

LANXESS FINANCE B.V.

Amsterdam

ANNUAL ACCOUNTS DECEMBER 31, 2010

PricewaterhouseCoopers Accountants N.V.
For identification purposes only



Contents

1. Directors' report	2
Declaration pursuant Art. 3 (2) (c) Transparency Law; Financial Statements 2010	4
2. Financial Statements	5
2.1 Balance sheet as per December 31, 2010	6
2.2 Profit and loss statement	8
2.3 Cash flow statement	9
2.4 Notes to the financial statements	10
2.5 Notes to the balance sheet and profit and loss statement	14
3. Other information	18
3.1 Auditors' report	18
3.2 Appropriation of results according to the company's Articles of Association	18
3.3 Appropriation of the profit for the year	18

1. Directors' report

General information

The Board of Directors of Lanxess Finance B.V. (the "Company") herewith presents the annual report and the financial statements as of December 31, 2010. The Company was incorporated on June 6, 2005 by Lanxess Deutschland GmbH, Germany (the "parent company"). Unchanged to the previous year the company continued to be a wholly owned subsidiary of Lanxess Deutschland GmbH. The Company is registered at the Chamber of Commerce in Amsterdam under number 9151956. All amounts in this report are stated in EUR unless mentioned otherwise.

Principal activities and business review

During the reporting year, the Company acted as group financing company for LANXESS AG and its direct and indirect subsidiaries ("the LANXESS Group"). To serve this purpose the Company issued in 2005 EUR 500,000,000 4.125% guaranteed bond due 2012. The bonds are listed at the Stock Exchange of Luxembourg under ISIN XS0222550880. As per September 21, 2009 EUR 98,395,000 of these bonds were early redeemed.

As per April 9, 2009 the Company issued EUR 500,000,000 7.75% bond due April 9, 2014. These bonds are listed at the Stock Exchange of Luxembourg under ISIN XS0423036663.

As per September 21, 2009 the Company issued EUR 200,000,000 5.5% bond due September 21, 2016. These bonds are listed at the Stock Exchange of Luxembourg under ISIN XS0452802175.

All bonds are unconditionally and irrevocable guaranteed by Lanxess Aktiengesellschaft.

Due to the solid liquidity situation of the LANXESS Group no new bonds were issued during the financial year 2010. As such the market developments did not have any direct effect on any funding activity of the Company.

Financing and Investment

The proceeds of the above mentioned bonds have been lent on to LANXESS Group companies.

Results

During 2010 the Company recorded a net income of EUR 1,173,000 (2009: EUR 1,428,000).

Future developments

The Company will continue its activities as a financing company for the LANXESS Group. Based on its stable business situation no major developments are foreseen for the Company.

Auditors

PricewaterhouseCoopers Accountants N.V. has been appointed as the auditor for the financial statements 2010.

Board of Directors

As members of the Board of Directors have been appointed:
Mr. C.A. Koch and Deutsche International Trust Company N.V.

Risk management and use of financial instruments

The risk profile of the Company did not materially change compared to the end of 2009.

As the proceeds of the bonds have been lent on to the LANXESS Group companies, the ability of the Company to meet its obligations under the issue depends upon the payment of the principal and the interest due by the LANXESS Group companies. Therefore the liquidity risk is limited to the equity of the Company.

The Company manages its risks with procedures and systems used within the LANXESS Group. The Board of Directors assesses these procedures and systems to be an adequate risk management for the Company. At present time the board cannot identify any sufficiently likely risk that would threaten the continued existence of the Company.

Group structure

Lanxess Deutschland GmbH is the sole shareholder of the Company.

Subsequent events

No events occurred after December 31, 2010 which should be included in these financial statements.

Amsterdam, March 31, 2011

The Managing Directors:

Mr. C.A. Koch

Deutsche International Trust Company N.V.

Declaration pursuant Art. 3 (2) (c) Transparency Law; Financial Statements 2010

We, Mr. C.A. Koch, Managing Director of LANXESS Finance B.V. (herein after the "Issuer") and Mr. E.J. van de Laar and Mr. R. Ton representing Deutsche International Trust Company N.V., Managing Director of the Issuer hereby declare, that, to the best of our knowledge, the financial statements 2010 prepared in accordance with the applicable set of accounting standards give a true and fair view of the assets, liabilities, financial position and profit or loss of the Issuer and the undertakings included in the consolidation taken as a whole and that the directors report includes a fair review of the development and performance of the business and the position of the Issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Mr. C.A. Koch

Deutsche International Trust Company N.V.

2. Financial Statements



2.1 Balance sheet as per December 31, 2010
(After appropriation of result)

€ 1,000		<u>December 31, 2010</u>	<u>December 31, 2009</u>
	Note:		
<i>Non-current assets</i>			
Financial assets	(2.5.1)		
Loans to group companies		1,095,137	1,095,137
Deferred income tax assets		296	261
		<hr/>	<hr/>
		1,095,433	1,095,398
<i>Current assets</i>			
Receivables			
Interest receivables from group companies	(2.5.2)	42,439	42,389
Other receivables		320	208
		<hr/>	<hr/>
		42,759	42,597
Cash and cash equivalents			
Cash and cash equivalents	(2.5.3)	5,709	4,428
		<hr/>	<hr/>
		5,709	4,428
Total Assets		<u><u>1,143,901</u></u>	<u><u>1,142,423</u></u>

€ 1,000		<u>December 31, 2010</u>	<u>December 31, 2009</u>
	Note:		
Shareholders' equity	(2.5.4)		
Capital stock		2,000	2,000
Retained earnings		5,826	4,756
		<hr/>	<hr/>
		7,826	6,756
Provisions			
Pension plan	(2.5.5)	461	418
Long term liabilities	(2.5.6)		
Bonds		1,095,487	1,093,875
Short-term debts and accruals			
Accounts payables		1	1
Accrued interests		40,043	40,043
Other debts and accruals		83	1,330
		<hr/>	<hr/>
		40,127	41,374
Total Equity and Liabilities		<u><u>1,143,901</u></u>	<u><u>1,142,423</u></u>

2.2 Profit and loss statement

€ 1,000		<u>2010</u>	<u>2009</u>
	Note:		
Operating income			
Commission income		1,488	734
Operating expenses			
Wages and salaries		(394)	(552)
Other expenses		<u>(1,790)</u>	<u>(1,765)</u>
Operating result	(2.5.7)	<u>(696)</u>	<u>(1,583)</u>
Interest income		70,272	55,624
Interest expenses		<u>(67,981)</u>	<u>(52,139)</u>
Financial result	(2.5.8)	2,291	3,485
Result before income taxes		<u>1,595</u>	<u>1,902</u>
Income taxes		<u>(422)</u>	<u>(474)</u>
Net income		<u><u>1,173</u></u>	<u><u>1,428</u></u>

2.3 Cash flow statement

€ 1,000	<u>2010</u>	<u>2009</u>
Cash flows from operating activities		
Operating result	(696)	(1,583)
<i>Adjustments for:</i>		
Movements in provisions	(94)	(30)
<i>Changes in working capital:</i>		
Receivables	(112)	(141)
Loans to group companies	-	528,000
Current Liabilities (exclusive of bank overdrafts)	(16)	621
	<u>(128)</u>	<u>528,480</u>
Cash used in / generated from operations	<u>(918)</u>	<u>526,867</u>
Interest received	70,171	56,804
Income tax expense	(1,655)	(357)
Interest paid	(66,317)	(52,848)
	<u>2,199</u>	<u>3,599</u>
Net cash generated from operating activities	<u>1,281</u>	<u>530,466</u>
Cash flows from investing activities		
Loans to group companies	-	(1,095,137)
Net cash used in investing activities	<u>-</u>	<u>(1,095,137)</u>
Cash flows from financing activities		
Proceeds from borrowings	-	692,420
Repayments of borrowings	-	(125,395)
Net cash generated from financing activities	<u>-</u>	<u>567,025</u>
Net increase in cash and cash equivalents	<u><u>1,281</u></u>	<u><u>2,354</u></u>

Movements in cash and cash equivalents can be broken down as follows:

	<u>2010</u>	<u>2009</u>
At January 1	4,428	2,074
Change in cash and cash equivalents	<u>1,281</u>	<u>2,354</u>
At December 31	<u><u>5,709</u></u>	<u><u>4,428</u></u>

2.4 Notes to the financial statements

2.4.1 1 General information

The company

The company is a wholly owned subsidiary of Lanxess Deutschland GmbH in Germany. The company was established on June 6, 2005. The ultimate parent company is LANXESS AG, Leverkusen. The financial information of the company is included in the Consolidated Financial Statements of LANXESS AG. Copies of the consolidated Group financial statements can be obtained from Lanxess AG in Leverkusen.

Activities

The object of the company is to participate in, to finance or to have any other interest in, or to conduct the management of, other companies or enterprises.

Notes to the cash flow statement

The cash flow statement has been prepared using the indirect method. The cash items disclosed in the cash flow statement are comprised of cash and cash equivalents. Interest paid and received, and income taxes are included in cash from operating activities. Transactions not resulting in inflow or outflow of cash are not recognised in the cash flow statement.

2.4.2 Accounting policies for the balance sheet

General

The annual accounts have been prepared in accordance with the statutory provisions of Part 9, Book 2, of the Netherlands Civil Code and the firm pronouncements in the Guidelines for Annual Reporting in the Netherlands as issued by the Dutch Accounting Standards Board.

In general, assets and liabilities are stated at the amounts at which they were acquired or incurred, or at fair value. If not specifically stated otherwise, they are recognised at the amounts at which they were acquired or incurred. The balance sheet and profit and loss account include references to the notes.

Comparison with prior year

The principles of valuation and determination of result remain unchanged compared to the prior year.

Translation of foreign currencies

The assets and liabilities in foreign currencies are translated into Euro's at the year end exchange rates. Transactions denominated in foreign currency have been translated at the exchange rate at the time of the transactions. The relating translation differences are charged to the profit and loss account. The translation differences arising on financial fixed assets are charged to the retained earnings.

Financial assets - Loans to group companies

Receivables disclosed under financial assets are stated at the fair value of the amount owed, which normally consists of its face value, net of any provisions considered necessary.

Provisions - General information

Provisions are recognised for legally enforceable or constructive obligations existing at the balance sheet date, the settlement of which is probable to require an outflow of resources whose extent can be reliably estimated. Provisions are measured on the basis of the best estimate of the amounts required to settle the obligations at the balance sheet date. Unless indicated otherwise, provisions are stated at the present value of the expenditure expected to be required to settle the obligations.

Employees

From December 29, 2006 nine employees were transferred from Lanxess B.V. to Lanxess Finance B.V. including all rights and duties (a.o.pension liabilities and lease commitments). At year end 2010 still four employees are on the Lanxess Finance BV payroll.

Pension benefits

The pension provision carried on the balance sheet is the present net value of the pension benefit obligations under the defined benefit scheme and the corresponding fair values of the plan assets at the closing date. The required pension provision is measured annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is calculated by discounting estimated future cash flows, using a discount rate applying to high quality corporate bonds with a term roughly consistent with the term of the related pension obligations and also using expected future salary and benefit increases.

Service costs and past service costs are recognized in the operating result. The net value of the interest costs for the defined benefit obligations and the expected returns on plan assets is taken into account in the financial result. All actuarial gains and losses are recognized in equity in the period in which they occur.

Bond

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost, being the amount received taking account of any premium or discount, less transaction costs. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised as interest in the income statement over the period of the borrowings using the effective interest method.

Operational lease

Lease contracts for which a large part of the risks and rewards incidental to ownership of the assets does not lie with the company, are recognised as operational leases. Obligations under operational leases are recognised on a straight-line basis in the profit and loss account over the term of the contract, taking into account reimbursements received from the lessor.

Deferred income tax assets and liabilities

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 or for 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 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 tax loss carryforwards are recognized if it is probable that the tax loss carryforwards can be utilized.

2.4.3 Accounting policies for the income statement

General

The result represents the difference between the value of the consideration rendered and the costs and other charges for the year. The results on transactions are recognized in the year they are realised.

Costs are recognized on the historical costs convention and are allocated to the reporting year to which they are related.

Selling expenses concern the direct expenses of the sales activities. Selling expenses also include warehouse charges for finished goods and trade goods, relating to sales. The amortisation of goodwill is also recognized in selling expenses, as are the results on the sale of intangible and tangible assets.

General and administrative expenses include the expense of the Board of Directors and the administration department.

Personnel remuneration

Regular payments

Salaries, wages and social security costs are charged to the profit and loss account when due and in accordance with employment contracts and obligations.

Pensions

Lanxess Finance B.V. has a defined benefit scheme. This provides defined pension benefits to staff upon reaching retirement age, depending on age, salary and years of service.

Interest income and expense

Interest income and expense are time apportioned, taken into account the effective interest rate for the relating assets and liabilities. When recognising interest paid, allowance is made for transaction costs on loans received as part of the calculation of effective interest.

Taxation

Income taxes are calculated on the profit/loss before taxation in the profit and loss account, taking into account any losses carried forward from previous financial years (insofar as these are not included in deferred tax assets), tax-exempt items and non-deductible expenses, and using current rates. Account is also taken of changes in deferred tax assets and deferred tax liabilities owing to changes in the applicable tax rates.

2.4.4 Related-party transactions

All legal entities that can be controlled, jointly controlled or significantly influenced are considered to be a related party. Also, entities which can control the company are considered a related party. In addition, statutory directors, other key management of Lanxess Finance B.V. or the ultimate parent company and close relatives are regarded as related parties.

Significant transactions with related parties are disclosed in the notes insofar as they are not transacted under normal market conditions. The nature, extent and other information is disclosed if this is required for to provide the true and fair view.

2.5 Notes to the balance sheet and profit and loss statement

2.5.1 *Financial assets*

Movements in financial assets can be broken down as follows:

€ 1,000	Loans to group companies	Deferred income tax	Total
At January 1, 2010	1,095,137	261	1,095,398
Addition	-	35	35
At December 31, 2010	<u>1,095,137</u>	<u>296</u>	<u>1,095,433</u>

Loans outstanding at balance sheet date:

€ 1,000	Interest	Maturity	2010	2009
Lanxess AG	7.98%	April 2014	495,280	495,280
Lanxess Deutschland GmbH	4.60%	June 2012	401,605	401,605
Lanxess Deutschland GmbH	5.67%	September 2016	198,252	198,252
			<u>1,095,137</u>	<u>1,095,137</u>

2.5.2 *Interest receivables from group companies*

Interest receivables concern interest receivables from Group companies.

2.5.3 *Cash and cash equivalents*

Cash and cash equivalents represent the balance on the current account with the parent company.

2.5.4 *Shareholders' equity*

€ 1,000	2010	2009
Authorised: 100,000 shares of € 100 each	10,000	10,000
Issued and fully paid: 20,000 shares of € 100 each	<u>2,000</u>	<u>2,000</u>

The issued shares are registered in the name of Lanxess Deutschland GmbH.

Retained earnings

€ 1,000	<u>2010</u>	<u>2009</u>
Balance as per January 1	4,756	4,037
Restatement actuarial results pension plan		(53)
	<u>4,756</u>	<u>3,984</u>
Result for the year	1,173	1,428
Actuarial results pension plan	(103)	(656)
Balance as per December 31	<u>5,826</u>	<u>4,756</u>

2.5.5. *Pension plan*

Movements in the provision for defined benefits were as follows:

€ 1,000	<u>2010</u>	<u>2009</u>
At January 1	418	(522)
Restatement opening balance for unrecognised actuarial results to equity	-	313
Pension cost for defined benefit plans	89	84
Pension contributions paid	(184)	(113)
Actuarial results	138	656
At December 31	<u>461</u>	<u>418</u>

The amounts recognised in the balance sheet as at December 31 were as follows:

€ 1,000	<u>2010</u>	<u>2009</u>
Present value of funded obligations	3,755	3,627
Fair value of plan assets	(3,294)	(3,209)
Present value of unfunded obligation / net liability	<u>461</u>	<u>418</u>

The amounts recognised in the income statement were as follows:

€ 1,000	<u>2010</u>	<u>2009</u>
Current service cost	51	37
Interest on obligation	181	186
Expected return on plan assets	(143)	(139)
Total pension cost	<u>89</u>	<u>84</u>

The principal actuarial assumptions are as follows:

	2010	2009
	%	%
Discount rate	5.25%	5.00%
Expected return on plan assets	4.50%	4.50%
Future salary increases	2.50%	2.50%
Future pension indexation	2.00%	2.00%

2.5.6 Long term liabilities

<i>Bonds</i>			
€ 1,000		2010	2009
4.125%	EUR 401,605,000 bond issued on June 21, 2005; bond due 2012	401,045	400,674
5.50%	EUR 200,000,000 bond issued on September 21, 2009; bond due 2016	198,379	198,146
7.75%	EUR 500,000,000 bond issued on April 9, 2009; bond due 2014	496,063	495,055
		<u>1,095,487</u>	<u>1,093,875</u>

All bonds are guaranteed by Lanxess AG in Germany

<i>Effective interest rates on the notes issued:</i>		2010	2009
EUR 401,605,000	4.125% bond issued on June 21, 2005; bond due 2012	4.22%	4.22%
EUR 200,000,000	5.5% bond issued on September 21, 2009; bond due 2016	5.67%	5.67%
EUR 500,000,000	7.75% bond issued on April 9, 2009; bond due 2014	8.03%	8.03%

Operational leases

The obligations from operational leases at the end of the reporting period amounts to TEUR 128.

As a result of the take over of employees from Lanxess B.V., the company has entered into operational leasing commitments. The termination of these commitments is as follows:

€ 1,000	2010	2009
Less than one year	64	64
1 to 5 years	64	110
More than 5 years	-	-
	<u>128</u>	<u>174</u>

2.5.7 Operating result

Costs are charged to results in the year in which the related proceeds are included

Wages and salaries

€ 1,000	<u>2010</u>	<u>2009</u>
Salaries	319	481
Social charges	24	34
Pension charges	51	37
	<u>394</u>	<u>552</u>

During the year 2010, the average number of employees, based on full time equivalents, was 4 (2009: 5). Of these employees, none was employed outside the Netherlands (2009: 0)

Other expenses

€ 1,000	<u>2010</u>	<u>2009</u>
Guarantee fee	1,504	1,320
Other	286	445
	<u>1,790</u>	<u>1,765</u>

2.5.8 Financial result

€ 1,000

<i>Interest income</i>	<u>2010</u>	<u>2009</u>
Net interests banks	-	975
Net interests from Group companies	70,272	54,649
Total interest income	<u>70,272</u>	<u>55,624</u>
<i>Interest expenses</i>	<u>2010</u>	<u>2009</u>
Interests expenses on bonds	(67,969)	(52,067)
Other interest expenses	(12)	(72)
Total interest expenses	<u>(67,981)</u>	<u>(52,139)</u>

Amsterdam, March 31, 2011

Directors

C. Koch

Deutsche International Trust Company N.V.

Lanxess Finance B.V.
Herengracht 450
1017 CA Amsterdam

LANXESS FINANCE B.V.

3. Other Information

3.1 Auditors report

The report of the auditor, PricewaterhouseCoopers Accountants N.V., is included on page 19.

3.2 Appropriation of results according to the company's Articles of Association

The company's Articles of Association state that the annual profit is at the discretion of the annual meeting of shareholders.

Distribution of profits may only take place out of the retained earnings.

3.3 Appropriation of the profit for the year

In accordance with the company's Articles of Association, the directors propose to add the profit for the year to the retained earnings.



Independent auditor's report

To: the General Meeting of Shareholders of Lanxess Finance B.V.

Report on the financial statements

We have audited the accompanying financial statements 2010 as set out on pages 5 to 17 of Lanxess Finance B.V., Amsterdam, which comprise the balance sheet as at 31 December 2010, the profit and loss account for the year then ended and the notes, comprising a summary of accounting policies and other explanatory information.

Directors' responsibility

The directors are responsible for the preparation and fair presentation of these financial statements and for the preparation of the directors' report, both in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the directors are responsible for such internal control as they determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Lanxess Finance B.V. as at 31 December 2010, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

*PricewaterhouseCoopers Accountants N.V., Diamantstraat 2, 7554 TA Hengelo (Ov.), P.O. Box 65,
7550 AB Hengelo (Ov.), The Netherlands
T: +31 (0) 88 792 00 74, F: +31 (0) 88 792 94 33, www.pwc.nl*

'PwC' is the brand under which PricewaterhouseCoopers Accountants N.V. (Chamber of Commerce 34180285), PricewaterhouseCoopers Belastingadviseurs N.V. (Chamber of Commerce 34180284), PricewaterhouseCoopers Advisory N.V. (Chamber of Commerce 34180287), PricewaterhouseCoopers Professional Services B.V. (Chamber of Commerce 51414406), PricewaterhouseCoopers B.V. (Chamber of Commerce 34180289) and other companies operate and provide services. These services are governed by General Terms and Conditions ('algemene voorwaarden'), which include provisions regarding our liability. Purchases by these companies are governed by General Terms and Conditions of Purchase ('algemene inkoopvoorwaarden'). At www.pwc.nl more detailed information on these companies is available, including these General Terms and Conditions and the General Terms and Conditions of Purchase, which have also been filed at the Amsterdam Chamber of Commerce.



Report on other legal and regulatory requirements

Pursuant to the legal requirement under Section 2: 393 sub 5 at e and f of the Dutch Civil Code, we have no deficiencies to report as a result of our examination whether the directors' report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2: 392 sub 1 at b-h has been annexed. Further we report that the directors' report, to the extent we can assess, is consistent with the financial statements as required by Section 2: 391 sub 4 of the Dutch Civil Code.

Hengelo, 31 March 2011
PricewaterhouseCoopers Accountants N.V.

Original signed by A.H.J.M. Tönissen RA