management

in € '000	Fixed compensation	Variable compensation[1]	Total
Dr. Axel C. Heitmann	932	1,423	2,355
Dr. Werner Breuers	525	819	1,344
Dr. Rainier van Roessel	518	819	1,337
Matthias Zachert	603	949	1,552
	2,578	**4,010**	**6,588**

1) Payment in 2011

As an element of long-term compensation, the Long-Term Incentive Plan (LTIP) is divided into three three-year tranches. For 2005 to 2007 it comprises the Stock Performance Plan (SP) and the Economic Value Plan (EVP), while for 2008 to 2010 it consists only of the Stock Performance Plan.

The SP is linked to the performance of LANXESS stock against a reference index, the Dow Jones STOXX 600 Chemicals^{SM}. The EVP is an incentive oriented toward an increase in the economic value of LANXESS's net assets. The reference for all three tranches of the EVP is the business plan for 2005 through 2007.

The requirement for participation in the LTIP is a prior personal investment in LANXESS shares amounting to 13% of the annual base salary per year. Under each plan, these shares are subject to a five-year lock-up period. The first award from the LTIP is made after three years, provided defined conditions are satisfied. In the event of 100% target attainment by the SP and EVP for 2005 to 2007, the payment per tranche will be 43.3% of the individual's target income, which is the annual base salary plus the APP assuming 100% target attainment. For 2008 to 2010, 100% target attainment by the SP brings a payment per tranche of 50% of the individual's target income.

Because the Long-Term Incentive Plan expired in 2010, the Supervisory Board approved a new plan for the years 2010 through 2013. This Long-Term Stock Performance Plan (LTSP) is divided into four four-year tranches and continues to be based on the performance of LANXESS stock against a reference index, the Dow Jones STOXX 600 Chemicals^{SM}. Compared to the existing LTIP, the possible payment per tranche under the new plan has been reduced from 50% to 30% of the individual's target income, assuming 100% target attainment. The condition for participation in the LTSP is a prior personal investment in LANXESS shares to the value of 5% of the annual base salary per year. These shares are subject to an average five-year lock-up period.

For more information, particularly regarding the valuation parameters applied, please see Note [13] to the Financial Statements.

The following table provides additional information about the long-term compensation paid:

Long-Term Compensation of the Board of Management

	SP rights granted in 2010 (exercisable from 2013 and 2014, respectively)		EVP rights (exercisable from 2011)
	Number of rights[1]	Fair values in € '000	in € '000
Dr. Axel C. Heitmann	1,419,000	1,139	200
Dr. Werner Breuers	817,000	656	143
Dr. Rainier van Roessel	817,000	656	143
Matthias Zachert	946,000	759	133
	3,999,000	**3,210**	**619**

1) Comprises SP rights from LTIP and LTSP

Since the value of the SP entitlements outstanding as of December 31, 2010 exceeds the value of those outstanding as of December 31, 2009, personnel expenses were incurred in the fiscal year. This is mainly the result of the strong performance of LANXESS stock. The personnel expenses incurred in fiscal 2010 for the SP entitlements granted amount to €3,266 thousand for Dr. Heitmann, €1,446 thousand for Dr. Breuers, €1,438 thousand for Dr. van Roessel and €1,875 thousand for Mr. Zachert. These personnel expenses are theoretical amounts and are not to be equated with the actual gains realized when the entitlements are exercised in the future.

In the interests of sustainable corporate performance, the third variable compensation component to be paid in the future is a Long Term Performance Bonus (LTPB), which rewards target attainment only after two consecutive fiscal years. The LTPB is based on the APP target attainment for each of the respective years, the exact amount of the LTPB resulting from the average APP target attainment in the two years concerned. Assuming average APP attainment of 100%, the LTPB amounts to 45% of the annual base salary. The first payments could be made in spring 2012 based on fiscal 2010 and 2011. LTPB rights worth €784 thousand were earned in fiscal 2010. Of this amount, €278 thousand was attributable to Dr. Heitmann, €160 thousand each to Dr. Breuers and Dr. van Roessel, and €186 thousand to Mr. Zachert.

On termination of their service contracts, the members of the Board of Management receive benefits under the company pension plan. These benefits are paid when the beneficiary reaches age 60 or if the beneficiary is permanently unable to work. They are paid to surviving dependents in the event of the beneficiary's death.

The new pension plan set up in 2006 for the members of the Board of Management is a defined contribution plan stipulating a basic contribution of 25% of their respective annual base salary. Moreover, Board of Management members must set aside 12.5% of their APP award as deferred compensation. This amount is matched by LANXESS. From the date of entitlement, 70% to 75% of the accumulated capital – including the interest thereon – is paid out in a lump sum. The remaining 25% to 30% is converted to a pension benefit. Claims arising from provisions in place before the new pension plan was established are granted as vested rights. If the service contract ends before the beneficiary reaches the age of 60, the company pays certain additional benefits up to a defined ceiling.

LANXESS has set up provisions for the future claims of Board of Management members. The total service cost recognized in the 2010 annual financial statements for this purpose was €588 thousand. The present value of the obligations as of December 31, 2010 was €11,195 thousand.

The service cost for pension entitlements earned in 2010 and the present value of the obligations as of December 31, 2010 including acquired rights amounted, respectively, to €202 thousand and €6,078 thousand for Dr. Heitmann, €149 thousand and €893 thousand for Dr. Breuers, €77 thousand and €2,249 thousand for Dr. van Roessel, and €160 thousand and €1,975 thousand for Mr. Zachert.

Obligations to former members of the Board of Management totaled €6,884 thousand at December 31, 2010.

Payments of €441 thousand were made to former members of the Board of Management.

In fiscal 2010, the members of the Board of Management were entitled to indemnification should their service contracts terminate for defined reasons at the instigation of the company or in the event of a material change of control over the company. The terms depended on the respective circumstances and included severance payments amounting to up to two times the annual base salary plus the APP and LTPB assuming 100% target achievement. In the event of a termination due to a change of control, the severance payments would amount to three times the annual base salary plus the APP and LTPB.

No additional benefits have been pledged to any Board of Management member in the event of termination of their service. In 2010, no member of the Board of Management received benefits or assurances of benefits from third parties in respect of their duties as Board of Management members.

No loans were granted to members of the Board of Management in fiscal 2010.

REPORT PURSUANT TO SECTION 315 PARAGRAPH 4 OF THE GERMAN COMMERCIAL CODE

Pursuant to Section 315 Paragraph 4 Nos. 1 to 9 of the German Commercial Code, we hereby make the following declarations:

1. The capital stock of LANXESS AG amounted to €83,202,670 as of December 31, 2010 and is composed of 83,202,670 no-par bearer shares. All shares carry the same rights and obligations. One vote is granted per share, and profit is distributed per share. The rights and obligations arising from the shares are governed by the German Stock Corporation Act.

2. We are not aware of any restrictions affecting voting rights or the transfer of shares. However, shares allocated under employee stock plans are subject to a lock-up period before they may be sold.

3. We received no reports of direct or indirect equity investments in the capital of LANXESS AG exceeding 10% of total voting rights.

4. No shares carry special rights granting control authority.

5. Employees hold a direct interest in the capital of LANXESS AG through employee stock programs. There are no restrictions on directly exercising the control rights arising from these shares.

6. Sections 84 and 85 of the German Stock Corporation Act and Section 31 of the German Codetermination Act apply to the appointment and dismissal of Board of Management members. Under the provisions of these sections, Board of Management members are appointed by the Supervisory Board for a term not exceeding five years. Such appointment may be renewed or the term of office may be extended, provided that the term of each such renewal or extension shall not exceed five years. Appointments require a majority of at least two-thirds of the Supervisory Board members' votes. Section 6 Paragraph 1 of the articles of association states that the Board of Management must consist of at least two members. Over and above this, the number of members of the Board of Management is determined by the Supervisory Board. The Supervisory Board may appoint a chairman of the Board of Management and a vice chairman of the Board of Management. Alternative members of the Board of Management may be appointed. The Supervisory Board may revoke the appointment of a member of the Board of Management or the appointment of a member as Chairman of the Board of Management for cause (Section 84 Paragraph 3 of the German Stock Corporation Act).

   Section 179 of the German Stock Corporation Act provides that a resolution of the Stockholders' Meeting is required for any amendment to the articles of association. Pursuant to Section 17 Paragraph 2 of the articles of association, resolutions of the Stockholders' Meeting require a simple majority of the votes cast and, if a capital majority is required, a simple majority of the capital stock, unless otherwise required by law or provided by the articles of association. The articles of association contain no further provisions in this regard. Section 10 Paragraph 9 of the articles of association of LANXESS AG authorizes the Supervisory Board to resolve on amendments relating solely to the form of the articles of association.

7. Repurchase of own shares

   On May 28, 2010, the Annual Stockholders' Meeting of LANXESS AG issued an authorization, valid through November 25, 2011, to the Board of Management to purchase shares of the company up to a total of 10% of the company's capital stock for any legally permissible purpose. The company's affiliates as well as any third parties acting on the company's or its affiliates' behalf may also exercise this authority. At the discretion of the Board of Management, such shares may be acquired on the stock exchange or via a public purchase offer. The Board of Management is authorized to use them for any purpose permitted by law. In particular, it can retire the shares, sell them other than via the stock exchange or an offer to the stockholders, or transfer them against consideration in kind for the purpose of acquiring companies, parts of companies or equity interests in companies or in order to conclude mergers. It is also authorized to use them to satisfy conversion rights from convertible or warrant bonds and/or profit-participation rights or income bonds (or any combination of these instruments) issued by the company and to grant holders of convertible or warrant bonds and/or profit-participation rights or income bonds (or any combination of these instruments) issued by the company or its direct and indirect affiliates that grant a conversion or option right or stipulate a conversion or warrant obligation the number of shares for which such parties would be entitled to subscribe upon exercise of their conversion or option rights or fulfillment of the conversion or warrant obligation. Except when shares are retired, the subscription right of stockholders shall be excluded in the aforementioned cases.

• Conditional Capital I and II

On May 31, 2007, the Annual Stockholders' Meeting of LANXESS AG twice authorized the Board of Management to issue, on one or more occasions through May 31, 2012, convertible bonds and/or warrant bonds, profit-participation rights, and/or income bonds (or any combination of these instruments), made out to the bearer or registered, with or without limited maturity, up to a total par value of €500,000,000 in either case, and to grant the bearers or creditors of such bonds conversion or option rights to no-par bearer shares of the company up to a total value of €21,155,167 of the capital stock. As stated in Section 4 Paragraphs 4 and 5 of the articles of association of LANXESS AG, the capital stock of LANXESS AG has been increased conditionally up to the sum of €21,155,167 in each case in connection with these authorizations (Conditional Capital I and II). Each conditional capital 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 only difference between the two authorizations to issue convertible and/or warrant bonds, profit-participation rights, and/or income bonds (or any combination of these instruments) in connection with the creation of conditional capital is the amount of the conversion or option price. Otherwise they are identical in content. The Board of Management will utilize just one of the two authorizations. When issuing the convertible and/or warrant bonds, profit-participation rights, and/or income bonds (or any combination of these instruments), the Board of Management is authorized, subject to the approval of the Supervisory Board, to exclude the subscription right of stockholders in the following cases:

- for residual amounts resulting from the subscription ratio;
- with issues against cash contributions, if the issue price is not significantly lower than the theoretical market value of the convertible and/or warrant bonds or mandatory convertible bonds, as determined using accepted pricing models. If bonds are issued by application of Section 186 Paragraph 3 Sentence 4 of the German Stock Corporation Act, the issued shares may 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-participation rights or income bonds are vested with bond-like characteristics;
- if bonds are issued against contributions in kind for the purpose of acquiring companies, parts of companies, or equity interests in companies and the value of the contribution in kind adequately reflects the value of the bond; and
- to the extent necessary to grant no-par bearer shares of the company to the holders of conversion or subscription rights or to grant subscription rights to the creditors of mandatory convertible bonds for the number of shares to which such parties would be entitled upon the exercise of the conversion or option rights or the conversion of the mandatory bond.

• Authorized Capital I and II

Pursuant to Section 4 Paragraph 2 of LANXESS AG's articles of association, the Annual Stockholders' Meeting on May 7, 2009 resolved to authorize the Board of Management, with the approval of the Supervisory Board, to increase the company's capital stock on one or more occasions through May 6, 2014 by issuing new no-par shares against cash or contributions in kind up to a total amount of €16,640,534 (Authorized Capital I). Stockholders are generally entitled to subscription rights when Authorized Capital is utilized. With the approval of the Supervisory Board, subscription rights can be excluded for residual amounts and in order to grant holders of warrants and convertible bonds issued by the company and its affiliates subscription rights for the number of new shares to which such parties would be entitled upon the exercise of their conversion or option rights. Moreover, subscription rights can be excluded with the approval of the Supervisory Board when the company's capital stock is increased against contributions in kind, particularly for the acquisition of companies. Subscription rights can also be excluded with the approval of the Supervisory Board in order to grant holders of convertible and/or warrant bonds issued by the company or its affiliates new shares upon exercise of their rights. Finally, subscription rights can also be excluded with the approval of the Supervisory Board if the issue price of the new shares is not significantly lower than the stock market price at the time the issue price is fixed and the issued shares do not exceed 10% of the company's capital stock. Additional details are provided in Section 4 Paragraph 2 of the articles of association.

In addition, pursuant to Section 4 Paragraph 3 of LANXESS AG's articles of association, the Annual Stockholders' Meeting on May 28, 2010 resolved to authorize the Board of Management, with the approval of the Supervisory Board, to increase the company's capital stock on one or more occasions through May 27, 2015 by issuing new no-par shares against cash or contributions in kind up to a total amount of €16,640,534 (Authorized Capital II). Stockholders are generally entitled to subscription rights when Authorized Capital is utilized. With the approval of the Supervisory Board, subscription rights can be excluded for residual amounts and in order to grant holders of warrants and convertible bonds issued by the company and its affiliates subscription rights for the number of new shares to which such parties would be entitled upon the exercise of their conversion or option rights. Moreover, subscription rights can be excluded with the approval of the Supervisory Board when the company's capital stock is increased against contributions in kind, particularly for the acquisition of companies. Subscription rights can also be excluded with the approval of the Supervisory Board in order to grant holders of convertible and/or warrant bonds issued by the company or its affiliates new shares upon exercise of their rights. Finally, subscription rights can also be excluded with the approval of the Supervisory Board if the issue price of the new shares is not significantly lower than the stock market price at the time the issue price is fixed and the issued shares do not exceed 10% of the company's capital stock. Additional details are provided in Section 4 Paragraph 3 of the articles of association.

8. The service contracts between the company and the members of the Board of Management of LANXESS AG contain provisions regarding the potential departure of the members of the Board of Management in the context of a change of control. These are outlined in the Compensation Report in this Management Report. Such agreements, albeit with different terms, also exist between the company and members of the first and second levels of upper management. In addition, the terms of the €500 million Euro Benchmark Bond issued by LANXESS Finance B.V. in 2005 contain a change-of-control clause which gives bondholders the right to redeem the bond should certain events occur that affect its rating. The bond was guaranteed by LANXESS AG. The same applies to the terms of the €500 million and €200 million Euro Benchmark Bonds issued by LANXESS Finance B.V. in the 2009 fiscal year, which are also guaranteed by LANXESS AG. The company has signed agreements with two major banks for loans of €100 million and €93 million, respectively. These agreements may be terminated without notice or the repayment of outstanding loans may be required if another company or person gains control of more than 50% of LANXESS AG. The company also entered into an agreement with a syndicate of banks concerning a credit facility that is currently at €1,408 million. This agreement can also be terminated without notice if another company or person takes control over more than 50% of LANXESS AG. Furthermore, according to agreements between the company and LANXESS Pension Trust e.V., the company is obligated to make considerable payments to LANXESS Pension Trust e.V. in the event of a change of control.

9. The service contracts between the company and the members of the Board of Management of LANXESS AG as well as between the company and members of the first and second levels of upper management of LANXESS AG contain compensation agreements applicable in the event of a change of control, as such change is more particularly described in the respective contracts.

PROCUREMENT AND PRODUCTION

Procurement LANXESS uses a centrally managed global procurement organization to ensure a reliable supply of materials and services. Global Categories coordinate with the business units to pool requirements. A worldwide procurement network helps them leverage purchasing synergies, so that LANXESS can move efficiently in the market and exploit price advantages. We avoid delivery bottlenecks or reliance on individual suppliers using techniques like multiple sourcing. LANXESS systematically applies best-practice processes. These include e-procurement tools, such as e-catalogs and electronic marketplaces, many of which are integrated into the company's internal IT systems. About 48% of all items ordered are now handled through e-procurement.

Our HSEQ management process begins with the procurement of raw materials and services. LANXESS expects its suppliers to comply with all applicable national and other laws and regulations on safeguarding the environment, ensuring health and safety in the workplace and using appropriate work and hiring practices. These criteria also play an important role in our selection and evaluation of suppliers. Regular supplier audits conducted in Germany and abroad help verify compliance with these regulations. Internally, a global procurement directive defines how LANXESS staff should behave towards suppliers and their employees.

Procuring chemical raw materials is a significant priority at LANXESS. The biggest suppliers here in 2010 included BASF, Bayer, BP, Braskem, Chevron Phillips, Evonik, Exxon Mobil, INEOS, LyondellBasell, Nova Chemicals, Sabic, Shell Chemicals, Texas Petrochemicals and Total/ Petrofina.

Among the most important strategic raw materials by far for our production operations in 2010 were ammonia, 1,3-butadiene, crude butadiene, benzene, chlorine, cyclohexane, isobutylene, caustic soda, toluene and styrene. In all, strategic raw materials accounted for a purchasing volume of about €2.6 billion in fiscal 2010 (2009: approx. €1.4 billion), or around 75% of the LANXESS Group's total expenditure for raw materials and goods in 2010, which amounted to approximately €3.5 billion. The total procurement volume in 2010 was around €4.8 billion (2009: about €3.2 billion).

The company is not dependent on individual suppliers. Furthermore, no delivery shortfalls or bottlenecks occurred in the reporting period that had an adverse material effect on the company's business development.

Production LANXESS is one of the world's major producers of chemical and polymer products. Our production facilities make anywhere from very small batches of custom-synthesized products to basic, specialty and fine chemicals and polymers in quantities of several ten thousand tons.

Each of the Group's production facilities is organizationally assigned to an individual business unit. The most important production sites are at Leverkusen, Dormagen and Krefeld-Uerdingen, Germany; Antwerp, Belgium; Baytown, United States; Sarnia, Canada; and Wuxi, China. LANXESS also has other production sites in Argentina, Australia, Belgium, Brazil, China, France, Germany, India, Italy, Japan, South Africa, Spain, the United Kingdom and the United States.

The following changes occurred in our global production network in 2010:

- The Basic Chemicals business unit completed the capacity expansion of its integrated aromatics production network at the Leverkusen site.
- Also in Leverkusen, Saltigo significantly expanded its capacity for the synthesis of active ingredients for crop protection products.
- In Jinshan, China, the Inorganic Pigments business unit commissioned new capacities for the production of iron oxide pigments.
- In 2010, the Functional Chemicals business unit began increasing its production capacity for Mesamoll® in Krefeld-Uerdingen.
- The relocation of a production plant in the Rubber Chemicals business unit from Thane to Jhagadia in India was successfully completed in March 2010.
- In Bitterfeld, Germany, the Ion Exchange Resins business unit met its schedule in starting the pilot and development phase of the new facility for the production of pioneering membrane filtration technology at the close of 2010.
- The new plant of the Ion Exchange Resins business unit in Jhagadia, India, also came on stream in late 2010.

In the past fiscal year, we invested €529 million, including cash outflows of €501 million, primarily in expanding and maintaining our production capacities. Additional information is given under "Capital expenditures" in the Financial Condition section.

SALES ORGANIZATION AND CUSTOMERS

Sales organization LANXESS sells its products all over the world, to several thousand customers in more than 150 countries across all continents. LANXESS's long-standing customer base includes leaders in each of its user industries. We have well-established customer relationships in all sales regions. To meet our customers' needs, we have set up very flexible marketing and sales structures. Sales are managed throughout the world through 44 companies owned by LANXESS itself. In countries where LANXESS does not have its own company, we work with local sales partners.

To keep as close as possible to customers and ensure they receive individual support, the LANXESS business units each manage their own sales organizations. Another competitive advantage for LANXESS is provided by our 42 production sites in 16 countries. Wherever possible, customers are supplied from production sites in the same region, which saves them both time and money.

In parallel with the construction of the new butyl rubber production facility in Singapore, we also moved the global headquarters of the Butyl Rubber business unit from Fribourg, Switzerland, to Singapore during 2010. With this move we are responding to the increasing importance of the Asian market, where China, India and South Korea in particular are showing strong growth rates.

Orders worth some €1,100 million, or 15.4% of total sales, were processed via e-business in fiscal 2010. This capability is provided by the "LANXESS one" Internet portal and the system-to-system connections via "ELEMICA." Compared with the previous year, the net sales invoice values accounted for by e-business increased by approximately 34% in euro terms. This is attributable to the growth in business in 2010 and to additional partners joining the electronic system for the exchange of order information. Altogether, almost 300,000 orders and the respective automated following notices in the areas of purchasing, sales and logistics were handled as e-business. LANXESS will continue to systematically expand this process, which provides benefits for all involved. In 2010, for example, we introduced a process for handling incoming paperless supplier invoices that are acceptable for tax purposes.

Selling costs for fiscal 2010 came to 9.1% of LANXESS Group sales, down 1.4 percentage points on the prior-year level of 10.5%.

The table below shows selling costs over the last five years.

Selling Costs

	2006	2007	2008	2009	2010
Selling costs (€ million)	766	659	658	530	646
in % of sales	11.0	10.0	10.0	10.5	9.1

Customers Because of its many products and lines of business, LANXESS has business relationships with a vast range of customers all over the world. They need an individualized, well-focused approach, which we are able to provide because our sales organizations are managed through the business units. Individual marketing strategies are reviewed on the basis of regular customer satisfaction surveys.

LANXESS serves the following industries in particular: tires, chemicals, automotive supply, plastics, electronics, agrochemicals, pharmaceuticals, food, water treatment, construction and furniture.

Shares of Sales by Industry Sector

in %	2010
Tires	~25
Chemicals	~15
Automotive	~15
Construction, electrical/electronics, agrochemicals, leather/footwear	in each case 5–10
Others (cumulative share)	~15

In fiscal 2010, the LANXESS Group's top ten customers accounted for about 25% of total sales as in the previous year. None of our customers accounted for more than 10% of Group sales. 40 (2009: 28) customers accounted for annual sales in excess of €20 million. The increase is due to the strong recovery in our customer industries and the resulting rise in purchasing volumes by key accounts.

The number of customers in each segment varied widely. The Performance Polymers segment had some 3,100 customers in 2010 (2009: 3,500), while Advanced Intermediates and Performance Chemicals had about 2,900 (2009: 2,700) and 12,400 (2009: 13,400), respectively. This information is based on the amount of customer numbers in each segment. Each segment includes all customer groups and sales categories. However, one customer may do business with more than one segment.

The comparatively low sales per customer in the Performance Chemicals segment, as well as its broad customer base, reflect the way in which its business often involves custom-tailored solutions in specialty chemicals. The substantially lower number of customers in the Performance Polymers segment, which generates relatively high sales, is likewise typical of the synthetic rubber products business. This extensive customer base means that no segment can be considered dependent on just a few customers.

RESEARCH AND DEVELOPMENT

LANXESS continued to expand its research and development activities in 2010. In addition to refining and optimizing its existing products and processes with a short- to medium-term time horizon, the Innovation Group Function set up in 2009 initiated mainly medium- to long-term research projects to also ensure LANXESS's success in the high-growth business segments of the future, thereby safeguarding the company's sustainable performance.

Cost trend and employees Our total research and development expenditures in 2010 amounted to €116 million, or 1.6% of sales (2009: €101 million, or 2.0% of sales). The decrease of 0.4 percentage points compared with the previous year is attributable to the higher increase in sales than expenditures. The Butyl Rubber, Saltigo, Technical Rubber Products and Semi-Crystalline Products business units accounted for the largest share of these expenditures at 53% in 2010 (2009: 55%). Saltigo, Material Protection Products and Butyl Rubber were the business units most active in research in terms of their ratios of research and development expenses to sales.

The table below shows research and development expenditures in the last five years.

Research and Development Expenditures

	2006	2007	2008	2009	2010
Research and development expenditures (€ million)	87	88	97	101	116
in % of sales	1.3	1.3	1.5	2.0	1.6

LANXESS research and development laboratories worldwide had an average of 519 employees at the end of 2010 (2009: 489 employees). Our largest research and development units are at the sites in Leverkusen, Krefeld-Uerdingen and Dormagen, Germany; London, Ontario, Canada; and Qingdao and Wuxi, China. In 2010, we also opened our global research and development center for nitrile rubber (NBR) in La Wantzenau, France. Consolidating our NBR research and development activities will put us in an even better position in the future to develop innovative, high-quality, sophisticated products that are tailored to our customers' specific requirements.

Number of Employees in Research and Development

	2006	2007	2008	2009	2010
Year end	390	408	453	489	519
In % of Group employees	2.4	2.8	3.1	3.4	3.5

Fields of activity and patent strategy In 2010, we conducted approximately 170 research and development projects, around 100 of which aimed to develop new products and applications or improve existing ones. Some 70 projects concerned process technology issues with a view to reducing costs, improving efficiency or increasing capacity. Roughly 20% of the research and development projects started in 2010 are scheduled to reach the market or technical implementation stages by the end of 2011.

The results of our research and development work are protected by patents, where this is possible and expedient. In the course of 2010, we submitted 107 priority applications worldwide (2009: 89). As of December 31, 2010, the full patent portfolio includes approximately 1,120 patent families covering around 5,930 property rights.

Organizational focus Our research and development activities are closely allied to the needs of the market and our customers. Organizationally, the LANXESS Group's research and development units are assigned to the individual business units. For example, business units with a substantial proportion of products in very mature markets, such as Basic Chemicals, concentrate on constantly improving their production facilities and processes (process optimization). Other business units focus their research and development activities more on optimizing products and product quality and developing new products to meet market requirements and customers' special needs. We have set ourselves the goal of aligning our research programs in the future more directly and more systematically with the major global megatrends: the expanding need for mobility, the sharp rise in global food requirements, increasing urbanization and the growing demand for water.

Basic research at LANXESS is conducted mainly via alliances with universities and research institutes. Generating knowledge in this way is substantially more efficient and cost-effective than if the company were to maintain its own resources for this purpose. In 2010, the company had a total of 143 major research and development alliances, 53 of which were with universities, 53 with suppliers or customers, and 37 with research institutes.

Innovation Group Function As a central unit, the Innovation Group Function complements the business units' research work with new, longer-term, cross-business unit projects to ensure that potential synergies are exploited to the fullest and innovations can be applied in various LANXESS units. The Innovation Group Function's research focuses on process and product innovation.

Process innovation bolsters our efforts to develop new processes and integrate new technologies into existing production processes with the aim of achieving cost leadership. Compared with previous years, we again stepped up reviews of current production processes using mathematical methods in order to pinpoint optimization potential. This approach enabled us to identify considerable savings on raw materials and energy and, in some cases, already economize in these areas. We achieved further savings in operating costs by implementing our process control concepts in a number of facilities. These newly implemented concepts – including online analytics – enable us to operate plants even closer to the optimum operating point and, in addition to reducing costs in some cases, increase their capacity as a result. Against the backdrop of LANXESS's growth strategy, we are also increasing our efforts to refine the technological aspects of our processes for growth projects.

In contrast, product innovation concentrates on developing new products, new applications for existing products and product modifications. The search for new products is more broadly based than in the business units, the main topics are generally applicable to multiple business units, and there is a medium- to long-term time horizon. Here, too, our research goals are derived from the global megatrends. We have already transformed a large number of project ideas into concrete projects with the help of standardized processes. These are regularly evaluated with regard to their technological and financial attractiveness. Our broad network of external partners was expanded through the establishment of new alliances with universities, institutes and leading companies in various fields such as biotechnology, nanotechnology, microtechnology and membrane technology. One of the collaborative research ventures we entered into was with the Russian Academy of Sciences (RAS), which numbers among the world's most distinguished scientific institutions and has a history dating back over 285 years. The goals of this alliance are the active exchange of information on scientific trends, innovative research developments and the initiation of cooperation projects. Several such projects were commenced in the year under review with well-known research institutes affiliated with the RAS. Activities in LANXESS's own laboratories were also driven forward and are already starting to bear fruit.

Overall, research and development plays a significant role in increasing LANXESS's competitiveness and further expanding the company's business through the development of innovative, original processes and products.

CORPORATE RESPONSIBILITY

LANXESS's guiding principles are essentially shaped by a sense of corporate responsibility. In our business activities we are committed to taking account of the demands of economics, ecology and society in equal measure – in the interests of sustainable development. Accordingly, this issue is firmly anchored in LANXESS's organization, requiring everyone in the company to adopt a responsible attitude in dealing with people, the environment and capital. In practice, this means that we always apply our high sustainable management standards in making entrepreneurial decisions.

In spring 2006, LANXESS became one of the signatories to the Responsible Care® Global Charter that was launched by the International Council of Chemical Associations as a significant step toward sustainable development. Our corporate directives on quality and environmental policy integrate the principles of the charter into our guidelines and corporate strategy. Moreover, our Corporate Compliance Directive is a code of legal compliance and responsible conduct that is binding on all LANXESS employees and commits them to act in accordance with the law, apply the principles of Responsible Care® and demonstrate ethical conduct.

Product responsibility and environmental management We expressly support the protection goals of European chemicals policy. During the first registration phase stipulated by the REACH regulation, we submitted the dossiers for all 193 substances affected at LANXESS to the European Chemicals Agency (ECHA) by the deadline of November 30, 2010. A further 250 substances from our portfolio are now due to be registered during the second phase, which runs until the end of May 2013. We expect to have to complete a total of some 750 dossiers over all three phases through 2018.

In addition to REACH, there is another important regulation in European chemicals policy – the CLP Regulation – which serves to implement the international GHS initiative in the European Union. The objective of GHS is the global harmonization of existing classification and labeling systems used in various sectors, such as transportation and consumer, employee and environmental protection. The CLP Regulation (also sometimes referred to as the GHS Regulation) stipulated the classification and labeling of all chemical substances in the E.U. by December 1, 2010. We also met this deadline for all relevant substances in our portfolio.

We have established a globally integrated management system to breathe life into the concept of sustainable development in our everyday business. Strict quality and environmental standards in line with ISO 9001 and ISO 14001 are applied worldwide and are used as the basis for steering the company's activities.

In 2007, we started integrating all our sites worldwide into a single management system covered by a matrix certificate. The company regularly commissions external, independent experts to audit and verify the status of this process. In 2010, a further 24 sites were added to the matrix certificate. For our sites in the United States, we have also received certification to RC14001.

Environment data We use an electronic system for the systematic global recording of key performance indicators (KPIs) in the areas of health, safety and environmental protection. Data for all indicators except the LTIFR are gathered from all LANXESS production sites in which the company owns an interest of more than 50%. In December 2010, auditors Deloitte evaluated the consistency of the data recording process and the appropriateness of the data recording system. For the first time, most of the HSE data for 2009 were audited to achieve a "reasonable assurance" rating and received an unreserved certificate.

Social commitment Our not-for-profit activities focus on providing support for education in schools and universities. In 2008, we launched an extensive education initiative in North Rhine-Westphalia that underscores our clear commitment to Germany as a business location. Within the framework of this initiative we have invested around €2.5 million in a large number of projects over the past three years. Based on the very positive feedback we received, we decided in the year under review not only to continue the initiative, but also to extend it beyond North Rhine-Westphalia to other schools close to our sites in Germany.

We are also committed to fostering scientific knowledge among students at our international locations. We strengthened this commitment during the year under review with additional projects in India and Brazil.

LANXESS is one of the world's leading suppliers of products for the purification and treatment of water. The expertise acquired by our Ion Exchange Resins and Inorganic Pigments business units over the decades enables them to play a key role in solving the global water problem. Using this expertise for charitable purposes is a further focus of our corporate social commitment.

EVENTS AFTER THE REPORTING PERIOD

Effective January 11, 2011, LANXESS acquired the Darmex group comprising Darmex S.A., Buenos Aires, Argentina, and Werlind Chile S.A., Santiago de Chile, Chile, as well as their subsidiaries. The Darmex group is a leading manufacturer of release agents and curing bladders for the tire industry. Bladders are used in the manufacture and vulcanization of tires. The unvulcanized tire blank is pressed by internal pressure with a bladder against the internal wall of the vulcanization press that gives the tire its shape. With this acquisition, which has been assigned to the Rhein Chemie business unit in the Performance Chemicals segment, LANXESS is expanding its activities in Latin America, for example. It will also give us access to bladder technology. Darmex employs around 200 people at its three production facilities in Argentina and Uruguay, and has customers in more than 50 countries.

On December 14, 2010, LANXESS reached agreement with Dutch company Royal DSM N.V. to acquire the DSM Elastomers group for €310 million on a cash- and debt-free basis. Based in Sittard-Geleen, the Netherlands, DSM Elastomers produces the synthetic rubber ethylene propylene diene monomer (EPDM) at facilities in the Netherlands and Brazil and has around 420 employees worldwide. The business complements the EPDM activities of the Technical Rubber Products business unit in the Performance Polymers segment. Through the transaction, LANXESS also aims to strengthen its own technology base in the area of EPDM. The shares will be transferred upon closing, which is scheduled for the first half of 2011. Up until the date of the transfer, LANXESS is not entitled to any shareholder or other control rights.

On February 28, 2011, the LANXESS Group acquired the material protection business of Syngenta AG, Basle, Switzerland. This acquisition by the Material Protection Products business unit in the Performance Chemicals segment will make LANXESS one of the leading suppliers of biocidal agents for construction materials. Selected intangible assets will be transferred on the basis of the acquisition. These will give LANXESS strategic access to the fungicide and insecticide ingredients and technologies developed by Syngenta. Production facilities and employment contracts with Syngenta employees are not the subject of the transaction, which is expected to be completed in the second quarter of 2011.

Based on figures from 2010, the acquisitions will contribute sales of around €400 million to the results of operations in 2011. It is also expected that the new activities will make a positive contribution to net income in the current fiscal year.

In February 2011, LANXESS extended its commitment to the use of biological raw materials in the production of high-quality synthetic rubber by increasing its minority interest in Gevo Inc., Englewood, Colorado, United States, acquired in May 2010. The U.S.-based company specializes in the production of renewable chemicals and ultra-modern biofuels. By increasing its investment by US$17 million (€13 million) in the course of the IPO by Gevo Inc., LANXESS expanded its holding to 9.1%. This investment underscores LANXESS's commitment to "green chemistry" and sustainable production, concepts that will become increasingly important in the coming years.

No other events of particular significance took place after December 31, 2010 that could be expected to have a material effect on the cash flows, financial condition and results of operations of the LANXESS Group.

REPORT ON RISKS AND OPPORTUNITIES

Expected changes in business conditions

General business conditions We expect the world economy to continue growing in 2011 and are predicting a 3.5% increase in global gross domestic product (GDP). However, a number of uncertainties will continue to influence the world economy in the current fiscal year. These arise from the very high public debt in some countries, which is resulting in exchange rate volatility and a demand-driven rise in raw material prices. Overall, growth rates can still be expected to vary substantially from region to region, with the fastest expansion occurring in the emerging economies.

We anticipate a significant increase in China's GDP of between 8% and 9%. According to our estimates, India will again post high growth of 8%. A more modest increase of 3% is forecast for the United States, where the very slow recovery of the real estate market and continued high unemployment are holding back economic development. Weaker growth of below 2% is also forecast for Europe due to the high levels of public debt in some countries and the fiscal measures implemented to reduce deficits. Germany could buck this trend slightly with growth of 2% to 3%.

We believe that the economies of the individual regions will continue to perform very differently in the coming years. While Asia's emerging markets will remain the motor of the global economy, only a slight improvement is expected in the industrialized nations.

Expected Growth in GDP

Change vs. prior year in real terms (%)[1]	Gross domestic product		
	2011	2012	2013–2015
Americas	3.5	3.5	3.5
NAFTA	3.5	3.0	3.5
Latin America	5.0	5.0	5.0
EMEA	2.5	2.5	3.0
Germany	2.5	2.0	2.0
Western Europe	2.0	2.0	2.0
Central and Eastern Europe	4.0	4.0	4.0
Asia-Pacific	5.0	5.5	5.5
World	**3.5**	**3.5**	**4.0**

1) Rounded to the nearest 0.5%
Data based mainly on forecast by IHS Global Insight in February 2011

Expected Growth in Chemical Production

Change vs. prior year in real terms (%)[1]	Chemical production		
	2011	2012	2013–2015
Americas	3.5	3.0	2.5
NAFTA	3.0	2.5	2.0
Latin America	5.0	5.0	4.5
EMEA	3.5	3.5	3.0
Germany	5.0	3.0	2.0
Western Europe	3.0	3.0	2.5
Central and Eastern Europe	5.5	4.5	4.0
Asia-Pacific	8.0	7.5	7.0
World	**5.5**	**5.0**	**4.5**

1) Rounded to the nearest 0.5%
Data based mainly on forecast by IHS Global Insight in February 2011

According to International Monetary Fund forecasts, the uptrend in raw material prices will tail off perceptibly in the course of 2011. Averaged over the year, however, prices are still expected to be higher than in 2010. The IMF predicts that crude oil prices will climb by around 13%.

We expect an average exchange rate of US$1.40 to the euro in 2011. As far as energy prices are concerned, we assume an average increase of around 15%.

Future performance of the chemical industry Against the backdrop of global economic growth, we predict that the chemical industry will expand by 5.5% in 2011. Production should continue to grow in the subsequent years as well, albeit at a slightly slower pace. Asia, the Middle East, central and eastern Europe and South America, and especially the BRIC countries of Brazil, India and China, will remain the primary drivers of this growth.

Rising capacities in the growth regions will further increase competitive pressure on the traditional industrialized nations – countries that are also impacted by relatively weak domestic demand. We therefore expect production in these countries to grow at a slower pace than the global average.

Future evolution of selling markets In 2011, we expect the selling markets that are most important to LANXESS to trend in line with the global economy.

Demand in the **tire industry** is expected to expand by 5% to 6%. Asia will remain the growth leader with an anticipated 8%, although China should see above-average growth of 11%. The uptrend will probably be more moderate in the NAFTA region (+2%) and Europe (+3%).

The **automotive industry** will sustain its growth trend in 2011, though at the slower rate of an estimated 5%. Alongside the developing Asian economies, we anticipate strong performance in the NAFTA region, although the baseline there is relatively low in the wake of the steep decline that occurred during the crisis.

We believe that the persistently high food prices and the continuing trend for biofuels will push up demand for **agrochemicals** and drive market growth of at least 6% in 2011. The main growth regions will be Asia, Latin America and Europe.

Growth in the **construction industry** is likely to remain sluggish in most markets in 2011. We estimate that only the emerging markets will see significant gains and therefore forecast expansion of 6% in Asia, for example. The construction sector in the NAFTA region is expected to recover, whereas stagnation is predicted for western Europe.

Expected Evolution of Major User Industries

Change vs. prior year in real terms (%)[1]	Tires			Automotive			Agrochemicals			Construction		
	2011	2012	2013 – 2015	2011	2012	2013 – 2015	2011	2012	2013 – 2015	2011	2012	2013 – 2015
Americas	3.0	2.5	1.0	9.0	9.0	4.5	5.5	3.5	3.0	4.0	8.5	7.5
NAFTA	2.0	2.0	(1.5)	8.5	11.5	4.0	4.5	2.5	2.0	3.0	9.0	7.5
Latin America	7.0	5.0	5.5	11.0	3.0	6.5	6.5	4.5	5.0	7.0	6.0	6.0
EMEA	4.0	4.5	3.0	0.5	5.0	7.5	7.0	3.5	3.5	1.5	2.0	2.5
Germany	(1.0)	(1.0)	(0.5)	(1.0)	3.0	3.5	8.0	3.5	3.0	2.0	1.5	0.5
Western Europe	0.0	1.0	0.5	(3.0)	1.5	6.5	7.0	2.5	3.0	0.5	1.5	2.0
Central and Eastern Europe	8.0	8.5	5.5	4.5	9.0	11.0	9.0	4.5	4.0	4.5	4.5	5.0
Asia-Pacific	8.0	9.5	7.5	6.5	11.5	6.5	7.0	6.0	6.5	6.0	6.0	6.0
World	**6.0**	**7.0**	**5.5**	**5.5**	**9.0**	**6.5**	**6.5**	**4.5**	**4.5**	**3.5**	**5.0**	**5.0**

1) Rounded to the nearest 0.5%
Data based mainly on forecasts by IHS Global Insight, JD Power, LHC and other sources in February 2011

Risk Report

Risk management The LANXESS Group's success is significantly dependent on identifying the opportunities and risks in business activity and actively managing them. Effective risk management is therefore a core element in safeguarding the company's existence for the long term and ensuring its successful future development. LANXESS's risk management activities are based both on internal organizational workflows, which are managed by way of control and monitoring mechanisms, and on early warning systems that are used to closely observe changes in external conditions and systematically implement the appropriate measures. Like all methods for dealing with business risk, this system does not offer absolute protection. However, it does serve to prevent business risks from having a material impact on the company with a sufficient degree of certainty.

LANXESS's opportunity and risk management approach is based on clearly defined business processes, the precise assignment of responsibilities throughout the Group, and reporting systems that ensure the timely provision of the information required for decision-making to the Board of Management or other management levels. The company's risk management system is based on an integration concept, i.e. the early identification of risks is an integral part of the management system and not the object of a separate organizational structure. The risk management system comprises many different elements that are embedded in the overall structural and process organization. Risk management is viewed as a primary duty of the heads of all business units, as well as of those people in Group companies who hold process and project responsibility. Risk management is incorporated into business processes primarily through the company's organizational structure, its planning, reporting and communication systems, and a body of detailed management regulations and technical standards. Various committees and other bodies at LANXESS discuss and monitor opportunities and risks.

At LANXESS, the business units each conduct their own operations, for which they have global profit responsibility. Group functions and service companies support the business units by providing financial, legal, technical and other centralized services. Complementing this global alignment of the business units and group functions, the country organizations ensure the required proximity to markets and the necessary organizational infrastructure. In line with this division of duties, LANXESS has assigned responsibility, i.e. defined the risk owners, for the following:

- risk identification and analysis,
- risk prevention (measures taken to avoid, minimize or diversify risk),
- risk monitoring (e.g. on the basis of performance indicators and, perhaps also, early warning indicators),
- risk mitigation (measures to minimize damage upon occurrence of a risk event) and
- communication of the key risks to the management committees of the business units and group functions.

Transactions particularly for the transfer of financial but also operating risks (hedging transactions or insurance) are entered into and managed centrally at LANXESS via the Treasury Group Function.

Due to the highly integrated nature of our general business processes, we have specialized committees composed of representatives of the business units and group functions who deal with issues concerning the Group's risks and opportunities. This enables LANXESS to react quickly and flexibly to changing situations and their influence on the company.

The Corporate Controlling Group Function collects and aggregates key information across the Group. Opportunities and risks are identified three times per year during the intrayear forecasting process and additionally one time per year as part of the budget and planning process for the subsequent year and the medium-term forecast horizon. The reported opportunities and risks are collected in a central risk database and regularly analyzed for the Board of Management and Supervisory Board. This ensures that when new risks and opportunities arise that could have a material effect on LANXESS, or when existing ones change substantially, the necessary information can be communicated in a timely manner all the way to the Board of Management and therefore also be specifically integrated into the general management of the company.

The reporting threshold for opportunities and risks is an effect of €1 million on the Group's net income or EBITDA, taking into account a minimum probability of occurrence. This low reporting threshold guarantees that the information gathered about opportunities and risks is comprehensive and, even in the data collection phase, that this information is not just limited to material risks or risks that could jeopardize the future of the company as an ongoing concern. Instead, the Corporate Controlling Group Function centrally determines the top opportunities and risks later in the process. The threshold for material risks has been defined at €10 million for the Group.

Apart from regular, centralized collection and documentation of business risks, corporate planning is another core element of opportunity and risk management at LANXESS. Opportunities and risks with a likelihood of occurrence greater than the specified minimum probability flow directly into the planning process. Forecasts are prepared and those risks and opportunities considered relatively likely to materialize are presented as worst-case/best-case scenarios. The processes for corporate planning and intrayear forecasting as well as the corresponding analyses and suggestions for action are steered by the Corporate Controlling Group Function, which works closely in this regard with the business units. Certain Board of Management meetings are dedicated to discussing and adopting corporate planning, including the associated opportunities and risks. Each fiscal year, the annual plan is adjusted and monitored by regularly recording current expectations. Significant and strategic opportunities and risks are systematically analyzed and evaluated by the Corporate Development Group Function with the goal of ensuring that the Group is pursuing the correct long-term strategy.

There is also provision for immediate internal reporting on specific risk issues such as significant corporate compliance violations. In 2010, there was no cause for immediate reporting of this kind on significant risks at LANXESS.

LANXESS's risk management principles are laid down in a Group directive. Risk management also includes preventing illegal conduct by our employees. To this end, we obtain extensive legal advice concerning business transactions and obligate employees by means of our compliance code to observe the law and to act responsibly. A Compliance Committee promotes and monitors adherence to these compliance guidelines. Its work is supported by compliance officers who have been appointed for each country in which LANXESS has a subsidiary. The Compliance Committee is chaired by a compliance officer, who reports directly and regularly to the Board of Management.

LANXESS has acknowledged that managing the company necessarily involves managing risk. Steps have been taken to ensure that potential risks or opportunities relevant to the attainment of corporate goals are fully identified and quantified at an early stage. Preventive measures and safeguards minimize the probability that risks will materialize and limit their potentially adverse effects. The management of opportunities and risks is one of LANXESS's goals and therefore constitutes an integral part of decision-making processes.

Accounting aspects of the internal control and risk management system The aspects of the internal control and risk management system relating to the accounting process include the principles, procedures and measures required to ensure the effectiveness, efficiency and propriety of the company's accounting, and compliance with applicable legal regulations. To this end, the LANXESS Group has implemented clear organizational, control and monitoring structures. The distinctive features of the chemical industry and the risk management tools used regularly by LANXESS in this regard are taken into account. In addition to the accounting process in its narrower sense, this also includes the aforementioned structured budget and forecasting process, and extensive contract management. However, the effectiveness and reliability of the internal control and risk management system can be restricted by discretionary decisions, criminal acts, faulty controls or other circumstances. Thus, even if the system components used are applied Group-wide, complete security in terms of the correct and timely recording of accounting issues cannot be guaranteed.

The Accounting Group Function, which reports to the CFO, is responsible for the accounting process and therefore for preparing the consolidated financial statements of the LANXESS Group and the single-entity financial statements of the companies in the LANXESS Group. Consolidated interim financial statements are prepared each quarter. The condensed consolidated half-yearly financial statements are reviewed, while the consolidated annual financial statements are subjected to a full audit by the auditor of the Group's financial statements. The foundation for uniform and IFRS-compliant consolidated financial reporting at LANXESS is the Group Financial Statements Guideline. This governs the way the provisions of the International Financial Reporting Standards (IFRS) applicable to the Group are applied by the subsidiaries as reporting entities. Moreover, the guideline also defines charts of accounts that are binding throughout the Group. On the IT side, the guideline is supplemented by a uniform, Group-wide delivery and consolidation system that is based largely on off-the-shelf software and is protected by security measures against unauthorized access.

The control and monitoring of LANXESS's group accounting processes ensure that generally accepted accounting practices in line with the applicable laws and standards, particularly the IFRS, are applied at LANXESS and guarantee the reliability of the company's financial reporting. The accounting-related internal control system used by the LANXESS Group is based on generally accepted standards (COSO model). There were no material changes to this system during the period under review. Corresponding standards also apply to the single-entity financial statements of the subsidiaries.

Preparation of the consolidated financial statements is based on a structured process that includes specifying a financial statement calendar as well as regular reviews of the completeness of the scope of consolidation. The principle of the separation of functions as expressed in structured authorization and approval procedures and the dual-control principle as well as continual plausibility testing is applied end-to-end throughout the preparation and consolidation process.

For the preparation of LANXESS's consolidated financial statements, all subsidiaries subject to reporting requirements transmit their Group reporting data using the above-mentioned consolidation system. Validation rules integrated into the system ensure that the data reported by the subsidiaries is consistent at the time of delivery. The ultimate responsibility for the correctness of the reported data in terms of content lies with the accounting departments of the subsidiaries. The Corporate Accounting Department conducts more detailed testing of the correctness of the data content. To this end, the department evaluates standardized reports in which the companies explain material facts relevant to financial reporting. After the process-based controls have been applied, Group consolidation including currency translation is carried out in the same system, without additional interfaces, utilizing both automated and manual procedures. The correctness of the automated consolidation steps and of the master data necessary for this purpose is reviewed regularly. Consolidation information that must be entered manually is posted separately, documented to the extent required and verified downstream. This is supplemented by validation rules that are integrated into the system.

Regular coordination with other financial group functions, particularly the Treasury, Tax and Controlling group functions, assists the financial reporting process. A continual exchange of information with the operating business units and other group functions makes it possible to identify and deal with issues arising outside of accounting processes. These include litigation risks, projections for impairment testing and special contractual agreements with suppliers or customers. In addition, third-party service providers are consulted on special issues, particularly relating to the valuation of pensions and other post-employment benefits.

Monitoring of risk management and the internal control system Monitoring of risk management and of LANXESS's internal control system (ICS) by means of process-independent testing is part of the risk management system. Within the Group, the Internal Auditing Group Function is tasked with overseeing both the functionality of the internal control and monitoring system and compliance with organizational safeguards. Planning of audits (selection of audit subjects) and audit methods applied by this group function are correspondingly aligned with risks. To assess the effectiveness of the ICS, an annual self-assessment is also carried out in major Group companies, operating units and group functions. In addition, the early warning system is evaluated by the auditor as part of the audit of the annual financial statements. The Supervisory Board also exercises control functions, including regular monitoring of the efficiency of the risk management system by the full Supervisory Board and by its Audit Committee. The Audit Committee reviews reports about the nature and results of the Compliance Committee's work and the work performed by the Internal Auditing Group Function.

Risks of future development

Market risks LANXESS is inherently exposed to the general economic and political opportunities and risks of the countries and regions in which the LANXESS Group operates. As a chemicals enterprise, LANXESS is subject to economic risks and the risks typical of this industry sector. The volatility and cyclicality of the global chemical and polymer markets and their dependence on developments in customer industries harbor opportunities and risks with respect to LANXESS's business volume.

In addition to being subject to economic and cyclical market risks, LANXESS's risk profile is influenced by structural changes in markets, such as the entry of new suppliers, the migration of customers to countries with lower costs, and product substitution or market consolidation trends in some sectors. LANXESS counters such trends with comprehensive measures designed first and foremost to achieve a sharper focus and arrive at a product portfolio with which it can operate successfully for the long term. At the same time, LANXESS systematically manages costs. On the procurement side, the principal risk lies in the volatility of raw material and energy prices. If the price of the materials we use increases, our production costs increase. If the price of the materials we use decreases, inventories may need to be written down. LANXESS mitigates this type of procurement risk by following a sensible inventory and procurement policy. Most of the company's raw material needs are met with long-term supply contracts that have price escalation clauses, and many agreements with customers also contain price escalation clauses. LANXESS also hedges this risk in some cases via derivatives transactions if liquid futures markets are available for hedging raw material and energy price risks. Detailed information is contained in the section headed "Raw material price risks" under Note [33], "Financial instruments," to the Consolidated Financial Statements. To guard against possible supply bottlenecks due to factors such as the failure of a supplier or of an upstream operation at a networked site, LANXESS pursues an appropriate inventory strategy and lines up alternative sources of supply.

Corporate strategy risks LANXESS is consistently pursuing the strategic optimization of the enterprise. Its efforts include ongoing efficiency enhancement, strengthening of core businesses, active portfolio management, and proactive participation in industry consolidation through partnerships, divestments and acquisitions.

The success of the decisions associated with these efforts is naturally subject to forecasting risk in respect of predicting future (market) developments and making assumptions about the feasibility of planned measures. For example, the entry into or exit from a business segment could be based on profitability or growth expectations that prove to be unrealistic over time. LANXESS mitigates this risk by carefully and systematically processing decision-making information. During this process, the business units affected and the Board of Management receive support from departments with the requisite expertise and, if necessary, from external consultants. When gathering information about potential M&A candidates, it is possible that certain facts required to assess a candidate's future performance or to determine the purchase price are not available or are not correctly interpreted. LANXESS reduces this risk by conducting well-structured due diligence analyses and, where possible, by concluding appropriate agreements with the sellers. Insufficient integration of acquired companies or businesses can result in expected developments not materializing. For this reason, LANXESS has structured processes with which full integration of businesses acquired is assured.

The preparatory work for investments that exceed a specified significance threshold is the responsibility of the relevant business units. After review by an Investment Committee set up for this purpose, this information is presented to the Board of Management for a decision. This procedure ensures that investments are in line with our corporate strategy and satisfy our profitability and security requirements. Overall, we believe that our investments and portfolio adjustments actively contribute to the further development of LANXESS because of the care exercised when weighing the associated opportunities and risks.

Financial risks Financial risks are centrally managed by the Treasury Group Function. The chief financial risks that are analyzed, measured and steered are liquidity risks, interest rate risks, exchange rate risks, energy and raw material price risks, default risks with banks, customer risks and investment risks associated with pension assets. Detailed information about our financial risks and how we manage them is contained in Note [33], “Financial instruments,” to the Consolidated Financial Statements.

Legal risks Companies in the LANXESS Group are parties to various litigations. The outcome of individual proceedings cannot be predicted with assurance due to the uncertainties always associated with legal disputes. To the extent necessary in light of the known circumstances in each case, LANXESS has set up risk provisions for the event of an unfavorable outcome of such proceedings. Taking into account existing provisions and insurance, as well as agreements reached with third parties in respect of liability risks arising from legal disputes, it is currently estimated that none of these proceedings will materially affect the future earnings of the LANXESS Group.

In our reporting in previous years, we referred to heightened risks relating to certain antitrust proceedings brought by regulatory authorities or civil courts in the United States, Canada and Europe concerning certain products of the former Rubber Business Group, which was transferred to the LANXESS Group in the course of the spin-off from Bayer AG. LANXESS AG and Bayer AG agreed on specific rules governing their respective share of the liabilities in connection with these proceedings. The rules provide that LANXESS will bear 30% and Bayer AG 70% of such liabilities. LANXESS’s total liability was limited to an amount that has now been exhausted by the payments which have since been made. In addition to this maximum amount, it is liable for the reimbursement of income tax payable as a result of limited tax deductibility and the proportionate costs of external legal counsel, which are also split between LANXESS and Bayer at a ratio of 30:70.

Additional information on legal risks can be found in Note [13], “Other current and non-current provisions,” to the Consolidated Financial Statements.

Production and environmental risks Although LANXESS applies high technical and safety standards to the construction, operation and maintenance of production facilities, interruptions in operations, including those due to external factors, such as natural disasters or terrorism, cannot be ruled out. These can lead to explosions, the release of materials hazardous to health, or accidents in which people, property or the environment are harmed. In addition to systematically monitoring compliance with quality standards aimed at avoiding such stoppages or accidents, LANXESS is also insured against the resulting damage to the extent usual in the industry. Risks that can arise due to a lack of plant availability and disruptions of plant and process safety are countered with a comprehensive set of measures. These include regular compliance checks, systematic training of employees to improve standards and safety, and the preparation of risk assessments.

Possible tightening of safety, quality and environmental regulations or standards can lead to additional costs and liability risks that are beyond the control of LANXESS. Particularly noteworthy in this regard is the implementation of the E.U. Regulation concerning the Registration, Evaluation, Authorization and Restriction of Chemicals (REACH). In addition to direct costs that could arise due to additional measures necessary to comply with these standards, market structures could change to LANXESS’s disadvantage as a result of a shift by suppliers and customers to regions outside Europe.

LANXESS is and was responsible for numerous sites at which chemicals have been produced for periods that in some cases exceed 140 years. This responsibility also covers waste disposal facilities. The possibility cannot be ruled out that pollution occurred during this time that has not been discovered to date. LANXESS is committed to the Responsible Care initiative and actively pursues environmental management. This includes constant monitoring and testing of the soil, groundwater and air. Sufficient provisions have been set up within the scope permitted by law for necessary containment or remediation measures in areas with identified contamination.

LANXESS’s product portfolio includes substances that are classified as hazardous to health. In order to prevent possible harm to health, LANXESS systematically tests the properties of its products and draws its customers’ attention to the risks associated with their use. We also carry product liability insurance that is customary in our industry.

Other risks Tax matters are subject to a degree of uncertainty in terms of their assessment by the tax authorities in Germany or other countries. Even if LANXESS believes that all circumstances have been reported correctly and in compliance with the law, the possibility cannot be ruled out that the tax authorities may come to a different conclusion in individual cases.

The provision of correct information at the correct time to the correct addressee is one of LANXESS's success factors. LANXESS is dependent on its integrated IT systems to manage this information. In order to ensure constant availability of its data, LANXESS operates data back-up systems, mirrored databases, anti-virus and access restriction systems, along with other state-of-the-art security and monitoring tools.

LANXESS's activities depend on its employees. The risk of industrial actions in some countries resulting from disputes in connection with negotiations concerning future collective pay agreements or associated with restructuring measures cannot be ruled out. We counter this risk by fostering open communication with our employees and their representatives. Another human resources risk we face is the anticipated increase in our personnel expenses because of future wage increases. If the rate of increase is particularly high, we may not be able to raise productivity enough to compensate for the higher costs.

LANXESS has prepared an extensive range of preventive measures to mitigate the demographic risk and ensure continued access to an adequate pool of highly skilled employees. Interdisciplinary workgroups at LANXESS are developing innovative concepts to preempt and actively address shifts resulting from demographic change – from trainee recruitment programs to measures allowing older employees to enjoy a longer working life. We have also created the long-term account, a tool that will give our employees in Germany greater flexibility in shaping their retirement in the future.

Summary of LANXESS's overall risk exposure LANXESS's risk exposure decreased in the reporting year due to the recovery of the economic environment compared with the previous year. Nonetheless, all planning is subject to a certain degree of forecasting risk, necessitating flexible adjustments to rapidly changing business conditions. This is particularly true in view of the fact that planning and forecasts in general have become somewhat less reliable due to the drastic changes in our global procurement and customer markets observed recently.

The world's major rating agencies, Standard & Poor's, Moody's Investors Service and Fitch Ratings, have all assessed LANXESS's default risk at "BBB" or "Baa2" with a stable outlook, which are solid investment-grade ratings. These ratings were again confirmed during the year under review.

Because of our improved financial structures and the management flexibility LANXESS has already demonstrated in prior years, we are confident that we can successfully master the risks that are materializing.

Based on an overall evaluation of risk management information, the Board of Management at the present time cannot identify any sufficiently likely risks or risk combinations that would jeopardize the continued existence of LANXESS.

Opportunity Report

Strategic opportunities LANXESS's strategic alignment has proved to be successful in the highly volatile economic environment of recent years. In the future too, we will be positioning ourselves as a flexible, market-facing premium supplier at the core of the chemical industry that is applying its great innovative capability to generate measurable added value for its customers.

Our overriding corporate objective is to increase our key controlling parameter, EBITDA pre exceptionals, to around €1.4 billion in 2015. The investment projects already underway are expected to make a sustained contribution of around €300 million to EBITDA pre exceptionals. We plan to generate the remaining amount from organic growth as well as from targeted acquisitions, whereby our focus will be on organic growth.

The composition of our product portfolio, our regional focus, strategic acquisitions, targeted research and development, and a variety of strategic initiatives will be instrumental in helping us achieve this objective.

• Product portfolio aligned to four global megatrends
LANXESS's presence in all key customer industries is ensured by its extensive product portfolio. Our broad diversification of this portfolio makes us independent of any one product or process. In that regard, no product or process innovations are expected in 2011 that would individually have a significant influence on the LANXESS Group's performance. In spite of this, there are product segments in our portfolio that we are focusing on strengthening with optimized production processes and methods, capacity expansion measures, new production facilities or acquisitions. We are aligning these to four of the most important global megatrends:

Mobility: The increasing demand for vehicles, especially in the emerging economies, and the need to improve the environmental compatibility of mobility throughout the world are providing the key impulses for growth in the tire and automotive sectors, both of which are important user industries for LANXESS. At both European and international level, legislation is being implemented to classify vehicle tires on the basis of their rolling resistance, wet grip and mileage, and thus improve tire quality standards. In automotive engineering, it is above all the efforts to achieve substantial weight reductions using high-performance plastics that are providing us with opportunities for growth.

Agriculture: The demand for agricultural products driven by the growing world population and the associated urgent need to improve efficiency in agriculture are crucial issues for our customers in the chemical and agrochemical industries in particular. Our products can help increase future agricultural yields and protect crops.

Urbanization: Urban expansion and the emergence of new megacities can be observed especially in the fast-growing newly industrialized nations such as Brazil, China and India. The need for new buildings and an efficient infrastructure is correspondingly large. Moreover, demand for better consumer goods and a higher standard of living is evolving with the growing middle class in these countries. This trend is benefiting our customers in the construction and consumer goods industries in particular.

Water: Given the steady rise in water consumption because of ongoing population growth, escalating environmental pollution and industrial requirements, the demand for clean water will exceed the current supply by around 40% in 20 years. With our innovative solutions for purifying and treating drinking water, wastewater and industrial process water, we are therefore serving a high-growth niche market. Again, the most important growth regions for water products are Asia-Pacific – especially India and China – and Latin America with Brazil.

Our view of future developments in the customer industries which are relevant to the above-mentioned trends is contained in the section "Expected changes in business conditions."

• Further expansion in the BRIC countries

In recent years, we have substantially strengthened our business activities in Asia, central and eastern Europe and Latin America and will continue to expand our market position there. Our growing presence in these key economic regions will enable us to participate in their dynamic economic development.

An overview of our many ongoing investment projects in the BRIC countries is given in the "Operational opportunities" section of this report on risks and opportunities.

• Strengthening the Group through announced acquisitions

We are not planning to make any fundamental changes to our corporate structure and business policy in the coming years. However, strengthening our segments through selective acquisitions will remain a fixed element of our strategy.

With the acquisition of Darmex S.A. in Argentina, the Rhein Chemie business unit is expanding its portfolio of release agents for rubber products and also gaining access to bladder technology. These business activities are a perfect fit with our strategy of supplying customized solutions to our customers in the growth markets and will be integrated into the existing structures of the Rhein Chemie business unit.

In acquiring DSM Elastomers, the Technical Rubber Products business unit is seeking to improve its position in the market for the synthetic rubber ethylene propylene diene monomer (EPDM). At the time this report was being prepared, the transaction was still contingent upon the approval of the antitrust authorities. It is planned to locate the headquarters of the future combined EPDM business in Sittard-Geleen, the Netherlands.

The acquisition of Syngenta AG's material protection business will make our Material Protection Products business unit one of the leading suppliers of biocidal agents for construction materials.

Based on figures from 2010, just these acquisitions will contribute sales of around €400 million in fiscal 2011.

Further details about our recent acquisitions are given in the "Events after the Reporting Period" section of this Management Report.

• Focused research and development activities

We intend for own customer- and market-oriented innovations to continue playing a large role in generating organic growth and cementing our competitive positions as a premium supplier. Process and product innovations will remain the focus of our research and development activities.

The importance of research and development is also reflected in the fact that our budget for fiscal 2011 is again high and exceeds the 2010 budget by around 15%. Roughly 20% of our research and development projects started in 2010 are scheduled to reach the market or technical implementation stages by the end of 2011.

Operational opportunities Unlocking and exploiting operational opportunities is an important aspect of LANXESS's entrepreneurial activities. We are making targeted investments that enable us to exploit the opportunity to systematically drive forward our future organic growth and sustainably strengthen our position in the global growth markets. The focus is on investment projects which generate organic growth. In the paragraphs below the larger projects are described first, followed by the smaller ones. By also investing in external growth, LANXESS is advancing the future development of its segments.

• Performance Polymers segment
In recent years, LANXESS has laid the foundations for this segment's future growth with selective investments in existing, profitable businesses.

In the Butyl Rubber business unit we began construction of our new butyl rubber facility in Singapore in May 2010. With an annual capacity of up to 100,000 tons, this facility is scheduled to start production in the first quarter of 2013. This new capacity will enable us to meet the steady medium- and long-term growth in demand for butyl rubber for tires, particularly from the BRIC countries. Costing some €400 million, this is the largest single investment project in the history of LANXESS.

We also announced plans in the Butyl Rubber business unit to expand our capacity in Antwerp, Belgium, by approximately 14,000 tons per year up to mid-2012. This project represents an investment of some €20 million.

Once completed, we expect the two investments in the Butyl Rubber business unit to contribute around €330 million to annual sales.

Additional annual capacities of approximately 50,000 tons for neodymium polybutadiene rubber (Nd-PBR) at our sites in Dormagen, Germany; Orange, Texas, United States; and Cabo, Brazil, will generate sales of around €70 million per year for the Performance Butadiene Rubbers business unit. We are investing some €20 million in this expansion project, most of it in 2011.

Moreover, we are currently conducting a study for the Performance Butadiene Rubbers business unit to investigate the feasibility of a new Nd-PBR production plant in Asia with a capacity of between 100,000 and 150,000 tons per year.

We were quick to respond to the increase in demand for products from the Semi-Crystalline Products business unit – due mainly to the trend toward lightweight construction in vehicle production – by investing in the expansion of our capacities in the BRIC countries and building our presence in these important growth regions. In April 2010, we began a project to extend our production facility for high-performance plastics in Wuxi, China, by around 20,000 tons per year to a total annual capacity of approximately 60,000 tons. The new capacity will become available during 2011. In June 2010, we also started construction of a new facility for high-performance plastics in Jhagadia, India, that is scheduled to come on stream in 2012 with an initial annual capacity of around 20,000 tons.

In addition, Semi-Crystalline Products is investing to expand its production capacities for caprolactam and KA oil in Antwerp, Belgium. Caprolactam is an important precursor in the manufacture of our high-performance plastics. This investment will secure our backward integration, giving LANXESS a competitive edge in this market. The additional capacities will become available in 2011.

We are investing around €50 million in the projects in the Semi-Crystalline Products business unit described above and expect these to contribute sales of approximately €80 million each year.

• Advanced Intermediates segment
LANXESS is making investments in the Advanced Intermediates segment to strengthen its ability to benefit from the agriculture megatrend – but also to participate in other megatrends. In the Basic Chemicals business unit, LANXESS has extended the integrated aromatics production network at its German site in Leverkusen. Capacity expansion focused on chlorotoluenes, cresols and their derivatives, which are further processed into downstream products for use in pharmaceuticals and pesticides. The project was completed in fiscal 2010 and the new capacities of around 42,000 tons per year have been available since the second quarter of last year.

Basic Chemicals is also constructing a new formalin production facility at the Krefeld-Uerdingen site, which means we will no longer be dependent on buying in this feedstock. This will also generate substantial cost advantages for LANXESS. Formalin, which is used in the production of trimethylolpropane, can be found in many products for the automotive, furniture and construction industries. The new plant with an annual capacity of some 150,000 tons is scheduled to come on stream at the end of 2011.

Through the aforementioned projects, LANXESS is investing a total of around €50 million on expanding the capacities of the Basic Chemicals business unit and expects these to contribute approximately €50 million to sales each year, not including the effects of backward integration.

To enable us to respond promptly to changing customer and market needs, we continuously review the structures of each business unit in our segments. As the result of such a review, the adipic acid activities located in Germany were transferred from the Semi-Crystalline Products business unit to the Basic Chemicals business unit effective January 1, 2011. Adipic acid is not a key component of the Semi-Crystalline Products value chain. However, integrating this product will give Basic Chemicals the opportunity to selectively develop its business activities, for example by marketing adipic acid and hexanediol together to strengthen our position in the important market for polyester polyols.

• Performance Chemicals segment
LANXESS is also making selective investments in the Performance Chemicals segment, primarily with the goal of participating in the growth generated by the water and urbanization megatrends.

Last year, we launched important projects in the high-growth niche water market for the Ion Exchange Resins business unit, whose ion exchange resins are used to purify and treat water.

One such project is the construction of a new production facility for ion exchange resins at our Jhagadia site in India. The additional capacities will be available to the market by early 2011. At our Bitterfeld site, we are establishing a new plant for the development and production of an innovative water treatment technology. Membrane technology complements the filtration process using ion exchange resins. On the basis of this technology, which is new for LANXESS, we will be accessing an application with a global market volume that is currently estimated at around €1 billion. The pilot and development phase started in Bitterfeld at the end of 2010 and the market launch is scheduled for the end of 2011.

We are investing around €60 million in these projects and expect them to contribute annual sales of roughly the same amount.

• Other growth projects
In addition to the larger investments described in the paragraphs above, the following projects in the various segments will also enhance our prospects for future organic growth.

In collaboration with Taiwan-based TSRC Corporation, the Technical Rubber Products business unit is building a new facility for manufacturing technical rubber (NBR) in Nantong, China. With an annual capacity of around 30,000 tons, this facility will come on stream in the first half of 2012. It will serve the automotive industry in particular and enable us to benefit from the mobility megatrend in one of the most important growth markets. Technical Rubber Products is also expanding its production capacity for special EVM elastomers in Dormagen.

In cooperation with a leading pesticide manufacturer, the Saltigo business unit has expanded production of active ingredients and intermediates for agrochemicals at the Leverkusen site. Available since late 2010, the expanded capacity enables Saltigo to satisfy the growing demand for active ingredients for pesticides in support of the agriculture megatrend.

The Rhein Chemie business unit is currently constructing LANXESS's first Russian plant in Dzerzhinsk, where it will start producing rubber chemicals for the eastern European tire and automotive industries from 2011.

In 2010, the Inorganic Pigments business unit increased its annual production capacity in Jinshan, China, to around 38,000 tons. In addition to expanding iron oxide yellow pigment production, making this the largest facility for yellow pigments in the whole of Asia, a new plant for manufacturing iron oxide black pigments came on stream. The additional capacity will enable us to satisfy the growing demand for high-quality pigments in China, which is being driven by the urbanization megatrend.

In the Functional Chemicals business unit, we expanded production of our Mesamoll® grades. This additional capacity will become available to the market in 2011. The phthalate-free plasticizer Mesamoll® has also been approved for use in food packaging and toys, which gives it a clear competitive advantage over other additives.

Expected results of operations LANXESS has defined clear medium-term targets for future earnings performance. We aim to increase the Group's key controlling parameter, EBITDA pre exceptionals, to approximately €1.4 billion in fiscal 2015.

For fiscal 2011 and 2012, we anticipate rising sales and higher earnings compared with 2010.

For the **Performance Polymers** segment, we expect the demand trend observed in the tire and high-performance plastics markets in 2010 to continue in 2011, albeit with slower growth rates. Further increases in raw material costs will compel us to raise the prices of our products.

In the **Advanced Intermediates** segment, we anticipate that demand for our products for agrochemicals will rebound in 2011. We will pass on higher prices for raw materials, especially benzene, to the market.

In the **Performance Chemicals** segment, we predict a gradual recovery in demand from the European and U.S. construction industries. The Rubber Chemicals and Rhein Chemie business units in particular will benefit from the anticipated increase in demand from the automotive industry.

Expected cost development In the course of the last two years, against the backdrop of the global economic and financial crisis, LANXESS has further flexibilized its cost base and adapted its costs to the economic environment. Stabilizing measures, particularly the Challenge09-12 program, helped us to lower our costs significantly in 2009 and 2010. In view of the favorable economic conditions in 2010 and positive economic forecasts, especially for the BRIC countries, we are not planning any further extensive cost-cutting programs for 2011 or 2012 at this time.

We believe that our cost base will be higher in 2011 than in 2010, mainly as a result of the pending collective bargaining agreement and the associated increase in salaries as well as the absence of the savings from Challenge09-12.

We expect raw material costs to increase further in 2011, particularly for the business units in the Performance Polymers and Advanced Intermediates segments. As in previous years, we will seek to pass on these rising costs to the market by raising our product prices. Since some raw material prices are extremely volatile, it is not possible to make a mid-term forecast for our raw material costs. However, we are generally assuming that the trend toward higher procurement costs, particularly for petrochemical raw materials, could continue beyond 2011. We also anticipate sustained increases in energy prices in the coming years.

We project depreciation and amortization of between €280 and €300 million in fiscal 2011.

In the same period, we expect only minor expenses and cash outflows from exceptional charges in our existing business.

Possible exchange rate fluctuations may also impact earnings. We have already entered into hedging transactions to ward off the effects of such developments in the current year as well as 2012.

We estimate that the effective tax rate for the LANXESS Group in 2011 will be between 20% and 25%, in the same range as last year's rate of 22.7%.

Expected financial condition

Liquidity situation LANXESS will continue to pursue a forward-looking and conservative financial policy in the future. With more than €2 billion in cash and undrawn credit lines, as described in the section on our financial situation, we have a very good liquidity and financing position which will enable us to fund our announced growth strategy.

Capital expenditures We will continue to pursue our selective investment and growth strategy in fiscal 2011. Around 70% of cash outflows for capital expenditures will relate to the expansion of existing plants or the construction of new production facilities. The remaining 30% will be used for the maintenance of existing LANXESS production facilities.

We are projecting cash outflows for capital expenditures of €550 to €600 million for 2011, exceeding the prior-year level of €501 million. A large proportion of this amount, some €200 million, will be attributable to the investment in our new butyl rubber plant in Singapore, making it the largest cash outflow item this year. In 2012, the investment for this project will decrease to around €80 million.

Financing measures The financing for the planned capital expenditures and the expected dividend payment is ensured by future cash flows, available liquidity and existing lines of credit. LANXESS is in a strong position due to the consistent realignment implemented in recent years, the investment in new and more efficient production processes, its successful mastering of the economic and financial crisis, and the long-term nature of our financing. There is no significant need for refinancing this year on account of the extensive measures we have adopted to date to improve our financial position. The remaining €402 million of the Eurobond issued in 2005 does not mature until fiscal 2012.

Dividend policy LANXESS will continue to follow its consistent dividend policy in the future. As in the past, future dividend proposals will take into account the business performance of the relevant fiscal year, the Group's financing goals and development trends in the new fiscal year.

Summary of Group's projected performance In recent years, the LANXESS Group has successfully positioned the company and its product portfolio in key customer industries and established itself in the world's growth regions.

We have set a clear medium-term earnings target for future performance. It is planned to raise the Group's key controlling parameter, EBITDA pre exceptionals, to approximately €1.4 billion in fiscal 2015. In order to achieve this objective, we have defined clear growth opportunities arising from the four megatrends of mobility, agriculture, urbanization and water, and adapted our strategic alignment accordingly.

The investments in future organic growth that we have initiated, and in some cases already completed, will contribute substantially to the earnings target we have defined. In the coming years, we expect these to make a sustained contribution of around €300 million per year to EBITDA pre exceptionals. Moreover, recent acquisitions, our successful price-before-volume strategy, the focus on premium products, and product and process innovations will provide additional opportunities for future growth.

There are certain factors that can influence LANXESS's future business performance. The principal company-specific factors include the development of raw material and energy costs. We expect these to rise in 2011 and are preparing for the possibility that this trend may continue thereafter. As in previous years, we will work to pass on rising costs to the market by raising our product prices.

For the U.S. dollar, the key currency for LANXESS's business, we expect an average exchange rate of US$1.40 to the euro in 2011.

Overall, LANXESS has started 2011 optimistically. We envisage continued healthy business performance in our three segments this year. Our key customer industries will also continue to develop positively, though with regional variations. We are extremely well-positioned to benefit from this growth again in all segments worldwide this year.

Against this backdrop, we are looking to the future with confidence. For fiscal 2011 and 2012, we anticipate increasing sales and higher earnings than in 2010. We are therefore well on our way to achieving our medium-term target EBITDA pre exceptionals of €1.4 billion in fiscal 2015.

CORPORATE GOVERNANCE

In this section, the Board of Management reports – also on behalf of the Supervisory Board – on corporate governance at LANXESS pursuant to Section 3.10 of the German Corporate Governance Code. This section also contains the corporate governance statement pursuant to Section 289a of the German Commercial Code.

CORPORATE GOVERNANCE STATEMENT

Declaration by the Board of Management and the Supervisory Board of LANXESS Aktiengesellschaft pursuant to Article 161 of the German Stock Corporation Act regarding the German Corporate Governance Code LANXESS AG fundamentally complies with the recommendations of the Government Commission on the German Corporate Governance Code (the "Code") as amended on May 26, 2010, which was published on July 2, 2010 by the Federal Ministry of Justice in the official portion of the electronic version of the Federal Gazette, and has fundamentally complied with the recommendations of the Code as amended on June 18, 2009 (published on August 5, 2009) since the issuance of its last declaration of compliance in March 2010, with the following exceptions:

1. Section 3.8, Paragraph 2
   If the company takes out a D&O (directors' and officers' liability insurance) policy for the Management Board, a deductible of at least 10% of the loss up to at least the amount of one and a half times the fixed annual compensation of the Management Board member must be agreed upon. A similar deductible must be agreed upon in any D&O policy for the Supervisory Board.

   Until the D&O insurance was changed on June 30, 2010, the D&O insurance policy did not require a deductible for members of the Supervisory Board and therefore did not comply with the recommendation in Section 3.8 Paragraph 2 of the Code. A deductible in the recommended amount was agreed for Supervisory Board members when the D&O insurance for the Board of Management members was adjusted to meet the statutory requirements.

2. Section 4.2.3, Paragraph 3, Sentence 1
   In concluding Management Board contracts, care shall be taken to ensure that payments made to a Management Board member on premature termination of his contract without serious cause, including fringe benefits, do not exceed the value of two years' compensation (severance pay cap) and compensate no more than the remaining term of the contract.

   The employment contracts for Board of Management members limit payments to a Board of Management member on premature termination of his contract without serious cause, including fringe benefits, to two years' compensation, except in the event of a change of control. However, they do not contain the additional limitation that no more than the remaining term of the contract shall be compensated. The Supervisory Board does not consider it appropriate to base the absolute amount of any severance payment on the date of termination.

3. Section 5.4.5, Sentence 2
   Members of the Management Board of a listed company shall not accept more than a total of three Supervisory Board mandates in non-group listed companies or in the supervisory bodies of companies with comparable requirements.

   Supervisory Board member Robert J. Koehler, Chairman of the Board of Management of SGL Carbon SE, is a member of the supervisory boards of four listed companies outside the SGL Group and holds one supervisory board mandate in a non-listed company with comparable requirements. However, we do not believe that this detracts from Mr. Koehler's ability to diligently perform his duties as a member of the LANXESS AG Supervisory Board.

In addition to its **recommendations,** the Code also contains a number of **suggestions** for efficient, responsible corporate governance, compliance with which is not required to be disclosed under the statutory provisions. LANXESS currently complies with these suggestions as well, with only a few exceptions.

In accordance with Section 3.10 Sentence 3 of the German Corporate Governance Code, the Board of Management and the Supervisory Board therefore voluntarily issue the following declaration:

LANXESS AG fundamentally complies with the suggestions of the Government Commission on the German Corporate Governance Code (the "Code") as amended on May 26, 2010, which was published (on July 2, 1010) by the Federal Ministry of Justice in the official portion of the electronic version of the Federal Gazette, and has fundamentally complied with the suggestions of the Code as amended on June 18, 2009 (published on August 5, 2009) since the issuance of its last declaration of compliance in March 2010, with the following exceptions:

1. Section 2.3.3, Sentence 3, 2nd Half-Sentence
   The Management Board shall arrange for the appointment of a representative to exercise shareholders' voting rights in accordance with instructions; this representative should also be reachable during the General Meeting.

   The representatives appointed by LANXESS AG to exercise stockholders' voting rights in accordance with instructions can be reached at the Stockholders' Meeting until the voting is held. Stockholders not attending the meeting can reach the representatives up to the previous evening.

2. Section 2.3.4

   The company should make it possible for stockholders to follow the General Meeting using modern communication media (e.g. Internet).

   The speech by the Chairman of the Board of Management to the Stockholders' Meeting is broadcast on the Internet. Continued broadcasting of the proceedings thereafter, particularly of contributions made by stockholders, could be seen as a violation of the stockholders' rights to privacy. For this reason, LANXESS does not plan to broadcast the further proceedings.

Management practices above and beyond the legal requirements LANXESS views compliance with laws and its own regulations as the basis of sustainable corporate governance. Our employees' integrity and awareness of their responsibilities are key factors in the success of our company. Compliance with law and order, social responsibility, sustainable environmental protection, and production and product safety are part of our corporate culture and have led to the development of a "Code for Legal Compliance and Corporate Responsibility at LANXESS" which is applicable throughout the Group. This code of conduct, which specifies minimum standards and gives employees advice and guidance on complying with these standards, can be downloaded from the Internet at http://corporate.lanxess.com/uploads/tx_lxsmatrix/lxs_corp_compliance_en_04.pdf.

To implement the "Code for Legal Compliance and Corporate Responsibility at LANXESS," a compliance organization has also been established with responsibility for communicating the compliance concept within the company. This organization provides information and advisory services to employees. A compliance hotline has also been set up. LANXESS does not tolerate breaches of compliance and enforces observance of the provisions of its compliance code.

As a specialty chemicals enterprise, LANXESS bears a large degree of responsibility towards people and the environment. Safety, environmental protection, social responsibility, quality and economic efficiency are all key corporate goals at LANXESS. The company's objective is sustainable, forward-looking development which meets the demands of economics, ecology and society in equal measure. Accordingly, the concept of responsible care, which requires all employees to act responsibly when dealing with people, the environment and capital, is firmly anchored in LANXESS's organization. An overview of the implementation of corporate responsibility at LANXESS can be downloaded from the Internet at http://lanxess.com/uploads/tx_lxsmatrix/CR_at_LANXESS_en_02.pdf. LANXESS has also become one of the signatories to and systematically implements the Responsible Care® Global Charter adopted by the International Council of Chemical Associations. This charter is available at http://corporate.lanxess.com/uploads/tx_lxsmatrix/icca_rc_globalcharter_2005_e_01.pdf.

Work of the Board of Management and Supervisory Board The Board of Management is the governing body appointed to represent the company. It is responsible for conducting business in the company's interests with the goal of creating sustainable value. The Board of Management's principal tasks include defining the company's goals and strategic alignment, managing and overseeing the operating units, arranging the Group's financing, and establishing an effective risk management system. The Board of Management of LANXESS AG currently comprises four members, with the Chairman coordinating the work of the Board of Management. As a rule, Board of Management decisions are adopted with a simple majority. In the event of a tie, the Chairman has the casting vote. Resolutions of the Board of Management are generally passed at regularly held meetings.

The rules of procedure for the Board of Management that are enacted by the Supervisory Board contain further regulations concerning the form of cooperation within the Board of Management, the allocation of duties and the matters requiring resolution by the full Board of Management. In deciding the composition of the Board of Management, the Supervisory Board gives consideration to professional suitability, leadership qualities and diversity, and in particular to the adequate participation of women.

The Supervisory Board's role is to advise the Board of Management in its management of the company and to monitor its conduct of the business. Its responsibilities also include appointing the members of the Board of Management as well as reviewing the annual financial statements of LANXESS AG and the consolidated financial statements of the LANXESS Group. The Supervisory Board reaches its decisions with a majority of the votes cast unless a different majority is stipulated by law. In the event of a tie, the Chairman of the Supervisory Board has two votes in a second ballot on the resolution, even if this also results in a tie. The German Codetermination Act contains special requirements concerning resolutions. The Chairman of the Supervisory Board coordinates the work in the Supervisory Board, chairs its meetings and represents the concerns of the body externally. Supervisory Board resolutions are usually adopted at meetings.

The Board of Management and Supervisory Board of LANXESS AG work closely together in a relationship of mutual trust for the benefit of the company. The Board of Management reports to the Supervisory Board on a regular, timely and comprehensive basis about the progress of business and the situation of the Group, including potential risks and all relevant issues relating to corporate planning. The Supervisory Board has laid down the Board of Management's notification and reporting requirements in detail in rules of procedure. The Chairman of the Board of Management regularly exchanges information with the Chairman of the Supervisory Board. Transactions and other measures of major or long-term importance require the Supervisory Board's approval. Measures requiring approval include, but are not limited to: adoption of the corporate planning; the acquisition, sale or encumbrance of real property, shareholdings or other assets; borrowings and certain other types of financial transactions. Thresholds have been set for some of these transactions.

Composition of the Supervisory Board The company's Supervisory Board is composed of equal numbers of stockholder representatives and employee representatives in accordance with the provisions of the German Codetermination Act of 1976. The stockholder representatives are elected by the Annual Stockholders' Meeting, whereas the employee representatives are elected in accordance with the provisions of the Codetermination Act and its electoral regulations. Supervisory Board members normally serve for a five-year term.

The composition of the Supervisory Board changed during fiscal 2010. With the conclusion of the Annual Stockholders' Meeting on May 28, 2010, the employee representatives Werner Czaplik, Ralf Deitz and Rainer Hippler and the stockholder representatives Dr. Jürgen F. Kammer, Lutz Lingnau and Dr. Sieghardt Rometsch stepped down from the Supervisory Board. Gisela Seidel, Axel Berndt, Wolfgang Blossey, Dr. Rudolf Fauss, Ulrich Freese and Hans-Jürgen Schicker were elected as the employee representatives to the Supervisory Board, which has been reduced to twelve members. The Annual Stockholders' Meeting of LANXESS AG held on May 28, 2010, elected Dr. Friedrich Janssen, Robert J. Koehler, Rainer Laufs, Prof. Ulrich Middelmann, Dr. Rolf Stomberg and Theo H. Walthie as the stockholder representatives to the company's Supervisory Board. The Chairman of the Supervisory Board is Dr. Rolf Stomberg. The Vice Chairman is Ulrich Freese.

The members of the Supervisory Board of LANXESS AG are expected to possess the necessary expertise, skills and professional experience to perform their duties. In making nominations, the Supervisory Board will apply only legally permissible and fair selection criteria, act in the company's best interests, and give consideration to the nominated candidates' integrity, commitment and independence.

The Supervisory Board aims for diversity in its composition. On the basis of their various personal and professional backgrounds, the members of the Supervisory Board contribute a broad spectrum of experience and skills. In many cases, their experience and skills have been acquired abroad or while working in an international field. The internationalism of the Supervisory Board was enhanced by the appointment of Theo H. Walthie in fiscal 2010. Other members have professional knowledge of the chemical industry and other sectors that are important for the company's business. One member of the Supervisory Board is a woman.

The members of the Supervisory Board are independent. There are no material conflicts of interest, and no former member of the Board of Management of LANXESS AG is a member of the Supervisory Board.

An age threshold for members of the Supervisory Board was specified in the rules of procedure of the Supervisory Board when the company was established.

With the election of stockholder and employee representatives in fiscal 2010, the composition of the Supervisory Board is essentially fixed for the current term ending in 2015.

With a view to ensuring appropriate representation of women, the Supervisory Board aims to appoint at least one more woman to the Supervisory Board during the current term of office. The Supervisory Board also intends to encourage a further increase in the number of women among its members when the next regular elections are held in 2015. Like the present Supervisory Board members, the people to be nominated for election at that time should be independent and have international experience.

Composition and Work of the Supervisory Board Committees The Supervisory Board has a Presidial Committee, an Audit Committee, a Committee pursuant to Section 27 (3) of the German Codetermination Act and a Nominations Committee formed from among its members. With the conclusion of the Annual Stockholders' Meeting on May 28, 2010, the Human Resources Committee was dissolved and its tasks assumed by the Presidial Committee.

Presidial Committee: The Presidial Committee discusses key issues and prepares the meetings and resolutions of the Supervisory Board. It makes decisions on transactions requiring approval that are already included in the company's annual planning. The Presidial Committee may also resolve on the exercise of participation rights pursuant to Section 32 of the German Codetermination Act and on transactions requiring approval that cannot be deferred. It consults regularly about long-term succession planning for the Board of Management. Furthermore, the Committee also prepares the personnel decisions to be made by the Supervisory Board and resolutions of the full Supervisory Board regarding the compensation of the members of the Board of Management. In place of the full Supervisory Board, the Presidial Committee resolves on the conclusion and amendment of employment contracts with the members of the Board of Management and all other contractual matters not pertaining to compensation.

Members: Dr. Stomberg (Chairman), Mr. Freese, Ms. Seidel, Mr. Schicker, Mr. Koehler, Dr. Middelmann

Audit Committee: The Audit Committee supports the Supervisory Board in overseeing the conduct of the business and deals with matters relating to the supervision of accounting, the effectiveness of the internal control system, the risk management system and the internal auditing system as well as auditing, including the independence of the auditor and the work additionally performed by the auditor. It prepares the Supervisory Board's resolutions concerning the annual financial statements of LANXESS AG and the consolidated financial statements of the LANXESS Group and recommends an auditor whom the Supervisory Board then proposes to the Annual Stockholders' Meeting for appointment. The Chairman of the Audit Committee is an independent financial expert and has specialist knowledge and experience in the field of accounting acquired through his professional activities.

Members: Dr. Janssen (Chairman), Mr. Berndt, Mr. Blossey, Dr. Fauss, Mr. Laufs, Mr. Walthie

Committee Pursuant to Article 27 (3) of the German Codetermination Act: This committee performs the tasks described in Article 31 (3) of the German Codetermination Act.

Members: Dr. Stomberg (Chairman), Mr. Freese, Mr. Schicker, Dr. Middelmann

Nominations Committee: This committee solely comprises stockholder representatives and proposes candidates for the Supervisory Board to nominate for election as new members of the Supervisory Board by the Annual Stockholders' Meeting.

Members: Dr. Stomberg (Chairman), Dr. Janssen, Dr. Middelmann

The respective committee chairmen report regularly to the Supervisory Board on the work of the committees.

SYSTEM OF COMPENSATION FOR THE SUPERVISORY BOARD

The compensation of the Supervisory Board is governed by Article 12 of the company's articles of association. The members of the Supervisory Board of LANXESS AG receive fixed compensation of €40,000 per year. The Chairman of the Supervisory Board receives three times, and the Vice Chairman one and a half times, this amount. Serving as the chair or a member of Supervisory Board committees is compensated separately in accordance with the German Corporate Governance Code. Supervisory Board members who belong to a committee receive one quarter of the fixed compensation amount in addition, and those who chair a committee receive a further quarter. However, no member may receive in total more than three times the fixed compensation amount. The compensation paid to Supervisory Board members in fiscal 2010 is stated in the table on page 104. Supervisory Board members are reimbursed for their expenses in addition and also receive an attendance allowance of €1,200 for each Supervisory Board meeting and each committee meeting they attend, with the exception of meetings of the Committee formed pursuant to Article 27 (3) of the German Codetermination Act and meetings of the Nominations Committee. With respect to their membership on the supervisory boards of LANXESS Group companies, the members of the Supervisory Board were remunerated only for their service on the Supervisory Board of LANXESS Deutschland GmbH.

The Supervisory Board members also receive a long-term incentive based on the company's performance during the standard term of an individual's membership on the Supervisory Board (five years). Unlike the fixed compensation component, this variable compensation component is not paid every year, but only once at the end of the standard term of office. If a Supervisory Board member serves a shorter term, the amount is prorated.

Payment of the variable compensation depends on how LANXESS's stock performs relative to the Dow Jones STOXX 600 Chemicals^{SM} index during a member's five-year term. The average price of LANXESS stock and the average level of the index during the 90 trading days prior to the Annual Stockholders' Meeting at which the Supervisory Board members were elected are each compared with the respective average for the 90 trading days prior to the Annual Stockholders' Meeting at the conclusion of which the members' terms end. The variable compensation is only payable if the stock has outperformed the benchmark index. The exact amount of the variable compensation depends on the extent to which the stock price outperformed the benchmark index in the preceding five years. If LANXESS stock has outperformed the Dow Jones STOXX 600 Chemicals^{SM} by up to 10 percentage points, the variable compensation amounts to €50,000 for this five-year period; if it has outperformed the index by between 10 and 20 percentage points, €100,000 is paid, and if the degree of outperformance is greater than this, the compensation is €150,000.

The term of office of the Supervisory Board members for which the variable compensation rules were applied for the first time ended with the conclusion of the Annual Stockholders' Meeting on May 28, 2010. The individual Supervisory Board members each received variable compensation of €150,000 based on their total five-year term of office. Total variable compensation was €2,400,000.

The expected compensation payable for the new term of office beginning with the conclusion of the last Annual Stockholders' Meeting on May 28, 2010 and running until the conclusion of the Annual Stockholders' Meeting that resolves on the ratification of the Supervisory Board members' actions with respect to the 2014 fiscal year was valued at a total of €1,500 thousand (2009: €1,549 thousand) and reported as a provision.

None of the members of the Supervisory Board received benefits for services provided individually during the reporting period. No loans or advances were granted to members of the Supervisory Board during the reporting year.

Compensation of the Supervisory Board in the 2010 Fiscal Year [1)]

in €	**Fixed compensation** LANXESS AG	**Compensation as committee member** LANXESS AG	**Attendance allowance**	**Variable compensation [2)]** LANXESS AG	**Fixed compensation** LANXESS Deutschland GmbH	**Total**
Dr. Rolf Stomberg, Chairman	120,000	0	16,800	150,000	5,000	291,800
Ulrich Freese, Vice Chairman	60,000	14,167	16,800	150,000	5,000	245,967
Axel Berndt (effective May 28, 2010)	23,333	5,833	6,000	0	2,917	38,083
Wolfgang Blossey	40,000	10,000	12,000	150,000	5,000	217,000
Werner Czaplik (until May 28, 2010)	16,667	4,167	6,000	150,000	2,083	178,917
Ralf Deitz (until May 28, 2010)	16,667	4,167	6,000	150,000	2,083	178,917
Dr. Rudolf Fauss	40,000	10,000	13,200	150,000	5,000	218,200
Rainer Hippler (until May 28, 2010)	16,667	8,333	8,400	150,000	2,083	185,483
Dr. Friedrich Janssen	40,000	20,000	13,200	150,000	5,000	228,200
Dr. Jürgen F. Kammer (until May 28, 2010)	16,667	8,333	7,200	150,000	2,083	184,283
Robert J. Koehler	40,000	5,833	13,200	150,000	5,000	214,033
Rainer Laufs	40,000	18,333	16,800	150,000	5,000	230,133
Lutz Lingnau (until May 28, 2010)	16,667	0	3,600	150,000	2,083	172,350
Dr. Ulrich Middelmann	40,000	5,833	13,200	150,000	5,000	214,033
Dr. Sieghardt Rometsch (until May 28, 2010)	16,667	4,167	6,000	150,000	2,083	178,917
Hans-Jürgen Schicker	40,000	5,833	13,200	150,000	5,000	214,033
Gisela Seidel	40,000	10,000	14,400	150,000	5,000	219,400
Theo H. Walthie (effective May 28, 2010)	23,333	5,833	6,000	0	2,917	38,083
Total	**646,668**	**140,832**	**192,000**	**2,400,000**	**68,332**	**3,447,832**

1) Figures exclude value-added tax
2) For previous five-year term of office

COMPENSATION OF THE BOARD OF MANAGEMENT

The compensation received by the members of the Board of Management is closely dependent on LANXESS's performance. In fiscal 2010, in addition to a fixed, market-oriented annual base salary that was broadly in line with that paid at comparable companies, their compensation contained three further components that varied according to annual and long-term corporate performance. Details of the compensation of the Board of Management in fiscal 2010 are given in the Compensation Report, which forms part of the Management Report.

Pursuant to the German Law on the Appropriateness of Management Board Compensation, a new contractual basis was established for the activities of the members of the Board of Management on January 1, 2010. The Annual Stockholders' Meeting of LANXESS AG on May 28, 2010, resolved to approve the compensation system introduced with these contracts. This compensation system was also applied in concluding the new service contract with Dr. Bernhard Düttmann.

Under the current system of compensation for the members of the LANXESS AG Board of Management, the criteria for determining the appropriateness of compensation for an individual Board of Management member are his duties, his personal performance, the economic situation and the sustained development of the company, benchmarking against other comparable companies, and the company's own compensation structure. The compensation structure is also designed to be competitive in the international market for highly qualified executives and provide the motivation to successfully work toward sustainable corporate development.

In addition to the annual base salary, which is market-oriented and in line with that paid at other comparable companies, the compensation of the members of the Board of Management contains three variable components which are aligned with LANXESS's annual performance and, particularly, with its corporate success over a number of years.

The annual component of the variable compensation is the Annual Performance Payment (APP). This is linked to the attainment of corporate performance targets such as Group EBITDA, which are defined by the Supervisory Board for each fiscal year, and to compliance with other conditions, which are also defined by the Supervisory Board.

For many years LANXESS has already been in compliance with the new statutory requirement for a stronger focus on long-term performance through its Long-Term Incentive Plan (LTIP), which is linked to the performance of LANXESS stock and is also open to the members of the Board of Management. Under the previous programs, first payments under the LTIP are made after three years. Under the new program introduced in 2010, the Long-Term Stock Performance Plan (LTSP), this period is four years provided LANXESS stock has outperformed the Dow Jones STOXX 600 Chemicals^{SM} reference index. Also, since 2005, participation in the LTIP by the members of the Board of Management has required a prior personal investment each year in the company's shares to a value of 13% of their annual base salary. For the new LTSP, the required investment is 5% of the annual base salary.

In the interests of long-term corporate performance, a Long-Term Performance Bonus (LTPB) is the third variable compensation component to be paid, which will reward target attainment after two successive fiscal years. The basis for calculating the LTPB is the individual APP target attainment for the fiscal years in question. The exact amount of the LTPB results from the average individual APP target attainment for the two fiscal years. The first payments could therefore be made in spring 2012 on the basis of fiscal 2010 and 2011.

A cap has been defined for each of the variable compensation components.

The compensation mix of 31% annual base salary and 69% variable compensation components is strongly aligned with the company's performance and long-term value creation.

Compensation Mix for Members of the Board of Management

in %	
Long-Term Incentive Plan/Long-Term Stock Performance	19
Long-Term Performance Bonus	14
Annual Performance Payment	36
Annual base salary	31
	100

In addition to these compensation components, the members of the Board of Management are entitled to remuneration in kind, consisting mainly of the tax value of perquisites such as the use of a company car.

On termination of their employment contracts, the members of the Board of Management receive benefits under the company pension plan in line with the valid system of compensation. These benefits are paid when the beneficiary reaches age 60 or if the beneficiary is permanently unable to work. They are paid to surviving dependents in the event of the beneficiary's death.

The pension plan remains a defined contribution plan stipulating a basic contribution of 25% of annual base salary. Moreover, the members of the Board of Management must themselves pay an amount from deferred compensation amounting to 12.5% of the APP and the LTPB, which is matched by LANXESS. From the date of entitlement, 70% to 75% of the accumulated capital is paid out in a lump sum. The remaining 25% to 30% is converted to a pension benefit. Claims arising from provisions in place before the new pension plan was established are granted as vested rights. If the service contract ends before the beneficiary reaches the age of 60, the company pays certain additional benefits up to a defined ceiling.

The members of the Board of Management receive indemnification should their service on the Board of Management be terminated prematurely or in the event of a material change of control over the company. The terms depend on the respective circumstances and, regardless of the remaining term of the service contract, include severance payments amounting to up to two times the annual base salary or, in the event of a change of control, three times the annual base salary.

DIRECTOR'S DEALINGS

Pursuant to Section 15a (4) of the German Securities Trading Act (WpHG), the trading of securities by certain parties, including members of a management board or supervisory board, must be reported if the total sum of the transactions undertaken in any given calendar year exceeds €5,000.

Individuals who are closely related to these parties (e.g. spouses, registered partners and first-degree relatives) are also subject to this reporting requirement.

Securities transactions subject to the reporting requirement can be viewed at any time in the Investor Relations section of our website at www.lanxess.com.

The following reportable securities transactions took place between January 1, 2010 and January 31, 2011:

Directors' Dealings – Reportable Securities Transactions Pursuant to Section 15a of the German Securities Trading Act (WpHG)

Date	Name	Function	Description of the securities	International Securities Identification Number (ISIN)	Type of transaction	Price in €	Quantity	Transaction volume in €
Fiscal 2010								
Apr. 12, 2010	Dr. Axel C. Heitmann	Board of Management member	No-par ordinary shares	DE0005470405	Purchase	34.10	6,000	204,600.00
May 11, 2010	Dr. Axel C. Heitmann	Board of Management member	No-par ordinary shares	DE0005470405	Purchase	33.48	2,500	83,687.50
May 11, 2010	Dr. Rainier van Roessel	Board of Management member	No-par ordinary shares	DE0005470405	Purchase	32.95	1,500	49,425.00
Fiscal 2011								
Jan. 31, 2011	Matthias Zachert	Board of Management member	No-par ordinary shares	DE0005470405	Sale	53.07	11,013	584,415.85

The number of LANXESS shares acquired in reportable securities transactions between 2004 and January 31, 2011 totaled:

Function	Name	Total number
Chairman of the Board of Management	Dr. Axel C. Heitmann	258,597
Board of Management member	Dr. Werner Breuers	10,880
Board of Management member	Dr. Rainier van Roessel	16,500
Board of Management member	Matthias Zachert	9,251
Chairman of the Supervisory Board	Dr. Rolf Stomberg	800
Supervisory Board member	Dr. Rudolf Fauss	335

As of January 31, 2011, there was no reportable share ownership – as defined in Section 6.6 of the German Corporate Governance Code – by members of the Board of Management or the Supervisory Board.

OFFICES HELD BY BOARD OF MANAGEMENT MEMBERS

Member of the Board of Management	External offices	Offices within the LANXESS Group
Dr. Axel C. Heitmann	• Member of the Presidium of the German Chemical Industry Association (VCI) • Member of the Asia-Pacific Committee of German Business (APA) • Member of the Board of Trustees of Konvent für Deutschland e.V. • Member of the Board of Trustees of the North Rhine-Westphalia chapter of Stifterverband für die Deutsche Wissenschaft • Member of the Advisory Board of Goethe-Institut e.V. • Member of the Association of Friends of Philharmonie KölnMusik e.V.	• Chairman of the Executive Board of LANXESS Deutschland GmbH • Chairman of the Board of Directors of LANXESS Chemical (Shanghai) Co. Ltd.
Dr. Werner Breuers	• Member of the Supervisory Board of Currenta Geschäftsführungs-GmbH • Member of the Board of Trustees of the VCI's Chemical Industry Fund • Member of the Board of Trustees of the DWI of RWTH Aachen University • Member of the German Committee on Eastern European Economic Relations • Member of the Advisory Board of the Association for Chemistry & Economics (VCW)	• Member of the Executive Board of LANXESS Deutschland GmbH • Chairman of the Supervisory Board of Saltigo GmbH • Chairman of the Supervisory Board of Aliseca GmbH • Chairman of the Board of Directors of LANXESS K.K. • Chairman of the Board of Directors of LANXESS International S.A. • Chairman of the Board of Directors of LANXESS Butyl Pte. Ltd.
Dr. Rainier van Roessel	• Member of the Board of the VCI Regional Association in North Rhine-Westphalia • Member of the VCI Trade Policy Committee • Member of the 1 b Experience-Exchange Group of the German Association for Personnel Management (DGFP)	• Member of the Executive Board of LANXESS Deutschland GmbH • Chairman of the Board of Directors of LANXESS S.A. de C.V. • Executive member of the Board of Administration of LANXESS N.V. • Chairman of the Supervisory Board of Rhein Chemie Rheinau GmbH • Chairman of the Board of Directors of LANXESS Hong Kong Ltd. • Chairman of the Board of Directors of Holding Hispania S.L. • Chairman of the Board of Directors of LANXESS Chemicals S.L. • Chairman of the Board of Directors of LANXESS Corp. • Chairman of the Board of Directors of LANXESS Pte. Ltd. • Chairman of the Governing Board of LANXESS Srl. • Member of the Board of Directors of LANXESS Chemical (Shanghai) Co. Ltd. • Chairman of the Board of Directors of LANXESS India Private Ltd.
Matthias Zachert	• Member of the Board of Directors of Deutsches Aktieninstitut (DAI) • Member of the Advisory Board of Institut für Unternehmensplanung (IUP) • Member of Gesellschaft für Finanzwirtschaft in der Unternehmensführung e.V. (GEFIU)	• Member of the Executive Board of LANXESS Deutschland GmbH • Member of the Board of Directors of LANXESS Corp.

LANXESS SUPERVISORY BOARD

a) Members of the Supervisory Board:

Dr. Rolf Stomberg (Chairman)

- Former Chief Executive of the Shipping, Refining and Marketing Division of The British Petroleum Co. p.l.c., London, U.K.
- Former member of the Board of Directors of The British Petroleum Co. p.l.c., London, U.K.

Further offices:
- Chairman of the Supervisory Board of LANXESS Deutschland GmbH, Leverkusen*
- Member of the Supervisory Board of Biesterfeld AG, Hamburg*
- Member of the Board of Directors of Smith & Nephew plc, London, U.K.
- Member of the Board of Directors of JSC Severstal, Russia
- Vice Chairman of the Advisory Board of HOYER GmbH, Hamburg
- Member of the Advisory Board of KEMNA Bau Andreae GmbH + Co. KG, Pinneberg

Ulrich Freese (Vice Chairman)

- Vice Chairman of the German Mine, Chemical and Power Workers' Union, Hanover

Further offices:
- Member of the Supervisory Board of LANXESS Deutschland GmbH, Leverkusen*
- Vice Chairman of the Supervisory Board of Vattenfall Europe Mining AG, Cottbus*
- Vice Chairman of the Supervisory Board of Vattenfall Europe Generation AG, Cottbus*
- Vice Chairman of the Supervisory Board of 50Hertz Transmission GmbH, Berlin*
- Member of the Supervisory Board of Vattenfall Europa AG, Berlin*
- Vice Chairman of the Supervisory Board of DMT GmbH, Essen*
- Vice Chairman of the Advisory Board of Evonik Wohnen GmbH, Essen
- Vice Chairman of the Advisory Board of Evonik Immobilien GmbH, Essen
- Vice Chairman of the Supervisory Board of GSB – Gesellschaft zur Sicherung von Bergmannswohnungen mbH, Essen
- Vice Chairman of the Supervisory Board of GSG Wohnungsbau Braunkohle GmbH, Cologne

Axel Berndt (effective May 28, 2010)

Member of the LANXESS Works Council in Leverkusen

Further offices:
- Member of the Supervisory Board of LANXESS Deutschland GmbH, Leverkusen*
- Member of the Supervisory Board of Aliseca GmbH, Leverkusen*

Wolfgang Blossey

District Secretary of the German Mine, Chemical and Power Workers' Union, Hanover

Further offices:
- Member of the Supervisory Board of LANXESS Deutschland GmbH, Leverkusen*
- Member of the Supervisory Board of INEOS Deutschland GmbH, Cologne*
- Member of the Supervisory Board of INEOS Köln GmbH, Cologne*

Dr. Rudolf Fauss

- Head of Central Functions in the Human Resources Group Function
- Chairman of the LANXESS AG Group Managerial Employees' Committee
- Chairman of the LANXESS Managerial Employees' Committee

Further offices:
- Member of the Supervisory Board of LANXESS Deutschland GmbH, Leverkusen*

Dr. Friedrich Janssen

Former member of the Board of Management of E.ON Ruhrgas AG, Essen

Further offices:
- Member of the Supervisory Board of LANXESS Deutschland GmbH, Leverkusen*
- Member of the Supervisory Board of National-Bank AG, Essen*
- Member of the Supervisory Board of E.ON Avacon AG, Helmstedt*
- Member of the Supervisory Board of E.ON Energy Trading SE, Düsseldorf*
- Member of the Supervisory Board of E.ON Hanse AG, Quickborn*
- Member of the Supervisory Board of E.ON Ruhrgas AG, Essen*
- Member of the Supervisory Board of Stadtwerke Göttingen AG, Göttingen*
- Member of the Advisory Board of HDI-Gerling Sach Serviceholding AG, Hanover
- Member of the Supervisory Board of Thüga Assekuranz Services München Versicherungsmakler GmbH, Munich

Robert J. Koehler

Chairman of the Board of Management of SGL Carbon SE, Wiesbaden

Further offices:
- Member of the Supervisory Board of LANXESS Deutschland GmbH, Leverkusen*
- Chairman of the Supervisory Board of Benteler International AG, Paderborn*
- Member of the Supervisory Board of Klöckner & Co. SE, Duisburg*
- Member of the Supervisory Board of Heidelberger Druckmaschinen AG, Heidelberg*
- Member of the Supervisory Board of Demag Cranes AG, Wetter/Ruhr*
- Further offices in companies affiliated with SGL Carbon SE, Wiesbaden

Rainer Laufs

- Self-employed consultant
- Former Chairman of the Management Board of Deutsche Shell AG, Hamburg

Further offices:
- Member of the Supervisory Board of LANXESS Deutschland GmbH, Leverkusen*
- Chairman of the Supervisory Board of WCM Beteiligungs- und Grundbesitz AG, Frankfurt am Main*
- Chairman of the Supervisory Board of Petrotec AG, Düsseldorf*
- Member of the Supervisory Board of AVANCOS TECHNICAS SERVICES GmbH, Hamburg
- Chairman of the Supervisory Board of BorsodChem Zrt, Kazincbarcika, Hungary

Dr. Ulrich Middelmann

Former Vice Chairman of the Executive Board of ThyssenKrupp AG, Duisburg/Essen

Further offices:
- Member of the Supervisory Board of LANXESS Deutschland GmbH, Leverkusen*
- Member of the Supervisory Board of Deutsche Telekom AG, Bonn*
- Member of the Supervisory Board of Commerzbank AG, Frankfurt am Main*
- Member of the Supervisory Board of ThyssenKrupp Steel Europe AG, Duisburg*
- Member of the Supervisory Board of ThyssenKrupp Materials International GmbH, Essen*
- Chairman of the Advisory Board of Hoberg & Driesch GmbH, Düsseldorf

* Statutory supervisory boards

Hans-Jürgen Schicker
Chairman of the LANXESS Works Council in Uerdingen
Further offices: • Member of the Supervisory Board of LANXESS Deutschland GmbH, Leverkusen*

Gisela Seidel
Chairwoman of the LANXESS Works Council in Dormagen
Further offices: • Member of the Supervisory Board of LANXESS Deutschland GmbH, Leverkusen*

Theo H. Walthie (effective May 28, 2010)
Self-employed consultant
Further offices: • Member of the Supervisory Board of LANXESS Deutschland GmbH, Leverkusen*

The information about offices held refers to memberships of other supervisory boards and comparable supervisory bodies of companies in Germany and abroad (as of December 31, 2010).

b) Members of the Supervisory Board who stepped down in fiscal 2010:

Werner Czaplik (until May 28, 2010)
• Chairman of the LANXESS Central Works Council • Vice Chairman of the LANXESS Group Works Council and Vice Chairman of the LANXESS Works Council in Leverkusen • Chairman of the LANXESS European Forum
Further offices: • Member of the Supervisory Board of LANXESS Deutschland GmbH, Leverkusen* (until May 28, 2010)

Ralf Deitz (until May 28, 2010)
Member of the LANXESS Works Council in Leverkusen
Further offices: • Member of the Supervisory Board of LANXESS Deutschland GmbH, Leverkusen* (until May 28, 2010) • Member of the Supervisory Board of Saltigo GmbH, Leverkusen*

Rainer Hippler (until May 28, 2010)
• Chairman of the LANXESS Group Works Council • Chairman of the Works Council of Rhein Chemie Rheinau GmbH
Further offices: • Member of the Supervisory Board of LANXESS Deutschland GmbH, Leverkusen* (until May 28, 2010) • Member of the Supervisory Board of Rhein Chemie Rheinau GmbH, Mannheim*

Dr. Jürgen F. Kammer (until May 28, 2010)
• Former Chairman of the Managing Board of Süd-Chemie AG, Munich • Former Chairman of the Supervisory Board of Süd-Chemie AG, Munich
Further offices: • Member of the Supervisory Board of LANXESS Deutschland GmbH, Leverkusen* (until May 28, 2010) • Member of the Supervisory Board of Villeroy & Boch AG, Mettlach* • Member of the Administrative Board of Wittelsbacher Ausgleichsfonds, Munich

Lutz Lingnau (until May 28, 2010)
• Self-employed consultant • Former member of the Board of Management of Schering AG, Berlin
Further offices: • Member of the Supervisory Board of LANXESS Deutschland GmbH, Leverkusen* (until May 28, 2010) • Member of the Board of Directors of Nektar Therapeutics, San Carlos, United States

Dr. Sieghardt Rometsch (until May 28, 2010)
• Chairman of the Supervisory Board of HSBC Trinkaus & Burkhardt AG, Düsseldorf • Former spokesman for the general partners of HSBC Trinkaus & Burkhardt KGaA, Düsseldorf
Further offices: • Member of the Supervisory Board of LANXESS Deutschland GmbH, Leverkusen* (until May 28, 2010) • Chairman of the Supervisory Board of HSBC Trinkaus & Burkhardt AG, Düsseldorf* • Member of the Board of HSBC Private Banking Holdings (Suisse) SA, Geneva, Switzerland • Chairman of the Supervisory Board of the Düsseldorf University Hospital • Chairman of the Advisory Board of Management Partner GmbH, business consultants, Stuttgart

The information about offices held refers to memberships of other supervisory boards and comparable supervisory bodies of companies in Germany and abroad (as of May 28, 2010).

REPORT OF THE SUPERVISORY BOARD

Dear Stockholders,
LANXESS closed fiscal 2010 with an outstanding result. The company emerged from the global financial and economic crisis stronger than before. Being represented in the world's key growth markets with the right products has paid dividends for LANXESS. The company continued investing to support its growth course. In parallel, the Board of Management provided additional stimulus for growth by purchasing the elastomers business of Dutch company Royal DSM and acquiring the Argentina-based Darmex group, which manufactures release agents for the tire industry.

As in previous years, the Supervisory Board took the utmost care in 2010 while exercising the duties incumbent on it under the law and the articles of association. It advised the Board of Management regularly on the management of the company and monitored its conduct of the business. The Supervisory Board was directly involved in all decisions of fundamental importance for the company. The Board of Management informed us regularly in both written and oral reports about business performance, the situation of the Group, including the risk situation and risk management, and about current issues. On the basis of these reports, we discussed significant business transactions in detail. We thoroughly examined and discussed the reports and proposals of the Board of Management and voted on them when required by law, the articles of association or other provisions. The Chairman of the Supervisory Board, the Chairman of the Board of Management and the other members of the Board of Management were in regular contact outside of the Supervisory Board's meetings. We regularly discussed the present state and future development of the company as well as material events.

Meetings of the Supervisory Board and its Committees
The Supervisory Board met a total of seven times in 2010.

The chief focus of the Supervisory Board's deliberations were the measures taken to promote economic recovery and to overcome the effects on the company of the financial and economic crisis. As in previous years, the Supervisory Board also discussed the company's strategic direction and development, corporate planning, the internal control, risk management and audit systems, and capital expenditure policy at its meetings. Other topics addressed were research and development as well as the environment and safety. We also spent time on decisions regarding acquisitions of companies and investments in the construction of two production facilities in Asia. Finally, we approved the continuation of a long-term variable compensation component for the members of the Board of Management following the expiration of the existing program. This took the aspect of sustainability into account by extending the lock-up period before first-time exercise to four years.

All members of the Supervisory Board performed their duties diligently and conscientiously. All of the Supervisory Board meetings were attended by all members. The stockholder representatives and the employee representatives regularly held separate meetings at which they prepared the meetings of the full Supervisory Board.

With the conclusion of the Annual Stockholders' Meeting on May 28, 2010, the Human Resources Committee was dissolved and its tasks assumed by the Presidial Committee. The Supervisory Board therefore has four committees, the membership of which is shown on pages 102–103. The committees are tasked with preparing the topics and resolutions to be discussed at meetings of the full Supervisory Board. They also, at times, exercise decision-making powers conferred on them by the Supervisory Board. Dr. Janssen is Chairman of the Audit Committee. I chair all of the other committees.

The Audit Committee met four times during the year. It dealt in particular with the annual financial statements and management report of LANXESS AG for fiscal 2009, the consolidated financial statements and Group management report for fiscal 2009, the interim reports issued during fiscal 2010, the condensed consolidated financial statements and interim management report included in the 2010 half-year financial report, the company's risk management and the internal control system. Other topics discussed were the determination of the principal areas of focus for the audit of the 2010 financial statements, significant findings by the internal audit department, accounting-related topics and financial policy. The external auditor attended all of the Audit Committee's meetings and reported on the auditing activities.

The Human Resources Committee met once during the year before being dissolved. It addressed the attainment of performance targets for the annual variable compensation component of the members of the Board of Management and the corresponding recommendations to be presented to the full Supervisory Board for its decisions.

The Presidial Committee convened six times during 2010 to prepare the plenary meetings and, after assuming the tasks of the dissolved Human Resources Committee, to discuss human resources topics. In this connection, it discussed the setting of performance targets for the variable compensation component of the members of the Board of Management for fiscal 2011 as well as the continuation of a new long-term variable compensation component for the members of the Board of Management following the expiration of the existing program. The full Supervisory Board resolved to introduce the new program on the Presidial Committee's recommendation.

The Nominations Committee met once during the year to address diversity issues.

The Committee formed pursuant to Article 27 (3) of the German Codetermination Act did not convene in fiscal 2010.

The chairmen of the committees each reported on the meetings and the work of the committees at the meetings of the full Supervisory Board.

Financial Statements of LANXESS AG and Consolidated Financial Statements of the LANXESS Group

The financial statements and management report of LANXESS AG for the 2010 fiscal year, which were prepared by the Board of Management in accordance with the rules of the German Commercial Code, as well as the consolidated financial statements and Group management report for fiscal 2010, which were prepared by LANXESS AG in accordance with the International Financial Reporting Standards (IFRS), were audited by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, the auditor appointed by the Annual Stockholders' Meeting and engaged by the Supervisory Board. The auditor issued an unqualified opinion in each case.

The Supervisory Board satisfied itself of the independence of the auditor and the persons acting on the auditor's behalf. The audit reports and the documents relating to the financial statements were discussed with the Board of Management and the auditor at the Audit Committee meeting held on March 10, 2011. They were also discussed in detail on the basis of the required documents and notes at the Supervisory Board's financial statements meeting held on March 15, 2011. The responsible auditor was present for the discussions concerning the financial statements of LANXESS AG and the consolidated financial statements of the LANXESS Group. He reported on the material results of the audits. He was also available to the Audit Committee and full Supervisory Board to provide additional information.

Based on the recommendation of the Audit Committee as well as on its own review and in-depth discussions about the financial statements and management report of LANXESS AG, the consolidated financial statements of the LANXESS Group and the Group management report and the proposal for appropriation of the profit, the Supervisory Board endorsed the auditor's conclusions and had no objections to raise. The Supervisory Board has approved the financial statements of LANXESS AG and the consolidated financial statements of the LANXESS Group, which were prepared by the Board of Management. The financial statements of LANXESS AG, thus, have been adopted. The Audit Committee and the full Supervisory Board endorsed the Board of Management's proposal for use of the distributable profit after close examination and extensive deliberations that carefully weighed the best interests of the company and the stockholders.

Composition of the Board of Management and Supervisory Board

The company's Supervisory Board is composed in accordance with the provisions of the German Codetermination Act of 1976. The composition of the Supervisory Board changed during fiscal 2010. With the conclusion of the Annual Stockholders' Meeting on May 28, 2010, the employee representatives Werner Czaplik, Ralf Deitz and Rainer Hippler and the stockholder representatives Dr. Jürgen F. Kammer, Lutz Lingnau and Dr. Sieghardt Rometsch stepped down from the Supervisory Board. In accordance with the provisions of the German Codetermination Act and its electoral regulations, Gisela Seidel, Axel Berndt, Wolfgang Blossey, Dr. Rudolf Fauss, Ulrich Freese and Hans-Jürgen Schicker were elected as the employee representatives to the Supervisory Board, which has been reduced to twelve members. The Annual Stockholders' Meeting of LANXESS AG held on May 28, 2010, elected Dr. Friedrich Janssen, Robert J. Koehler, Rainer Laufs, Prof. Ulrich Middelmann, Theo H. Walthie and Dr. Rolf Stomberg to the company's Supervisory Board as the stockholder representatives. I serve as the Chairman of the Supervisory Board.

There were no changes in the composition of the Board of Management in fiscal 2010. Its members are Dr. Axel C. Heitmann, who serves as Chairman, Dr. Werner Breuers, Dr. Rainier van Roessel, who serves as Industrial Relations Director, and Matthias Zachert, who serves as Chief Financial Officer. However, Mr. Zachert will leave the LANXESS Board of Management at the end of March 2011 at his own request. He will be succeeded by Dr. Bernhard Düttmann effective April 1, 2011.

The Supervisory Board would like to thank the Board of Management and all Group employees for their hard work and dedication in fiscal 2010.

Leverkusen, March 15, 2011

The Supervisory Board

Dr. Rolf Stomberg
Chairman

STATEMENT OF FINANCIAL POSITION
LANXESS GROUP

€ million	Note	Dec. 31, 2009	Dec. 31, 2010
ASSETS			
Intangible assets	(1)	196	226
Property, plant and equipment	(2)	1,809	2,131
Investments accounted for using the equity method	(3)	26	13
Investments in other affiliated companies	(4)	1	8
Non-current derivative assets	(33)	16	3
Other non-current financial assets	(5)	79	74
Deferred taxes	(26)	163	170
Other non-current assets	(6)	92	113
Non-current assets		**2,382**	**2,738**
Inventories	(7)	849	1,094
Trade receivables	(8)	733	942
Cash and cash equivalents		313	160
Near-cash assets	(9)	402	364
Current derivative assets	(33)	29	19
Other current financial assets	(5)	146	58
Current income tax receivables		31	69
Other current assets	(10)	183	222
Current assets		**2,686**	**2,928**
Total assets		**5,068**	**5,666**
EQUITY AND LIABILITIES			
Capital stock and capital reserves		889	889
Other reserves		818	699
Net income		40	379
Other equity components		(315)	(221)
Equity attributable to non-controlling interests		13	15
Equity	(11)	**1,445**	**1,761**
Provisions for pensions and other post-employment benefits	(12)	569	605
Other non-current provisions	(13)	307	351
Non-current derivative liabilities	(33)	4	11
Other non-current financial liabilities	(14)	1,462	1,302
Non-current income tax liabilities		47	50
Other non-current liabilities	(15)	77	95
Deferred taxes	(26)	38	40
Non-current liabilities		**2,504**	**2,454**
Other current provisions	(13)	352	422
Trade payables	(16)	486	664
Current derivative liabilities	(33)	26	23
Other current financial liabilities	(14)	94	176
Current income tax liabilities		52	34
Other current liabilities	(15)	109	132
Current liabilities		**1,119**	**1,451**
Total equity and liabilities		**5,068**	**5,666**

INCOME STATEMENT
LANXESS GROUP

€ million	Note	2009	2010
Sales	(18)	**5,057**	**7,120**
Cost of sales	(19)	(3,956)	(5,381)
Gross profit		**1,101**	**1,739**
Selling expenses	(20)	(530)	(646)
Research and development expenses	(21)	(101)	(116)
General administration expenses	(22)	(235)	(298)
Other operating income	(23)	237	189
Other operating expenses	(24)	(323)	(261)
Operating result (EBIT)		**149**	**607**
Income from investments accounted for using the equity method		8	16
Interest income		17	10
Interest expense		(90)	(93)
Other financial income and expense		(52)	(47)
Financial result	(25)	**(117)**	**(114)**
Income before income taxes		**32**	**493**
Income taxes	(26)	7	(112)
Income after income taxes		**39**	**381**
of which attributable to non-controlling interests		(1)	2
of which attributable to LANXESS AG stockholders (net income)		40	379
Earnings per share in € (undiluted/diluted)	(27)	**0.48**	**4.56**

STATEMENT OF COMPREHENSIVE INCOME
LANXESS GROUP

€ million	2009	2010
Income after income taxes	**39**	**381**
Actuarial gains/losses, effects of the asset ceiling and minimum funding requirements relating to defined-benefit plans	(114)	(130)
Exchange differences on translation of operations outside the euro zone	125	125
Financial instruments	98	(41)
Other comprehensive income (net of income tax) attributable to companies accounted for using the equity method	(1)	(26)
Income taxes on other comprehensive income	1	49
Other comprehensive income, net of income tax	**109**	**(23)**
Total comprehensive income	**148**	**358**
of which attributable to non-controlling interests	(3)	2
of which attributable to LANXESS AG stockholders	151	356

STATEMENT OF CHANGES IN EQUITY
LANXESS GROUP

€ million	Capital stock	Capital reserves	Other reserves	Net income	Other equity components		Equity attributable to LANXESS AG stockholders	Equity attributable to non-controlling interests	Equity
					Currency translation adjustment	Financial instruments			
Dec. 31, 2008	**83**	**806**	**762**	**183**	**(467)**	**(44)**	**1,323**	**16**	**1,339**
Allocations to retained earnings			183	(183)			0		0
Dividend payments			(42)				(42)		(42)
Total comprehensive income			(85)	40	127	69	151	(3)	148
Income after income taxes				*40*			*40*	*(1)*	*39*
Other comprehensive income, net of income tax									
Actuarial gains/losses, effects of the asset ceiling and minimum funding requirements relating to defined-benefit plans			*(114)*				*(114)*		*(114)*
Exchange differences on translation of operations outside the euro zone					*127*		*127*	*(2)*	*125*
Financial instruments						*98*	*98*		*98*
Other comprehensive income (net of income tax) attributable to companies accounted for using the equity method						*(1)*	*(1)*		*(1)*
Income taxes on other comprehensive income			*29*			*(28)*	*1*		*1*
Dec. 31, 2009	**83**	**806**	**818**	**40**	**(340)**	**25**	**1,432**	**13**	**1,445**
Allocations to retained earnings			40	(40)			0		0
Dividend payments			(42)				(42)		(42)
Total comprehensive income			(117)	379	125	(31)	356	2	358
Income after income taxes				*379*			*379*	*2*	*381*
Other comprehensive income, net of income tax									
Actuarial gains/losses, effects of the asset ceiling and minimum funding requirements relating to defined-benefit plans			*(130)*				*(130)*		*(130)*
Exchange differences on translation of operations outside the euro zone					*125*		*125*		*125*
Financial instruments						*(41)*	*(41)*		*(41)*
Other comprehensive income (net of income tax) attributable to companies accounted for using the equity method			*(26)*				*(26)*		*(26)*
Income taxes on other comprehensive income			*39*			*10*	*49*		*49*
Dec. 31, 2010	**83**	**806**	**699**	**379**	**(215)**	**(6)**	**1,746**	**15**	**1,761**

STATEMENT OF CASH FLOWS
LANXESS GROUP

€ million	Note	2009	2010
Income before income taxes		**32**	**493**
Depreciation and amortization		273	283
Gains on disposals of intangible assets and property, plant and equipment		(18)	0
Income from investments accounted for using the equity method		(8)	(16)
Financial losses		71	83
Income taxes paid		0	(114)
Changes in inventories		228	(205)
Changes in trade receivables		23	(176)
Changes in trade payables		(12)	161
Changes in other assets and liabilities		(24)	(4)
Net cash provided by operating activities	(34)	**565**	**505**
Cash outflows for purchases of intangible assets, property, plant and equipment		(275)	(501)
Cash outflows for (cash inflows from) financial assets		(448)	107
Cash outflows for the acquisition of subsidiaries, less acquired cash and cash equivalents		(86)	0
Cash inflows from sales of intangible assets, property, plant and equipment		24	3
Cash inflows from divestments of subsidiaries and other businesses, less divested cash and cash equivalents		7	0
Interest and dividends received		37	16
Cash outflows for external financing of pension obligations (CTA)		(30)	(75)
Net cash used in investing activities	(34)	**(771)**	**(450)**
Proceeds from borrowings		943	170
Repayments of borrowings		(590)	(251)
Interest paid and other financial disbursements		(53)	(91)
Dividend payments		(42)	(42)
Net cash provided by (used in) financing activities	(34)	**258**	**(214)**
Change in cash and cash equivalents from business activities		**52**	**(159)**
Cash and cash equivalents as of January 1		249	313
Other changes in cash and cash equivalents		12	6
Cash and cash equivalents as of December 31	(34)	**313**	**160**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GENERAL INFORMATION

The consolidated financial statements of the LANXESS Group as of December 31, 2010 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 315 a 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 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. Further details of their maturities are provided below in certain cases.

The consolidated financial statements were 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 accounting policies 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 2010 were drawn up by the Board of Management of LANXESS AG and authorized for submission to the Supervisory Board on March 2, 2011. 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 companies directly controlled by it. 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 (acquisition date) and deconsolidated when this is no longer the case.

The financial statements of the consolidated companies were prepared using uniform accounting policies 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.

Business combinations are accounted for using the acquisition method. The cost of a business combination is stated as the aggregate of the fair values, at the date of acquisition, of the assets transferred, liabilities incurred or assumed, and any equity instruments issued in exchange for control of the acquiree. It also contains the fair value of assets and liabilities resulting from contingent consideration contracts.

For the first-time consolidation, the assets, liabilities and contingent liabilities identified in the course of the acquisition are measured at fair value as of the acquisition date.

Starting in fiscal 2010, companies may choose for each business combination whether to include any shares not acquired at the fair value of the acquired entity or – as in the past – pro rata as a percentage of the fair value of net assets. These are reported in the statement of financial position as equity attributable to non-controlling interests.

Also starting in fiscal 2010, acquisition-related costs – except those incurred to issue debt or equity securities – are expensed.

Goodwill is measured as of the acquisition date as the excess of the consideration transferred, the amount of any non-controlling interest and the fair value of any previously held equity interest over the fair value of the net assets acquired. Negative goodwill is immediately recognized through profit or loss after the purchase price allocation has been re-examined.

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.

Joint ventures are also included in the consolidated financial statements 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 each foreign entity are valued on the basis of the currency of the primary economic environment in which the entity operates (functional currency concept). 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.

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

Exchange Rates

€ 1		Closing rate, Dec. 31		Average rate	
		2009	2010	2009	2010
Argentina	ARS	5.47	5.31	5.21	5.19
Brazil	BRL	2.51	2.23	2.77	2.33
China	CNY	9.84	8.82	9.52	8.98
United Kingdom	GBP	0.89	0.86	0.89	0.86
India	INR	66.84	59.74	67.29	60.58
Japan	JPY	133.16	108.65	130.35	116.38
Canada	CAD	1.51	1.33	1.59	1.37
Singapore	SGD	2.02	1.71	2.02	1.81
South Africa	ZAR	10.67	8.86	11.68	9.70
United States	USD	1.44	1.34	1.39	1.33

ACCOUNTING POLICIES 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. Amortization for 2010 has been allocated to the respective functional areas. Any further loss of value is recognized through an impairment charge. Impairment losses are reversed in the following year if the reasons for them no longer exist, 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 impairment losses had not been recognized or their current recoverable value. The lower of these two amounts is recognized. Intangible assets with indefinite useful lives and goodwill are not amortized. They are tested for impairment annually, or more often if events or a change in circumstances indicate a possible impairment. Any impairment losses are recognized in other operating expenses. Impairment losses on goodwill are not reversed.

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. Impairment losses are recognized for any reduction in value that goes 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. Impairment losses are reversed if the reasons for previous years' impairments charges 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 impairment charge had not been taken 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 reliably 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. These 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.

Financial instruments are recognized as soon as the LANXESS Group becomes the contracting party to them. Financial assets are derecognized when the contractual rights to receive payments from them expire or the financial assets are transferred together with all substantial opportunities and risks. Financial liabilities are derecognized when the contractual obligations are met, canceled or lapse.

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.

Trade accounts receivable and other financial receivables are initially recognized at fair value and subsequently accounted for 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, 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, an impairment loss is recognized on the basis of an impairment test.

Investments in companies accounted for using the equity method 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.

Derivative financial instruments and hedging transactions 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 the relevant financial reporting 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 calculated 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 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). They 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 remaining 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.

Borrowing costs are not included in the acquisition or production cost of inventories due to production-related factors.

Similarly, given 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 not reclassified to profit or loss in a subsequent 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 is calculated from the value of the rights based on a two-dimensional standard distribution of returns. The fair value of the rights is reflected in a pro-rata provision during the vesting period.

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 together with the Group's legal advisers and adjusted if necessary.

Contingent liabilities 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 Revenues are recognized as soon as delivery has been made or the service rendered, and are reported net of sales taxes and deductions. This is normally the case when the significant risks and benefits associated with ownership of the goods pass to the purchaser. It must also be sufficiently probable that the economic benefits will be obtained and the costs incurred must be reliably determinable.

Allocations to provisions for rebates to customers are recognized in the period in which the respective revenues are legally recognized. Revenues such as license fees, rental income, interest income or dividends that are attributable to a subsequent fiscal year are accrued.

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 and optimization of products and processes frequently involves uncertainties, the conditions for capitalization of development costs are generally not met.

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.

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.

Disbursements for the acquisition of property, plant and equipment are included in the cash flows for investing activities after deduction of any third-party subsidies.

Purchase prices paid or received in connection with acquisitions or divestments of subsidiaries or other business entities are included in the investing cash flow after deducting cash and cash equivalents acquired or divested.

Interest and dividends received are also included in investing cash flow, while interest and dividends paid are included in financing cash flow.

Global impairment testing procedure and impact In the LANXESS Group, the impairment testing of non-current assets starts with an analysis to determine whether impairment losses need to be recognized or previously recognized impairment losses reversed. If there are indications that this is the case, the residual carrying amount of each cash-generating unit is compared to its recoverable amount. In the LANXESS Group these impairments tests are performed at least once a year.

Cash-generating units to which goodwill is allocated are tested annually for impairment – or more frequently if events or changes in circumstances indicate a possible impairment. The residual carrying amount of each cash-generating unit, including the goodwill allocated to it, is compared to its recoverable amount.

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, impairment testing is also performed at this level and impairment losses recognized in the income statement where necessary.

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 shows a strategic business unit to be impaired, an impairment loss is first recognized for any goodwill assigned to it. Any remaining impairment amount is allocated among the other non-current assets of the strategic business unit in proportion to 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.

The results of the global impairment tests in fiscal 2010 are outlined in the section "Estimation uncertainties and exercise of discretion."

CHANGES IN RECOGNITION AND VALUATION PRINCIPLES

The International Accounting Standards Board (IASB) and the IFRS Interpretations Committee have adopted a number of amendments to accounting standards which became mandatory for the first time in 2010.

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, non-controlling interests and goodwill. It also specifies which assets, liabilities and contingent liabilities are to be recognized. The revised standard is to be applied prospectively for business combinations. Further information is provided in the section headed "Consolidation methods."

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.

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.

The following accounting standards and interpretations had to be applied for the first time in 2010 but currently have no impact, or no material impact, on the LANXESS Group:

- IFRIC 12: Service Concession Arrangements
- IFRS 5: Improvements to IFRSs (2008) – Amendments to IFRS 5
- IFRIC 15: Agreements for the Construction of Real Estate
- IFRIC 16: Hedges of a Net Investment in a Foreign Operation
- IAS 39: Eligible Hedged Items – Amendments to IAS 39
- IFRIC 17: Distributions of Non-cash Assets to Owners
- IFRS 1: First-time Adoption of International Financial Reporting Standards
- IFRIC 18: Transfers of Assets from Customers
- Various IAS and IFRS: Improvements to IFRSs (2009)
- IFRS 2: Group Cash-settled Share-based Payment Transactions – Amendments to IFRS 2
- IFRS 1: Additional Exemptions for First-time Adopters – Amendments to IFRS 1

Further, as of December 31, 2010, the LANXESS Group already applied the revised version of IAS 24 issued in November 2009, which contains amendments pertaining to the disclosure of related-party transactions. This did not have any impact on the consolidated financial statements.

NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET MANDATORY

In 2010 the LANXESS Group did not yet apply certain further accounting standards and interpretations that had already been issued by the IASB and the IFRS Interpretations Committee 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.

In November 2009, the IASB issued IFRS 9. The new requirements this standard introduced for classifying and measuring financial assets were supplemented in October 2010 by requirements for the measurement of financial liabilities and the derecognition of financial instruments. The new standard represents the first of three phases in the complete replacement of IAS 39. IFRS 9 is to be applied for annual periods beginning on or after January 1, 2013. The LANXESS Group is currently evaluating the 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.
IAS 32	Classifications of Rights Issues – Amendment to IAS 32	Oct. 8, 2009	2011	yes
IFRIC 14	Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14	Nov. 26, 2009	2011	yes
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	Nov. 26, 2009	2011	yes
IFRS 1 and IFRS 7	Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters – Amendments to IFRS 1 and IFRS 7	Jan. 28, 2010	–	yes
Various IAS and IFRS	Improvements to IFRSs (2010)	May 6, 2010	2011	yes
IFRS 7	Disclosures – Transfers of Financial Assets – Amendments to IFRS 7	Oct. 7, 2010	2012	no
IAS 12	Deferred Tax: Recovery of Underlying Assets – Amendments to IAS 12	Dec. 20, 2010	2012	no
IFRS 1	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters – Amendments to IFRS 1	Dec. 20, 2010	–	no

ESTIMATION UNCERTAINTIES AND EXERCISE OF DISCRETION

The preparation of consolidated financial statements in accordance with IFRS entails the selection of accounting policies 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. 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 "Global impairment testing procedure and impact"). 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 2010 could differ from the actual values in subsequent periods, necessitating subsequent valuation adjustments. The impairment test is based on a discount rate after taxes of 8.0% (2009: 7.7%), without using growth rates to extrapolate the last year of the forecasting period.

The testing of the cash-generating units did not reveal any indication of possible asset impairment or of the need for impairment loss reversals.

The principal goodwill items, adjusted for exchange rate differences, were tested for impairment on the basis of fair value less costs to sell. In particular, impairment tests were carried out on the goodwill of €114 million in the Performance Butadiene Rubbers business unit that arose on the acquisition of Petroflex in 2008 and the goodwill of €14 million in the Basic Chemicals business unit that arose on the acquisition of Gwalior in 2009 (see the section headed "Companies consolidated"). Neither a one percentage point increase in the discount rate nor a 10% reduction in expected future cash flows would have led to the recognition of an impairment loss on these goodwill items.

The recognition and measurement of provisions are also affected by assumptions as to the probability of utilization, timing, the underlying discount rate and the absolute level of risk. The LANXESS Group performed sensitivity analyses on all provisions existing as of December 31, 2010 as required by the IFRS. These involved calculating the impact of variations in the parameters used, especially the 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 benefits 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

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

	EMEA (excluding Germany)	Germany	North America	Latin America	Asia-Pacific	Total
Fully consolidated companies (incl. parent company)						
Jan. 1, 2010	19	13	6	5	16	59
Additions						0
Dec. 31, 2010	19	13	6	5	16	59
Companies accounted for using the equity method						
Jan. 1, 2010		1			1	2
Additions					1	1
Dec. 31, 2010	0	1	0	0	2	3
Non-consolidated companies						
Jan. 1, 2010	2	2	1	2		7
Additions					1	1
Dec. 31, 2010	2	2	1	2	1	8
Total						
Jan. 1, 2010	21	16	7	7	17	68
Additions	0	0	0	0	2	2
Dec. 31, 2010	21	16	7	7	19	70

Non-consolidated companies are accounted for at cost. These companies are immaterial to the Group's financial position and results of operations, since together they account for less than 0.1% of Group sales and less than 0.1% of equity.

LANXESS-TSRC (Nantong) Chemical Industrial Co. Ltd., Nantong, China, was included in the consolidated financial statements for the first time in fiscal 2010 using the equity method. This had no material impact on the financial position or results of operations of the LANXESS Group.

Effective January 11, 2011 LANXESS acquired all shares in Darmex S.A., Buenos Aires, Argentina, and in Werlind Chile S.A., Santiago, Chile (which together form the Darmex Group). The provisional purchase price of €29 million was financed out of existing liquidity. Further details will be provided after completion of the first-time consolidation and the provisional purchase price allocation in the first quarter of 2011. These transactions are not expected to have a material impact on the net income of the LANXESS Group in 2011. The respective activities have been allocated to the Performance Chemicals segment.

Acquisitions in 2009 had the following impact on the consolidated statement of financial position of the LANXESS Group as of December 31, 2009:

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
Total assets	**60**	**16**	**76**
Non-current liabilities	–	–	–
Current liabilities	2	–	2
Total liabilities	**2**	**–**	**2**
Net acquired assets (excluding goodwill)	**58**	**16**	**74**
Acquisition costs			**86**
Acquired goodwill			**12**

The purchase price allocations undertaken upon first-time consolidation of these acquisitions as of September 1, 2009 were provisional and subject to adjustment within one year after the acquisition date to reflect new information and findings. The provisional purchase price allocations had not changed by August 31, 2010, so the figures in the above table are final.

Other information on companies consolidated The following table lists the consolidated companies in accordance with Section 313 Paragraph 2 of the German Commercial Code:

Company Name and Headquarters	
in %	Interest held
Fully consolidated companies	
Germany	
LANXESS AG, Leverkusen	100
Aliseca GmbH, Leverkusen	100
DuBay Polymer GmbH, Hamm	50
IAB Ionenaustauscher GmbH Bitterfeld, Greppin	100
LANXESS Accounting GmbH, Leverkusen	100
LANXESS Buna GmbH, Marl	100
LANXESS Deutschland GmbH, Leverkusen	100
LANXESS Distribution GmbH, Langenfeld	100
LANXESS International Holding GmbH, Leverkusen	100
LXS Dormagen Verwaltungs-GmbH, Dormagen	100
Perlon-Monofil GmbH, Dormagen	100
Rhein Chemie Rheinau GmbH, Mannheim	100
Saltigo GmbH, Langenfeld	100
EMEA (excluding Germany)	
Europigments, S.L., Barcelona, Spain	52
LANXESS (Pty.) Ltd., Modderfontein, South Africa	100
LANXESS Central Eastern Europe s.r.o., Bratislava, Slovakia	100
LANXESS Chemicals, S.L., Barcelona, Spain	100
LANXESS CISA (Pty.) Ltd., Newcastle, South Africa	100
LANXESS Elastomères, Lillebonne, France	100
LANXESS Emulsion Rubber S.A.S., La Wantzenau, France	100
LANXESS Finance B.V., Ede, Netherlands	100
LANXESS Holding Hispania, S.L., Barcelona, Spain	100
LANXESS International SA, Granges-Paccot, Switzerland	100
LANXESS Limited, Newbury, U.K.	100
LANXESS Mining (Proprietary) Ltd., Modderfontein, South Africa	100
LANXESS N.V., Antwerp, Belgium	100
LANXESS Rubber N.V., Zwijndrecht, Belgium	100
LANXESS S.A.S., Courbevoie, France	100
LANXESS S.r.l., Milan, Italy	100
OOO LANXESS, Dzerzhinsk, Russia	100
Sybron Chemical Industries Nederland B.V., Ede, Netherlands	100
Sybron Chemicals International Holdings Ltd., Newbury, U.K.	100
North America	
LANXESS Buna LLC, Wilmington, U.S.A.	100
LANXESS Corporation, Pittsburgh, U.S.A.	100
LANXESS Inc., Sarnia, Canada	100
LANXESS Sybron Chemicals Inc., Birmingham, U.S.A.	100
Rhein Chemie Corporation, Chardon, U.S.A.	100
Sybron Chemical Holdings Inc., Wilmington, U.S.A.	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. de C.V., Mexico City, Mexico	100
LANXESS S.A., Buenos Aires, Argentina	100
Petroflex Trading S.A., Montevideo, Uruguay	100

Company Name and Headquarters	
in %	Interest held
Fully consolidated companies	
Asia-Pacific	
LANXESS (Liyang) Polyols Co., Ltd., Liyang, China	100
LANXESS Butyl Pte. Ltd., Singapore, Singapore	100
LANXESS Chemical (China) Co., Ltd., Shanghai, China	100
LANXESS Chemical (Shanghai) Co., Ltd., Shanghai, China	100
LANXESS Hong Kong Limited, Hong Kong, China	100
LANXESS India Private Ltd., Thane, India	100
LANXESS K.K., Tokyo, Japan	100
LANXESS Korea Limited, Seoul, South Korea	100
LANXESS Pte. Ltd., Singapore, Singapore	100
LANXESS PTY Ltd., Homebush Bay, Australia	100
LANXESS Shanghai Pigments Co., Ltd., Shanghai, China	100
LANXESS Specialty Chemicals Co., Ltd., Shanghai, China	100
LANXESS Wuxi Chemical Co., Ltd., Wuxi, China	100
Rhein Chemie (Qingdao) Co., Ltd., Qingdao, China	90
Rhein Chemie Japan Ltd., Tokyo, Japan	100
Rhein Chemie LOA (Qingdao) Limited, Qingdao, China	100
Associates accounted for using the equity method	
Germany	
Currenta GmbH & Co. OHG, Leverkusen	40
Asia-Pacific	
LANXESS-TSRC (Nantong) Chemical Industrial Co. Ltd., Nantong, China	50
Joint ventures accounted for using the equity method	
Asia-Pacific	
Anhui Tongfeng Shengda Chemical Co. Ltd., Tongling, China	25
Non-consolidated immaterial subsidiaries	
Germany	
LANXESS Middle East GmbH, Leverkusen	100
Vierte LXS GmbH, Leverkusen	100
EMEA (excluding Germany)	
Rustenburg Chrome Mine Holdings (Pty.) Ltd., Modderfontein, South Africa	74
W. Hawley & Son. Ltd., Newbury, U.K.	100
North America	
LANXESS Energy LLC, Wilmington, U.S.A.	100
Latin America	
Comercial Andinas Ltda., Santiago, Chile	100
Asia-Pacific	
LANXESS (Changzhou) Co. Ltd., Changzhou, China	100
Other non-consolidated immaterial companies	
Latin America	
Hidrax Ltda., Taboão da Serra, Brazil	39

NOTES TO THE STATEMENT OF FINANCIAL POSITION

1 Intangible assets Changes in intangible assets were as follows:

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	0	32
Cost of acquisition or generation on Dec. 31, 2009	**137**	**128**	**4**	**269**
Accumulated amortization and impairment losses on Dec. 31, 2008	(68)	(5)	0	(73)
Changes in scope of consolidation				0
Amortization and impairment losses in 2009	(13)			(13)
of which impairment losses				0
Disposals	17			17
Reclassifications				0
Exchange differences	(4)			(4)
Accumulated amortization and impairment losses on Dec. 31, 2009	**(68)**	**(5)**	**0**	**(73)**
Carrying amounts on Dec. 31, 2009	**69**	**123**	**4**	**196**

Changes in Intangible Assets in 2010

€ 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, 2009	137	128	4	269
Capital expenditures	9		18	27
Disposals	(2)			(2)
Reclassifications	1		(1)	0
Exchange differences	10	14	0	24
Cost of acquisition or generation on Dec. 31, 2010	**155**	**142**	**21**	**318**
Accumulated amortization and impairment losses on Dec. 31, 2009	(68)	(5)	0	(73)
Amortization and impairment losses in 2010	(16)			(16)
of which impairment losses				0
Disposals	1			1
Reclassifications				0
Exchange differences	(4)			(4)
Accumulated amortization and impairment losses on Dec. 31, 2010	**(87)**	**(5)**	**0**	**(92)**
Carrying amounts on Dec. 31, 2010	**68**	**137**	**21**	**226**

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

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
Cost of acquisition or construction on Dec. 31, 2009	**1,188**	**5,167**	**195**	**275**	**6,825**
Accumulated depreciation and impairment losses on Dec. 31, 2008	(823)	(3,922)	(144)	0	(4,889)
Changes in scope of consolidation	4	29			33
Depreciation and impairment losses in 2009	(37)	(208)	(15)		(260)
of which impairment losses	(8)	(7)			(15)
Disposals	27	103	9		139
Reclassifications					0
Exchange differences	(4)	(33)	(2)		(39)
Accumulated depreciation and impairment losses on Dec. 31, 2009	**(833)**	**(4,031)**	**(152)**	**0**	**(5,016)**
Carrying amounts on Dec. 31, 2009	**355**	**1,136**	**43**	**275**	**1,809**

Changes in Property, Plant and Equipment in 2010

€ 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, 2009	1,188	5,167	195	275	6,825
Capital expenditures	27	104	23	348	502
Disposals	(38)	(81)	(6)	(1)	(126)
Reclassifications	44	162	11	(217)	0
Exchange differences	34	131	8	16	189
Cost of acquisition or construction on Dec. 31, 2010	**1,255**	**5,483**	**231**	**421**	**7,390**
Accumulated depreciation and impairment losses on Dec. 31, 2009	(833)	(4,031)	(152)	0	(5,016)
Depreciation and impairment losses in 2010	(30)	(213)	(24)		(267)
of which impairment losses		(1)			(1)
Disposals	37	80	6		123
Reclassifications					0
Exchange differences	(12)	(83)	(4)	0	(99)
Accumulated depreciation and impairment losses on Dec. 31, 2010	**(838)**	**(4,247)**	**(174)**	**0**	**(5,259)**
Carrying amounts on Dec. 31, 2010	**417**	**1,236**	**57**	**421**	**2,131**

Capitalized property, plant and equipment includes assets with a total net value of €66 million (2009: €77 million) held under finance leases. The gross carrying amounts of these assets at the closing date totaled €163 million (2009: €161 million). These assets mainly comprise machinery and technical equipment with a carrying amount of €58 million and a cost of acquisition or construction of €146 million (2009: carrying amount €62 million, cost of acquisition or construction €136 million) and buildings with a carrying amount of €7 million and a cost of acquisition or construction of €16 million (2009: carrying amount €15 million, cost of acquisition or construction €25 million).

Directly allocable borrowing costs of €1 million (2009: €1 million) were capitalized.

3 Investments accounted for using the equity method As in the previous year, Currenta GmbH & Co. OHG, Leverkusen, Germany, and Anhui Tongfeng Shengda Co. Ltd., Tongling, China, were accounted for using the equity method. The newly affiliated company LANXESS-TSRC (Nantong) Chemical Industrial Co. Ltd., Nantong, China, was also included using the equity method.

The following tables show 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	2009	2010
Sales	1,123	1,182
Income from investments accounted for using the equity method	8	16

Investments Accounted for using the Equity Method

€ million	Dec. 31, 2009	Dec. 31, 2010
Assets	855	900
Liabilities	669	726
Equity	**186**	**174**
Adjustment of LANXESS's interest and equity valuation	(160)	(161)
Investments accounted for using the equity method	**26**	**13**

The €13 million (2009: €16 million) decrease in the carrying amount of investments accounted for using the equity method arose from the equity-method income after adjustment for a loss of €26 million (2009: €1 million) recognized in other comprehensive income and the impact of the pro-rata income transfer of €8 million (2009: €23 million). The first-time inclusion of LANXESS-TSRC (Nantong) Chemical Industrial Co. Ltd., Nantong, China, increased the carrying amount of investments accounted for using the equity method by €5 million.

4 Investments in other affiliated companies This item contains interests in other affiliated companies totaling €8 million (2009: €1 million). The increase is primarily due to the acquisition of shares in Gevo Inc., Englewood, U.S.A.

As of December 31, 2010, the other investments classified as available-for-sale financial assets comprised unlisted equity instruments whose fair value as of the closing date cannot be reliably determined. They were therefore recognized at cost. 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, 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
	79	**146**	**225**

Other Non-Current and Current Financial Assets

€ million	Dec. 31, 2010		
	Non-current	Current	Total
Available-for-sale financial assets	51	1	52
Receivables under finance leases	6	2	8
Other financial receivables	17	55	72
	74	**58**	**132**

The available-for sale non-current financial assets comprise €50 million (2009: €51 million) in bearer securities of an exchange-traded index fund. Accounts receivable of €8 million (2009: €10 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 other financial receivables mainly comprise fixed-term investments with short fixed-interest periods. Write-downs of other financial assets amounted to €10 million (2009: €9 million).

The leasing receivables are due as follows:

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
	11	**1**	**10**

Maturity Structure of Lease Payments

€ million	Dec. 31, 2010		
	Lease payments	Interest portion	Leasing receivables
Up to 1 year	2	0	2
1 to 5 years	7	1	6
	9	**1**	**8**

6 Other non-current assets Other non-current assets are carried at amortized cost less write-downs. No write-downs were necessary in 2009 or 2010.

Other non-current assets comprised:

Other Non-Current Assets

€ million	Dec. 31, 2009	Dec. 31, 2010
Receivables from pension obligations	68	81
Other receivables	24	32
	92	**113**

The increase in receivables from pension obligations was mainly attributable to currency effects. Other receivables include security deposits.

7 Inventories The inventories of the LANXESS Group comprised:

Inventories

€ million	Dec. 31, 2009	Dec. 31, 2010
Raw materials and supplies	177	243
Work in process, finished goods and merchandise	672	851
	849	**1,094**

Inventories of €157 million (2009: €175 million) are reflected at their lower net realizable value.

Write-downs of inventories were as follows:

Write-downs of Inventories

€ million	Dec. 31, 2009	Dec. 31, 2010
Balance at beginning of year	(148)	(79)
Additions charged as expenses	(46)	(18)
Reversals/utilization	120	38
Exchange differences	(5)	(3)
Balance at end of year	**(79)**	**(62)**

8 Trade receivables Trade receivables are stated after write-downs of €19 million (2009: €22 million) for amounts unlikely to be recovered. These write-downs related to gross receivables of €25 million (2009: €29 million).

All trade receivables – totaling €942 million (2009: €733 million) – are due within one year. Trade receivables of €3 million (2009: €2 million) relate to companies accounted for using the equity method and €939 million (2009: €731 million) to other customers.

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

Write-Downs of Trade Receivables

€ million	Dec. 31, 2009	Dec. 31, 2010
Balance at beginning of year	(30)	(22)
Additions charged as expenses	(9)	(4)
Reversals/utilization	17	7
Balance at end of year	**(22)**	**(19)**

The maturity structure of overdue trade receivables was as follows:

Maturity Structure of Overdue Payments

€ million	Dec. 31, 2009	Dec. 31, 2010
Carrying amount of trade receivables	733	942
of which unimpaired and not overdue	636	850
of which unimpaired and overdue by		
up to 30 days	77	75
between 31 and 60 days	9	7
between 61 and 90 days	2	1
more than 90 days	2	3

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 €364 million (2009: €402 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 totaling €222 million (2009: €183 million) are stated at amortized cost. They principally comprise miscellaneous claims for tax refunds amounting to €109 million (2009: €75 million). This item also includes accruals for insurance premiums paid in advance and other claims for refunds.

11 Equity

Share buyback and retirement The Annual Stockholders' Meeting of LANXESS AG on May 28, 2010 authorized the Board of Management until November 25, 2011 to acquire shares in the company representing up to 10% of the capital stock 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 use them for any purpose permitted by law. In particular, it can retire the shares, sell them other than via the stock exchange or an offer to the stockholders, or transfer them against consideration in kind for the purpose of acquiring companies, parts of companies or equity interests in companies or in order to conclude mergers. It is also authorized to use them to satisfy conversion rights from convertible or warrant bonds and/or profit-participation rights or income bonds (or any combination of these instruments) issued by the company and to grant holders of convertible or warrant bonds and/or profit-participation rights or income bonds (or any combination of these instruments) issued by the company or its direct and indirect affiliates that grant a conversion or option right or stipulate a conversion or warrant obligation the number of shares for which such parties would be entitled to subscribe upon exercise of their conversion or option rights or fulfillment of the conversion or warrant obligation. Subscription right of stockholders shall be excluded in such 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 profit is distributed per share.

Authorized capital As of December 31, 2010 the company's authorized capital comprised the following:

• Authorized Capital I and II
The Annual Stockholders' Meeting of LANXESS AG on May 7, 2009 authorized the Board of Management until May 6, 2014 – subject to the approval of the Supervisory Board – to increase the company's capital stock in one or more installments by a total amount of up to €16,640,534 through the issuance of new no-par shares against cash or non-cash contributions (Authorized Capital I). 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, the Board of Management is authorized – subject to the approval of the Supervisory Board – to exclude subscription rights for stockholders in certain circumstances.

Further, pursuant to Section 4 Paragraph 3 of LANXESS AG's Articles of Incorporation, the Annual Stockholders' Meeting on May 28, 2010 authorized the Board of Management until May 27, 2015 – subject to the approval of the Supervisory Board – to increase the company's capital stock in one or more installments by a total amount of up to €16,640,534 through the issuance of new no-par shares against cash or non-cash contributions (Authorized Capital II). Stockholders are generally entitled to subscription rights when Authorized Capital is utilized. With the approval of the Supervisory Board, subscription rights can be excluded for residual amounts and in order to grant holders of warrants or convertible bonds issued by the company and its affiliates subscription rights to the number of new shares for which such parties would be entitled to subscribe upon exercise of their conversion or option rights. Moreover, subscription rights can be excluded with the approval of the Supervisory Board when the company's capital stock is increased against contributions in kind, particularly for the acquisition of companies. Subscription rights can also be excluded with the approval of the Supervisory Board in order to grant holders of convertible and/or warrant bonds issued by the company or its affiliates new shares upon exercise of their rights. Finally, subscription rights can also be excluded with the approval of the Supervisory Board if the issue price of the new shares is not significantly lower than the stock market price at the time the issue price is fixed and the issued shares do not exceed 10% of the company's capital stock. Additional details are provided in Section 4 Paragraph 3 of the Articles of Incorporation.

Conditional capital As of December 31, 2010 the company's conditional capital comprised the following:

• Conditional Capital I and 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 bearers 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). Each conditional capital 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 only difference between the two authorizations to issue convertible and/or warrant bonds, profit-participation rights, and/or income bonds (or any combination of these instruments) in connection with the creation of conditional capital is the amount of the conversion or option price. Otherwise they are identical in content. The Board of Management will utilize just one of the 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 €119 million reduction in other reserves to €699 million was entirely attributable to the decline in retained earnings from €660 million to €541 million.

Retained earnings comprise prior years' undistributed income of companies included in the consolidated financial statements. They also contain actuarial gains and losses along with the effects of the asset ceiling and minimum funding requirements for defined-benefit plans at fully consolidated companies and associates accounted for using the equity method.

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. The year-on-year change was entirely due to current earnings.

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 the 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 2010 these expenses totaled €34 million (2009: €33 million).

The pension plan financed through the Bayer Pensionskasse is also reflected in the consolidated financial statements as a defined-contribution plan. The above amounts include contributions of €21 million (2009: €20 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. There is no information available on over- or underfunding that could be used to estimate any impact on future contributions. The Bayer Pensionskasse is therefore 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 not expected to be 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 generally 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.

Total expenses for defined-benefit plans in 2010 amounted to €38 million (2009: €35 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	
	2009	**2010**	**2009**	**2010**
Current service cost	16	18	10	12
Past service cost	0	0	0	0
Interest cost	80	84	7	7
Expected return on plan assets	(66)	(86)	0	0
Plan curtailments and settlements	0	3	(12)	0
	30	**19**	**5**	**19**

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 as of Dec. 31

€ million	Pension obligations		Other post-employment benefit obligations	
	2009	**2010**	**2009**	**2010**
Defined benefit obligation (funded)	1,037	1,279	6	7
External plan assets	(876)	(1,105)	(3)	(3)
Underfunding	**161**	**174**	**3**	**4**
Defined benefit obligation (unfunded)	80	140	108	118
Unrecognized past service cost	(1)	(1)	(1)	1
Effects of asset ceiling and minimum funding requirements	151	88	–	–
Net recognized liability	**391**	**401**	**110**	**123**
Amounts shown in the balance sheet				
Other non-current assets	(68)	(81)	–	–
Provisions for pensions and other post-employment benefits	459	482	110	123
Net recognized liability	**391**	**401**	**110**	**123**

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

Net Recognized Liability

€ million	**Dec. 31, 2009**	**Dec. 31, 2010**
Provisions for pensions and other post-employment benefits	569	605
Other non-current assets	(68)	(81)
Net recognized liability	**501**	**524**

The defined-benefit obligation and plan assets changed as follows in 2010:

Change in Defined-Benefit Obligation as of Dec. 31

€ million	Pension obligations		Other post-employment benefit obligations	
	2009	**2010**	**2009**	**2010**
Defined benefit obligation				
Benefit obligation at beginning of year	935	1,117	114	114
Current service cost	16	18	10	12
Interest cost	80	84	7	7
Employee contributions	2	2	–	–
Plan changes	1	0	0	–
Plan settlements	0	(6)	0	–
Actuarial gains/losses	45	188	8	2
Benefits paid	(56)	(67)	(18)	(17)
Acquisitions/divestments	0	0	0	–
Plan curtailments	0	0	(12)	0
Exchange differences	94	83	5	7
Benefit obligation at end of year	**1,117**	**1,419**	**114**	**125**

Change in Plan Assets as of Dec. 31

€ million	Pension obligations		Other post-employment benefit obligations	
	2009	**2010**	**2009**	**2010**
Fair value of plan assets				
Plan assets at beginning of year	665	876	3	3
Expected return on plan assets	66	86	0	0
Actuarial gains/losses	15	5	0	0
Acquisitions/divestments	0	–	0	–
Plan settlements	0	(9)	–	–
Employer contributions	44	96	0	0
Employee contributions	2	2	–	–
Benefits paid	(43)	(52)	0	0
Exchange differences	127	101	0	0
Plan assets at end of year	**876**	**1,105**	**3**	**3**

The following table shows the actuarial gains and losses recognized outside profit or loss as a component of other comprehensive income 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	
	2009	2010	2009	2010
Actuarial gains/losses	(30)	(183)	(8)	(2)
Effects of asset ceiling and minimum funding requirements	(59)	78	–	–
	(89)	**(105)**	**(8)**	**(2)**

The accumulated actuarial gains and losses recognized in other comprehensive income at year end 2010 amounted to minus €302 million (2009: minus €105 million).

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				
	2006	2007	2008	2009	2010	2006	2007	2008	2009	2010
Difference between expected and actual return on plan assets	16	1	(50)	15	5	0	0	0	0	0
Experience adjustments	11	(23)	(26)	36	(54)	3	(3)	0	(2)	4
Adjustments for changes in valuation assumptions	8	95	90	(81)	(134)	1	7	6	(6)	(6)
Net actuarial gain/loss for the year	**35**	**73**	**14**	**(30)**	**(183)**	**4**	**4**	**6**	**(8)**	**(2)**

Experience adjustments represent changes in benefit obligations arising from differences between actuarial assumptions and actual developments during the year. By contrast, adjustments for changes in valuation assumptions reflect differences in the benefit obligation resulting from differences in the assumptions made at the start and end of the year.

The increase in the adjustments for changes in valuation assumptions compared with year end 2009 is primarily due to the drop in discount rates in the principal countries in which LANXESS has pension obligations.

The actual return on plan assets in 2010 amounted to €91 million (2009: €81 million).

The following weighted parameters were used to calculate benefit expense and obligations:

Assumptions as of Dec. 31

in %	Pension obligations		Other post-employment benefit obligations	
	2009	2010	2009	2010
Discount rate	7.3	6.7	6.7	6.3
Expected salary increases	4.0	4.0	3.9	4.1
Expected pension increases	2.1	2.1	–	–
Expected return on plan assets	9.3	8.7	4.9	5.8
Expected increase in the cost of medical care	–	–	9.0	8.6
Expected long-term increase in the cost of medical care	–	–	5.5	5.5

The discount rate is weighted on the basis of the benefit obligation for each pension plan at year end, including all plans in the calculation. By contrast, the weighting of the percentage for the expected return on plan assets only includes pension plans with plan assets. The weighting is based on the plan assets at year end. The weighted valuation assumptions also reflect country-specific differences.

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 €90 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 €8 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, 2009**	**Dec. 31, 2010**
Fixed-income securities	65.3	62.8
Equity instruments	24.3	22.7
Real estate	2.2	2.1
Other	8.2	12.4
	100.0	**100.0**

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	2006	2007	2008	2009	2010
Defined benefit obligation	1,022	967	1,049	1,231	1,544
External plan assets	(396)	(491)	(668)	(879)	(1,108)
Underfunding	**626**	**476**	**381**	**352**	**436**

13 Other non-current and current provisions

These comprise:

Other Provisions

€ million	Dec. 31, 2009				Dec. 31, 2010			
	Up to 1 year	1–5 years	Over 5 years	Total	Up to 1 year	1–5 years	Over 5 years	Total
Personnel	78	63	37	178	151	92	38	281
Trade-related commitments	105	26	–	131	97	32	–	129
Environmental protection	32	22	53	107	29	31	68	128
Restructuring	37	41	10	88	26	23	12	61
Miscellaneous	100	42	13	155	119	43	12	174
	352	**194**	**113**	**659**	**422**	**221**	**130**	**773**

Provisions changed as follows in 2010:

Changes in Other Provisions in 2010

€ million	Jan. 1, 2010	Allocations	Interest effect	Utilization	Reversals	Exchange differences	Dec. 31, 2010
Personnel	178	188	6	(84)	(14)	7	281
Trade-related commitments	131	59	0	(45)	(19)	3	129
Environmental protection	107	22	3	(11)	(1)	8	128
Restructuring	88	11	0	(31)	(9)	2	61
Miscellaneous	155	80	4	(50)	(25)	10	174
	659	**360**	**13**	**(221)**	**(68)**	**30**	**773**

Personnel-related provisions

The year-on-year change in personnel-related provisions is mainly due to the increase in annual performance-related compensation resulting from the earnings trend in fiscal 2010, and to multi-year compensation programs.

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. Following the granting of rights under two consecutive three-year programs launched in 2005, a new program was introduced in 2010 under which rights are granted for the years 2010 to 2013. The date of issue of the rights granted and still outstanding and the rights from the outstanding tranches 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.

Whereas the first program comprised a share-based component (Stock Performance Plan 2005-2007) and a non-share-based component (Economic Value Plan), the subsequent programs are entirely share-based (Stock Performance Plan 2008-2010 and Stock Performance Plan 2010-2013).

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℠ index.

Stock Performance Plan 2005-2007 If LANXESS stock performs in line with this index, a payment of €0.75 per right is made. For each percentage point up to 10% by which the stock outperforms the index, €0.025 is paid in addition. For each percentage point above 10%, €0.05 is paid in addition. The maximum possible payment per right, however, is €1.50.

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 is made. For each percentage point up to 5% by which the stock outperforms the index, €0.05 is paid in addition. For each percentage point above 5%, €0.06667 is paid in addition. The maximum possible payment per right, however, is €2.00.

Stock Performance Plan 2010-2013 If LANXESS stock outperforms the index, a payment of at least €0.75 per right is made. For each percentage point by which the stock outperforms the index, €0.125 is paid in addition. The maximum possible payment per right, however, is €2.00.

Members of the Board of Management and senior managers are entitled to take part in the Stock Performance Plan 2008-2010 and the Stock Performance Plan 2010-2013.

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

Principal Parameters as of Dec. 31

in %	2009	2010
Expected share price volatility	50.0	40.0
Expected dividend payment	2.0	2.0
Expected index volatility	29.0	20.0
Correlation between LANXESS stock and the index	70.0	70.0
Risk-free interest rate	1.5	0.7

The expected volatilities are based on the historical volatility of LANXESS stock and the Dow Jones STOXX 600 Chemicals[SM] Index.

The following table provides information on the tranches outstanding as of December 31, 2010:

LANXESS shares were trading at €59.10 at year end 2010, and the reference index stood at 568.21 points.

The net expense in 2010 totaled €40 million (2009: €9 million). As of December 31, 2010, a provision of €46 million (2009: €10 million) had been established. Of this amount, the intrinsic value of rights exercisable as of the closing date accounted for €1 million (2009: €0 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, 2010 the provision for the Economic Value Plan totaled €9 million as in the previous year. The value of the rights was determined on the basis of the expected target attainment. The Economic Value Plan will end with the expected disbursement to eligible participants in 2011.

Trade-related commitments Provisions for trade-related commitments mainly comprise those for rebates, customer discounts, product returns, outstanding invoices, impending losses and onerous contracts.

Stock Performance Plan

	SP Plan 2005–2007		SP Plan 2008–2010			SP Plan 2010–2013
	Tranche 2006	Tranche 2007	Tranche 2008	Tranche 2009	Tranche 2010	Tranche 2010
Duration	5 years	5 years	6 years	6 years	6 years	7 years
Vesting period	3 years	3 years	3 years	3 years	3 years	4 years
Holding period for personal investment shares	Jan. 31, 2010	Jan. 31, 2010	Feb. 1, 2013	Feb. 1, 2013	Feb. 1, 2013	Jan. 31, 2017
Initial LANXESS share price	€26.03	€40.79	€24.03	€12.86	€27.28	€27.28
Initial Dow Jones STOXX 600 Chemicals[SM] index price	348.60 points	431.50 points	465.97 points	317.39 points	432.44 points	432.44 points
Fair value per right as of December 31, 2009	€0.23	€0.12	€0.82	€1.08	–	–
Fair value per right as of December 31, 2010	–	€1.10	€2.00	€1.98	€1.46	€1.31
Change in number of outstanding rights						
Outstanding rights as of January 1, 2010	2,785,152	3,298,955	11,077,940	12,306,334	0	0
Rights granted	–	–	–	–	13,504,287	12,312,495
Rights exercised	2,785,152	2,296,800	–	–	–	–
Rights compensated	–	–	260,203	260,098	297,929	–
Rights forfeited	–	–	70,752	80,014	20,193	–
Outstanding rights as of December 31, 2010	**0**	**1,002,155**	**10,746,985**	**11,966,222**	**13,186,165**	**12,312,495**

Environmental provisions The Group's activities are subject to extensive legal requirements in the jurisdictions in which it does business. Compliance with environmental laws 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, a current or previous site owner or plant operator 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 often 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 not always possible to accurately predict the effects such situations may 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 government 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.

Potential liabilities exist with respect to various sites under legislation such as the U.S. environment law commonly known as "Superfund." At most of the U.S. sites concerned, numerous companies, including the LANXESS Group, have been notified that the U.S. 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 may be the sole responsible party. The proceedings relating to these sites are at 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 concerning the legal requirements and the information available about conditions in the various countries and at specific sites. Subject to these factors and in the light of the experience it has gained to date with measures of a similar nature, LANXESS believes the provisions to be adequate based upon currently available information. However, the possibility that additional costs could be incurred beyond the amounts accrued cannot be excluded. The company nevertheless estimates that such additional costs, should they occur, would not materially impact the Group's financial position or results of operations.

Provisions for restructuring Of the allocations made to provisions for restructuring in 2009, €31 million was utilized in 2010. €11 million was allocated to provisions for further restructuring programs during the year.

Provisions for restructuring totaled €61 million (2009: €88 million) on December 31, 2010. Of this amount, €39 million (2009: €64 million) comprised provisions for severance payments and other personnel expenses and €22 million (2009: €24 million) comprised provisions for demolition and other expenses.

Miscellaneous provisions

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.

Sundry provisions The sundry provisions contain provisions for guarantees, product liability, waste management commitments not included in environmental provisions, and provisions for other liabilities.

14 Other non-current and current financial liabilities The following tables show the structure and maturities of other financial liabilities:

Other Financial Liabilities as of Dec. 31, 2009

€ million	Current	Non-current					
	2010	**2011**	**2012**	**2013**	**2014**	**> 2014**	**Total**
Bonds			401		495	198	**1,094**
Liabilities to banks	36	24	94	95	18	50	**281**
Liabilities under leasing agreements	11	10	9	32	6	28	**85**
Other financial liabilities	47			1		1	**2**
	94	**34**	**504**	**128**	**519**	**277**	**1,462**

Other Financial Liabilities as of Dec. 31, 2010

€ million	Current	Non-current					
	2011	**2012**	**2013**	**2014**	**2015**	**> 2015**	**Total**
Bonds		401		496		198	**1,095**
Liabilities to banks	124	57	14	13	12	30	**126**
Liabilities under leasing agreements	11	10	34	6	4	25	**79**
Other financial liabilities	41					2	**2**
	176	**468**	**48**	**515**	**16**	**255**	**1,302**

In June 2005 the LANXESS Group placed a €500 million Euro Benchmark Bond on the European capital market. The bond has an annual coupon of 4.125% and matures in June 2012. It was partially redeemed in September 2009, reducing the outstanding nominal amount to €402 million. In 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 matures in April 2014. In September 2009 the LANXESS Group placed another bond on the European market. This €200 million bond has an annual coupon of 5.5% and matures in September 2016.

The weighted average interest rate for financial liabilities in the LANXESS Group at year end was 5.9% (2009: 6.0%).

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). Lease payments totaling €110 million (2009: €120 million), including €20 million (2009: €24 million) in interest, are to be made to lessors in future years.

Other primary financial liabilities include accrued interest of €41 million (2009: €47 million) on financial liabilities. Of this amount, €40 million (2009: €40 million) relates to the aforementioned bonds.

Information on the fair values of financial liabilities and the contractually agreed payments, especially interest payments, is given in Note [33].

15 Other non-current and current liabilities The other non-current liabilities totaling €95 million (2009: €77 million) mainly include asset subsidies of €79 million (2009: €67 million) granted by third parties.

The other current liabilities are recognized at settlement cost. They comprise:

Other Current Liabilities

€ million	Dec. 31, 2009	Dec. 31, 2010
Tax liabilities	32	42
Payroll liabilities	15	21
Social security liabilities	16	20
Miscellaneous liabilities	46	49
	109	**132**

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 were payable mainly to third parties. As in the previous year, the entire amount totaling €664 million (2009: €486 million) was due within one year.

Trade payables of €26 million (2009: €40 million) related to companies accounted for using the equity method and €638 million (2009: €446 million) to other suppliers.

17 Further information on liabilities Of the total liabilities, €261 million (2009: €279 million) had maturities of more than five years.

NOTES TO THE INCOME STATEMENT

18 Sales Sales of €7,120 million (2009: €5,057 million) comprise principally goods sold less discounts and rebates.

A breakdown of sales and the change in sales by segment and region is given in the segment information (see Note [35]).

19 Cost of sales

Cost of Sales

€ million	2009	2010
Expenses for raw materials and merchandise	2,291	3,451
Direct manufacturing and other production costs	1,665	1,930
	3,956	**5,381**

Direct manufacturing costs include those for personnel, depreciation, impairments, energies, and goods and services procured. The other production costs mainly comprise inventory valuation effects and inventory discrepancies.

20 Selling expenses

Selling Expenses

€ million	2009	2010
Marketing costs	330	375
Outward freight charges and other selling expenses	200	271
	530	**646**

The selling expenses mainly comprise those for the internal and external sales organization, freight charges, warehousing, packaging and the provision of advice to customers.

21 Research and development expenses The research and development expenses of €116 million (2009: €101 million) mainly include the costs incurred to gain new scientific and technical knowledge, expenses relating to the search for alternative products and production processes, and costs for applying the results of research.

22 General administration expenses General administration expenses comprise costs not directly related to operational business processes and the costs for the country organizations.

23 Other operating income

Other Operating Income

€ million	2009	2010
Income from non-core business	132	124
Income from the reversal of provisions	15	24
Income from reversals of write-downs of receivables and other assets	15	6
Gains from the disposal of non-current assets	19	1
Miscellaneous operating income	56	34
	237	**189**

24 Other operating expenses

Other Operating Expenses

€ million	2009	2010
Expenses for non-core business	119	108
Expenses for hedging with derivative financial instruments	10	20
Expenses for allocations to restructuring provisions	41	11
Write-downs of trade receivables and other current assets	9	4
Losses from the disposal of non-current assets	1	1
Miscellaneous operating expenses	143	117
	323	**261**

Among the items of miscellaneous operating expenses are allocations to environmental provisions.

25 Financial result The components of this item are as follows:

Financial Result

€ million	2009	2010
Income from investments accounted for using the equity method	**8**	**16**
Interest income	17	10
Interest expense	(90)	(93)
Net interest expense	**(73)**	**(83)**
Interest portion of interest-bearing provisions	(30)	(18)
Net exchange loss	(2)	(16)
Miscellaneous financial expenses	(21)	(12)
Dividends and income from other affiliated companies	1	(1)
Other financial income/expense – net	**(52)**	**(47)**
Financial result	**(117)**	**(114)**

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 €5 million (2009: €3 million) is included in interest expense. Income from investments accounted for using the equity method comprises the €16 million (2009: €8 million) share in the income of Currenta GmbH & Co. OHG, Leverkusen, Germany, that is attributable to LANXESS.

26 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	2009	2010
Current taxes	(3)	(60)
Deferred taxes resulting from		
temporary differences	(41)	(37)
statutory changes in tax rates	(1)	0
loss carryforwards	52	(15)
Income taxes	**7**	**(112)**

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

Deferred Taxes

€ million	Dec. 31, 2009		Dec. 31, 2010	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible assets	16	6	8	17
Property, plant and equipment	6	140	4	136
Inventories	16	2	13	3
Receivables and other assets	14	72	5	66
Pension provisions	57	0	83	0
Other provisions	95	3	104	0
Liabilities	55	2	55	5
Loss carryforwards	91	–	85	–
	350	**225**	**357**	**227**
of which non-current	170	169	180	180
Set-off	(187)	(187)	(187)	(187)
	163	**38**	**170**	**40**

The change in deferred taxes is calculated as follows:

Changes in Deferred Taxes

€ million	2009	2010
Deferred taxes as of January 1	**113**	**125**
Tax income/expense reflected in the income statement	10	(52)
Changes in scope of consolidation	(5)	–
Taxes recognized in other comprehensive income	1	49
Exchange differences	6	8
Deferred taxes as of December 31	**125**	**130**

Deferred tax assets of €140 million (2009: €128 million) related to tax jurisdictions in which losses were recorded in 2010 or 2009. In this respect, the LANXESS Group has taken into consideration tax planning calculations and customary and feasible tax strategies.

Based on tax planning calculations and strategies, deferred tax assets of €85 million (2009: €91 million) were recognized on the €274 million (2009: €294 million) in tax loss carryforwards that represent income likely to be realized in the future.

Deferred taxes were not recognized for €208 million (2009: €192 million) of tax loss carryforwards that in most cases can theoretically be utilized over more than five years. Deferred tax assets also were not recognized in 2010 for tax-deductible temporary differences of €34 million (2009: €27 million). Accordingly, deferred taxes on loss carryforwards of €66 million and deferred tax assets on tax-deductible temporary differences of €13 million were not recognized.

The actual tax expense for 2010 was €112 million (2009: tax income of €7 million). This figured differed by €42 million (2009: €17 million) from the expected tax expense of €154 million (2009: €10 million).

The expected tax expense for the LANXESS Group is calculated by applying an overall tax rate of 31.2% (2009: 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	2009	2010
Income before income taxes	32	493
Aggregated income tax rate of LANXESS AG	31.2%	31.2%
Expected tax expense	(10)	(154)
Tax difference due to differences between local tax rates and the hypothetical tax rate	18	52
Reduction in taxes due to tax-free income		
Utilization of unrecognized loss carryforwards	5	3
Other	7	8
Increase in taxes due to non-tax-deductible expenses	(10)	(6)
Other tax effects	(3)	(15)
Actual tax income (expense)	**7**	**(112)**
Effective tax rate	(21.9%)	22.7%

27 Earnings per share The calculation of earnings per share for 2010 was based on the weighted average number of shares outstanding (83,198,360 shares), including only earnings from continuing operations and disregarding the effects of accounting changes. 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

	2009	2010	Change in %
Net income (€ million)	40	379	> 100
No. of outstanding shares (weighted)	83,202,670	83,198,360 1)	0.0
Earnings per share in € (undiluted/diluted)	**0.48**	**4.56**	**> 100**

1) The difference between this figure and the capital stock of €83,202,670 results from the weighted inclusion of a temporary holding of the company's own shares.

LANXESS AG reported a distributable profit of €104 million for fiscal 2010 (2009: €106 million) for statutory purposes.

28 Personnel expenses Personnel expenses amounted to €1,141 million in fiscal 2010 (2009: €981 million). Wages and salaries, at €912 million (2009: €770 million), accounted for the greater part of this figure. Social security contributions were €160 million (2009: €162 million), while retirement benefit expenses totaled €61 million (2009: €45 million), and social assistance benefits came to €8 million (2009: €4 million). The increase in personnel expenses compared with the previous year is principally due to higher annual performance-related compensation, multi-year compensation programs and currency effects (see Note [13]). Personnel expenses do not include the interest portion of personnel-related provisions, especially pension provisions, which is reflected in the financial result (see Note [25]).

OTHER INFORMATION

29 Employees The average number of employees in the LANXESS Group in 2010 was virtually unchanged from the previous year at 14,475.

Employees by Function

	2009	2010
Production	10,343	10,470
Marketing	1,952	1,882
Administration	1,672	1,632
Research	505	491
	14,472	**14,475**

30 Contingent liabilities and other financial commitments Contingent liabilities as of December 31, 2010 amounted to €4 million (2009: €4 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 operating leases.

As explained in the section on recognition and valuation principles, operating leases are those which – unlike finance leases – do not transfer substantially all risks and rewards incidental to the ownership of the leased assets to the lessee. In the LANXESS Group, operating leases are mainly used for operational reasons and not as a means of financing.

The minimum non-discounted future payments pertaining to operating leases total €235 million (2009: €75 million). The respective payment obligations mature as follows:

Maturity Structure of Lease and Rental Payments

€ million	Dec. 31, 2009	Dec. 31, 2010
Up to 1 year	19	31
1 to 2 years	12	27
2 to 3 years	9	25
3 to 4 years	8	22
4 to 5 years	5	21
More than 5 years	22	109
	75	**235**

Lease payments under operating leases amounted to €32 million in 2010 (2009: €13 million).

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 €197 million (2009: €52 million). Of the respective payments, €161 million are due in 2011 and €36 million are due in 2012.

The year-on-year increases in future lease and rental payments under operating leases and in financial commitments resulting from orders already placed under purchase agreements mainly relate to the construction of a new facility in Singapore.

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 liabilities in line with the respective asset allocation and on 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.

31 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 €386 million (2009: €345 million). As a result of these transactions, trade payables of €26 million (2009: €40 million) and trade receivables of €3 million (2009: €2 million) existed as of December 31, 2010.

No material business transactions were undertaken with other associated companies, joint ventures or persons.

32 Compensation of the Board of Management and the Supervisory Board Annual compensation totaling €6,588 thousand (2009: €3,592 thousand) was paid to the members of the Board of Management of LANXESS AG for fiscal 2010, comprising fixed compensation of €2,578 thousand (2009: €2,250 thousand) and variable payments of €4,010 thousand (2009: €1,342 thousand). Actual payments in 2011 may differ from this amount, which was calculated in advance. In addition to the variable compensation of €1,342 thousand reported as expense in the consolidated financial statements for 2009, further compensation of €164 thousand for 2009 was disbursed in 2010.

The members of the Board of Management also received payments under the multi-year compensation arrangements provided by the Long Term Incentive Program (LTIP). 3,999,000 share-based compensation rights were granted in 2010 (2009: 2,203,750). The fair value of these rights at the grant date was €3,210 thousand (2009: €1,147 thousand). They also received compensation of €619 thousand (2009: €372 thousand) under the non-share-based Economic Value Plan. Expenses for the multi-year compensation programs recognized in the consolidated financial statements amounted to €8,025 thousand (2009: €1,657 thousand). The amount for 2010 related solely to the share-based Stock Performance Plans. In 2009, it comprised expense of €1,901 thousand for the share-based Stock Performance Plans and income of €244 thousand from the non-share-based Economic Value Plan. Further details of the components of the LTIP can be found in Note [13]. In 2010 compensation earned under the Long Term Performance Bonus plan, a further component of the multi-year compensation program, amounted to €784 thousand.

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 2010.

Further, in fiscal 2010 service cost of €588 thousand (2009: €622 thousand) relating to defined-benefit pension plans was incurred for members of the Board of Management as part of their compensation package. The present value of obligations was €11,195 thousand as of December 31, 2010 (2009: €10,312 thousand).

Payments of €441 thousand (2009: €276 thousand) were made to former members of the Board of Management. The total obligation for former members of the Board of Management was €6,884 thousand as of December 31, 2010 (2009: €6,352 thousand).

The members of the Supervisory Board received remuneration of €1,048 thousand (2009: €1,171 thousand) and payments under the multi-year compensation program of €2,400 thousand (2009: €0 thousand). The provisions established for multi-year remuneration components for Supervisory Board members as of December 31, 2010 amounted to €1,500 million (2009: €1,549 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 2010 or 2009.

33 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 are performed 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 2010, this would have had a €27 million (2009: €21 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. 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, 2010 would have altered Group net income by around €3 million (2009: €3 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 €524 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 liquidity position based on a broad range of financing instruments.

The following table shows the contractually agreed (undiscounted) cash flows, and the interest components thereof, for primary financial liabilities and derivative financial instruments.

Dec. 31, 2009

€ million	2010	2011	2012	2013	2014	> 2014
Bonds	**(26)**	**(66)**	**(468)**	**(50)**	**(550)**	**(222)**
of which interest	(26)	(66)	(66)	(50)	(50)	(22)
Liabilities to banks	**(41)**	**(37)**	**(87)**	**(104)**	**(28)**	**(58)**
of which interest	(8)	(14)	(12)	(5)	(4)	(8)
Trade payables	**(486)**					
of which interest	0					
Liabilities under finance leases	**(15)**	**(14)**	**(13)**	**(35)**	**(8)**	**(35)**
of which interest	(4)	(4)	(4)	(3)	(2)	(7)
Other primary financial liabilities	**(48)**	**(2)**				
of which interest	(46)	0				
Derivative liabilities						
Hedging instruments that qualify for hedge accounting						
Disbursements	(12)	(6)				
Receipts	3	2				
Other hedging instruments						
Disbursements	(575)				(10)	
Receipts	553				10	
Derivative assets						
Hedging instruments that qualify for hedge accounting						
Disbursements	(254)	(132)				
Receipts	282	148				
Other hedging instruments						
Disbursements	(193)					
Receipts	194					

Dec. 31, 2010

€ million	2011	2012	2013	2014	2015	> 2015
Bonds	**(26)**	**(468)**	**(50)**	**(550)**	**(11)**	**(211)**
of which interest	(26)	(66)	(50)	(50)	(11)	(11)
Liabilities to banks	**(135)**	**(64)**	**(17)**	**(15)**	**(14)**	**(32)**
of which interest	(12)	(6)	(3)	(2)	(2)	(2)
Trade payables	**(664)**					
of which interest	0					
Liabilities under finance leases	**(15)**	**(14)**	**(37)**	**(8)**	**(5)**	**(31)**
of which interest	(4)	(4)	(3)	(2)	(1)	(6)
Other primary financial liabilities	**(41)**	**(2)**				
of which interest	(41)	0				
Derivative liabilities						
Hedging instruments that qualify for hedge accounting						
Disbursements	(147)	(196)				
Receipts	131	189				
Other hedging instruments						
Disbursements	(318)	(1)	(1)	(11)	(13)	
Receipts	311	1	1	10	12	
Derivative assets						
Hedging instruments that qualify for hedge accounting						
Disbursements	(219)	(87)	(71)			
Receipts	233	89	71			
Other hedging instruments						
Disbursements	(429)	0	0	0	(9)	
Receipts	432	0	0	0	9	

The contractually agreed payments for other primary financial liabilities due within one year following the closing date contain accrued interest of €40 million (2009: €40 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 €2 million (2009: €3 million).

Derivative financial instruments Derivatives with a total fair value of €22 million (2009: €45 million) are capitalized in the consolidated financial statements of the LANXESS Group for fiscal 2010. Instruments with a negative fair value totaling €34 million (2009: €30 million) are recognized as liabilities.

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)
Total	**1,569**	**45**	**(30)**
of which current	1,353	29	(26)
of which non-current	216	16	(4)

Derivative Financial Instruments

€ million	Dec. 31, 2010		
	Notional value	Positive fair values	Negative fair values
Forward exchange contracts	1,718	16	(25)
Currency options	153	2	(9)
Forward commodity contracts	19	4	0
Total	**1,890**	**22**	**(34)**
of which current	1,465	19	(23)
of which non-current	425	3	(11)

The total notional value of forward commodity contracts was €19 million (2009: €47 million), including €19 million (2009: €44 million) due within one year. The total notional value of forward exchange contracts and currency options was €1,871 million (2009: €1,522 million), including €1,446 million (2009: €1,309 million) due within one year.

Cash flow hedges As of December 31, 2010, the unrealized losses recorded in other comprehensive income in 2010 or earlier periods from **currency hedging contracts** that qualified for hedge accounting amounted to €8 million (2009: gains of €23 million). In fiscal 2010, €15 million (2009: €7 million) was reclassified from equity and recognized in the income statement as a loss due to the realization of the hedged transactions. Currency hedging contracts had a notional value of €932 million (2009: €687 million). As of December 31, 2010, these contracts had positive fair values of €12 million (2009: €35 million) and negative fair values of €24 million (2009: €10 million). Contracts in a total notional amount of €544 million (2009: €496 million) are due within one year. The hedged cash flows will be realized within the next three years.

The LANXESS Group expects that of the unrealized losses recognized in other comprehensive income in 2010 or earlier periods, €3 million will be reclassified through profit or loss in 2011 and €5 million in 2012. In the previous year, the LANXESS Group expected that of the unrealized losses recognized in other comprehensive income in 2009 or earlier periods, €13 million would be reclassified through profit or loss in 2010 and €10 million in 2011.

As of December 31, 2010, the unrealized gains recorded in other comprehensive income in 2010 or earlier periods from **forward commodity contracts** that qualified for hedge accounting amounted to €2 million (2009: €3 million). In 2010, €2 million was reclassified from equity to profit or loss due to the realization of the hedged transactions and recognized as a gain (2009: €18 million loss). Hedging comprised forward commodity contracts. As of December 31, 2010, these had positive fair values of €4 million (2009: €8 million) and negative fair values of €0 million (2009: €3 million). The total notional value of these hedges was €19 million (2009: €47 million), including €19 million (2009: €44 million) due within one year. The hedged cash flows will be realized within the next year.

The LANXESS Group expects that of the unrealized gains recognized in other comprehensive income in 2010 or earlier periods, €2 million will be reclassified through profit or loss in 2011. In the previous year, the Group expected that of the unrealized gains recognized in other comprehensive income in 2009 or earlier periods, €3 million would be reclassified through profit or loss 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, 2009

€ million	IAS 39 valuation category	Carrying amount Dec. 31, 2009
Financial assets		
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
Financial liabilities		
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)

Dec. 31, 2010

€ million	IAS 39 valuation category	Carrying amount Dec. 31, 2010
Financial assets		
Trade receivables	LaR	942
Receivables under finance leases	–	8
Other financial receivables	LaR	72
Cash and cash equivalents	LaR	160
Available-for-sale financial assets		
Near-cash assets	AfS	364
Other available-for-sale financial assets	AfS	60
Derivative assets		
Hedging instruments that qualify for hedge accounting	–	16
Other hedging instruments	FAHfT	6
Financial liabilities		
Bonds	FLAC	(1,095)
Liabilities to banks	FLAC	(250)
Trade payables	FLAC	(664)
Liabilities under finance leases	–	(90)
Other primary financial liabilities	FLAC	(43)
Derivative liabilities		
Hedging instruments that qualify for hedge accounting	–	(24)
Other hedging instruments	FLHfT	(10)

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, 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)

Valuation method according to IAS 39				Valuation method according to IAS 17	Fair value Dec. 31, 2010
Amortized cost	Acquisition cost	Fair value (other comprehensive income)	Fair value (profit or loss)		
942					942
				8	8
72					72
160					160
		364			364
	8	52			52
		16			16
			6		6
(1,095)					(1,203)
(250)					(250)
(664)					(664)
				(90)	(90)
(43)					(43)
		(24)			(24)
			(10)		(10)

Carrying Amounts by IAS 39 Category

€ million	Dec. 31, 2009	Dec. 31, 2010
Loans and receivables	1,207	1,174
Available-for-sale financial assets	457	424
Financial assets held for trading	2	6
	1,666	**1,604**
Financial liabilities measured at amortized cost	(1,946)	(2,052)
Financial liabilities held for trading	(17)	(10)
	(1,963)	**(2,062)**

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.

The classification of financial instruments using the fair value hierarchy is as follows:

Fair Value Measurement Levels

€ million	Dec. 31, 2009		
	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)	–

Fair Value Measurement Levels

€ million	Dec. 31, 2010		
	Level 1	Level 2	Level 3
Available-for-sale financial assets			
Near-cash assets	364	–	–
Other available-for-sale financial assets	51	1	–
Derivative assets	–	22	–
Derivative liabilities	–	(34)	–

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	2009	2010
Loans and receivables	12	13
Available-for-sale financial assets	0	(1)
Assets and liabilities held for trading	0	0
Financial liabilities measured at amortized cost	(80)	(101)
	(68)	**(89)**

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 (2009: €1 million), which are reflected in other comprehensive income.

In addition, fees of €15 million were incurred in 2010 (2009: €16 million) in connection with financial instruments.

Collateralization of financial liabilities Financial liabilities amounting to €28 million (2009: €34 million) were collateralized by mortgages or other property claims.

Mezzanine financing Mezzanine instruments such as profit participation rights, convertible bonds or warrant bonds have not been issued. Information on the possible issuance of such instruments is given in Note [11].

34 Notes to the Statement of Cash Flows

Net cash flow provided by operating activities The net cash inflow from operating activities in 2010 amounted to €505 million (2009: €565 million). Income before income taxes, which is the starting point for the statement of cash flows, amounted to €493 million (2009: €32 million) after depreciation, amortization and impairments of €283 million (2009: €273 million). Income taxes paid in 2010 amounted to €114 million (2009: €0 million). The balance of other assets and liabilities showed a year-on-year decrease of €4 million (2009: €24 million).

Net cash used in investing activities Purchases of intangible assets, property, plant and equipment led to a cash outflow of €501 million in 2010 (2009: €275 million). Of this amount, 66% went for expansions and 34% to maintain existing operating capacities. Cash inflows from financial assets mainly comprised proceeds from the sale of units in money market funds and overnight funds. The main items in 2009 were cash outflows for units of money market funds that can be sold at any time. Other cash inflows comprised €8 million (2009: €13 million) in interest received and €8 million (2009: €24 million) in income 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. The net cash outflow for investing activities was €450 million (2009: €771 million).

Net cash provided by (used in) financing activities A net cash outflow of €214 million (2009: inflow of €258 million) was recorded for financing activities. This included an €81 million outflow for net loan repayments (2009: €353 million inflow from net borrowings), a €91 million (2009: €53 million) outflow for interest paid and other financial disbursements, and a €42 million (2009: €42 million) outflow for the dividend paid by LANXESS AG in 2010.

Cash and cash equivalents Cash and cash equivalents (cash, checks, bank balances) amounted to €160 million as of December 31, 2010 (2009: €313 million). In accordance with IAS 7, this item also includes securities with maturities of up to three months from the date of acquisition.

35 Segment reporting

Key Data by Segment

€ million	Performance Polymers		Advanced Intermediates		Performance Chemicals		Reconciliation		LANXESS	
	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010
External sales	2,388	3,782	1,104	1,321	1,530	1,978	35	39	5,057	7,120
Inter-segment sales	38	44	38	43	11	8	(87)	(95)	0	0
Segment/Group sales	2,426	3,826	1,142	1,364	1,541	1,986	(52)	(56)	5,057	7,120
Segment result/EBITDA pre exceptionals	250	585	154	222	182	281	(121)	(170)	465	918
Segment assets	2,053	2,582	719	846	1,022	1,212	95	109	3,889	4,749
Segment acquisitions			86						86	
Segment capital expenditures	171	302	82	97	80	114	9	16	342	529
Depreciation and amortization	136	143	48	55	65	67	9	17	258	282
Impairments	1	0		1	6	0	8	0	15	1
Segment liabilities	681	885	360	406	433	519	426	459	1,900	2,269
Employees (December 31)	4,375	4,393	2,858	2,791	4,675	4,907	2,430	2,557	14,338	14,648
Employees (average for the year)	4,467	4,368	2,703	2,810	4,851	4,795	2,451	2,502	14,472	14,475

Key Data by Region

€ million	EMEA (excluding Germany)		Germany		North America		Latin America		Asia-Pacific		LANXESS	
	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010
External sales by market	1,557	2,038	1,063	1,320	781	1,174	515	955	1,141	1,633	5,057	7,120
Non-current region assets	406	446	750	813	322	385	331	375	220	371	2,029	2,390
Acquisitions									86		86	
Capital expenditures	88	91	135	193	40	73	18	30	61	142	342	529
Employees (December 31)	2,625	2,638	7,626	7,590	1,261	1,309	1,152	1,215	1,674	1,896	14,338	14,648

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

On December 31, 2010 the LANXESS Group comprised the following reporting segments:

Segment	Operations
Performance Polymers	Special-purpose rubbers 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 inter-segment 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 €13 million (2009: €26 million) in investments accounted for using the equity method, as set out in the section headed "Companies consolidated" and the equity-method income of €16 million (2009: €8 million) from these investments.

The transfer prices used for inter-segment business transactions are calculated using the OECD rules as if they had been agreed upon between independent third parties in comparable circumstances (arm's-length principle).

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.

Regional sales are calculated according to the point of sale. In fiscal 2010, no individual customer accounted for more than 10% of the Group's sales.

Since the earnings figure used for management purposes within the LANXESS Group is the operating result before depreciation and amortization (EBITDA) pre exceptionals, this is the amount reported as the "segment result." It 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

€ million	2009	2010
Total of segment sales	**5,109**	**7,176**
Other/Consolidation	(52)	(56)
Group sales	**5,057**	**7,120**

Reconciliation of Segment Result

€ million	2009	2010
Total of segment results	**586**	**1,088**
Depreciation and amortization	(273)	(283)
Other/Consolidation	(121)	(170)
Net interest expense	(73)	(83)
Exceptional items in EBITDA	(43)	(28)
Income from investments accounted for using the equity method	8	16
Other financial income/expense – net	(52)	(47)
Income before income taxes	**32**	**493**

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.

Reconciliation of Segment Assets

€ million	Dec. 31, 2009	Dec. 31, 2010
Segment assets	**3,794**	**4,640**
Near-cash assets	402	364
Deferred tax assets	163	170
Cash and cash equivalents	313	160
Other financial assets	225	132
Income tax receivables	31	69
Derivative assets	45	22
Other/Consolidation	95	109
Group assets	**5,068**	**5,666**

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	Dec. 31, 2009	Dec. 31, 2010
Segment liabilities	**1,474**	**1,810**
Other financial liabilities	1,556	1,478
Income tax liabilities	99	84
Deferred tax liabilities	38	40
Derivative liabilities	30	34
Other/Consolidation	426	459
Group liabilities	**3,623**	**3,905**

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

All depreciation, amortization and impairments in fiscal 2009 and 2010 were recognized directly in income.

36 Audit fees In 2010, audit fees of €2,485 thousand (2009: €2,669 thousand) for the auditor of the consolidated financial statements of the LANXESS Group were recognized as expenses. Of this amount, €1,174 thousand (2009: €1,170 thousand) pertained to financial statements audit services, €446 thousand (2009: €483 thousand) to other assurance services, and €865 thousand (2009: €1,016 thousand) to other services rendered to Group companies. The fees for financial statements audit services comprise all fees, including incidental expenses, paid or to be paid for the audits of the consolidated financial statements of the LANXESS Group and the mandatory financial statements of LANXESS AG and its German subsidiaries.

37 Declaration of Compliance pursuant to Section 161 of the German Stock Corporation Act A 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 on the LANXESS website.

38 Exemptions under Section 264 Paragraph 3 of the German Commercial Code The following German subsidiaries made use of disclosure exemptions pursuant to Section 264 Paragraph 3 of the German Commercial Code (HGB):

- Aliseca 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
- LANXESS Middle East 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, 2011

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, 2010, which were prepared on March 2, 2011:

We have audited the consolidated financial statements prepared by the LANXESS Aktiengesellschaft, Leverkusen, comprising the statement of financial position, the income statement and statement of comprehensive income, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from January 1 to December 31, 2010. The preparation of the consolidated financial statements and the group management report in accordance with the IFRSs, as adopted by the E.U., and the additional requirements of German commercial law pursuant to § (Article) 315a 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 § 315a 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, 2011

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Peter Albrecht	Jörg Sechser
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

FINANCIAL CALENDAR 2011

MAY 11
Interim Report Q1 2011

MAY 18
Annual Stockholders' Meeting

AUGUST 11
Interim Report H1 2011

NOVEMBER 10
Interim Report Q3 2011

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