



LANXESS AG FINANCIAL STATEMENTS 2007



VALUE CREATION

LANXESS
Energizing Chemistry

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FINANCIAL STATEMENTS 2007, LANXESS AG

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BALANCE SHEET

LANXESS AG

| € '000 | Note | Dec. 31, 2006 | Dec. 31, 2007 |
|--|------|------------------|------------------|
| ASSETS | | | |
| Non-current assets | [10] | | |
| Intangible assets | | | |
| Acquired concessions, industrial property rights, similar rights and assets, and licenses thereunder | | 17 | 5 |
| Property, plant and equipment | | | |
| Furniture, fixtures and other equipment | | 10 | 4 |
| Financial assets | | | |
| Investments in subsidiaries | [11] | 738,839 | 738,864 |
| Other loans | | 10 | 8 |
| | | 738,876 | 738,881 |
| Current assets | | | |
| Receivables and other assets | | | |
| Receivables from subsidiaries | [12] | 1,070,906 | 1,154,419 |
| Other assets | [13] | 54,234 | 99,676 |
| | | 1,125,140 | 1,254,095 |
| Securities | | 29,996 | 0 |
| Liquid assets | | 124,572 | 188,495 |
| | | 1,279,708 | 1,442,590 |
| Prepaid expenses | | 25,516 | 24,649 |
| | | | |
| Total assets | | 2,044,100 | 2,206,120 |
| EQUITY AND LIABILITIES | | | |
| Equity | [14] | | |
| Capital stock (contingent capital €42,310,000) | | 84,621 | 83,203 |
| Capital reserves | | 804,777 | 806,195 |
| Other retained earnings | | 81,897 | 52,755 |
| Balance sheet profit | | 81,897 | 91,469 |
| | | 1,053,192 | 1,033,622 |
| Provisions | | | |
| Provisions for pensions and other post-employment benefits | [15] | 9,069 | 12,530 |
| Tax provisions | | 15,471 | 3,483 |
| Other provisions | [16] | 14,839 | 17,242 |
| | | 39,379 | 33,255 |
| Liabilities | | | |
| Liabilities to banks | [17] | 46,783 | 2,223 |
| Trade payables | [18] | 1,654 | 1,393 |
| Payables to subsidiaries | [19] | 891,232 | 1,126,726 |
| Other liabilities | [20] | 11,860 | 8,901 |
| | | 951,529 | 1,139,243 |
| | | | |
| Total equity and liabilities | | 2,044,100 | 2,206,120 |
| | | | |
| Contingent liabilities from guarantees | [21] | 527,609 | 524,235 |

INCOME STATEMENT

LANXESS AG

| € '000 | Note | 2006 | 2007 |
|---|------|-----------------|-----------------|
| Sales | [1] | 15,470 | 2,489 |
| Cost of sales | [2] | (15,470) | (2,489) |
| Gross profit | | 0 | 0 |
| General administration expenses | | (20,205) | (38,359) |
| Other operating income | | 482 | 1,025 |
| Other operating expenses | [3] | (198) | (48,749) |
| Operating result | | (19,921) | (86,083) |
| Income from investments in affiliated companies – net | | 218,420 | 178,716 |
| Interest income – net | [4] | 14,941 | 8,596 |
| Other financial income and expenses – net | [5] | (16,035) | (814) |
| Financial result | | 217,326 | 186,498 |
| Income before income taxes | | 197,405 | 100,415 |
| Income taxes | [6] | (33,034) | (48,946) |
| Other taxes | | (577) | 0 |
| Net income | | 163,794 | 51,469 |
| Carryforward to new account | | 0 | 40,000 |
| Withdrawal from retained earnings | [14] | 0 | 49,884 |
| Allocation to retained earnings | | (81,897) | 0 |
| Expenses for repurchase of company shares | [14] | 0 | (49,884) |
| Income from decrease in capital stock | [14] | 0 | 1,418 |
| Allocation to capital reserves | [14] | 0 | (1,418) |
| Balance sheet profit | | 81,897 | 91,469 |

NOTES TO THE FINANCIAL STATEMENTS OF LANXESS AKTIENGESELLSCHAFT, LEVERKUSEN

FOR FISCAL 2007

GENERAL

The Board of Management and Supervisory Board have issued a Declaration of Compliance with the German Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act (AktG). This declaration has been made available to the stockholders and the English version is permanently posted at www.lanxess.com, Investor Relations, Corporate Governance.

ACCOUNTING POLICIES

The financial statements of LANXESS AG are prepared in accordance with the provisions of the German Commercial Code (HGB) and the Stock Corporation Act (AktG) applicable to large stock corporations.

To enhance clarity, certain items in the income statement and balance sheet are combined, as explained in the Notes.

The income statement is drawn up by the cost-of-sales method.

Financial income and expenses whose disclosure is not covered by a mandatory item are reflected in other financial income or expenses.

LANXESS AG has prepared consolidated financial statements for the LANXESS Group as of December 31, 2007 in accordance with the IFRSs adopted for use in the E.U. The recognition and valuation principles used in those statements are at variance with German GAAP in the following material respects:

- Goodwill is not amortized. Instead it is tested for impairment at least once a year if it relates to a business combination effected on or after March 31, 2004.
- Financial instruments are measured at fair value.
- Foreign currency receivables and payables are translated at the respective closing rates on the reporting date, the resulting differences being recognized in income.

- Pension obligations are computed by the projected unit credit method taking into account future increases in remuneration and pensions and netting with external plan assets
- Provisions are only recorded for liabilities to third parties.
- Other provisions are not recorded if the probability of utilization is less than 50%.
- Deferred taxes are recognized using the balance sheet liability method, including recognition of deferred taxes on loss carryforwards where utilization of the loss carryforwards is sufficiently probable.

RECOGNITION AND VALUATION PRINCIPLES

Intangible assets that have been acquired are recognized at cost and amortized on a straight-line basis over their estimated useful lives.

Property, plant and equipment is carried at the cost of acquisition. Assets subject to depletion are depreciated. Write-downs are made for any declines in value that go beyond the depletion reflected in depreciation and are expected to be permanent. Low-value assets are fully depreciated in the year of acquisition. Where permitted under the tax laws, depreciation is made by the declining-balance method at the highest rates possible, switching to the straight-line method as soon as this leads to higher depreciation.

Useful lives of intangible assets, property, plant and equipment

| | |
|------------------------|---------------|
| Software licenses | 3 to 4 years |
| Computer equipment | 3 to 4 years |
| Furniture and fixtures | 4 to 10 years |

Investments in affiliated companies are recognized at cost of acquisition.

Loans receivable that are interest-free or bear low rates of interest are carried at present value; other loans receivable are carried at nominal value.

Receivables and other assets are stated at nominal value, less any necessary write-downs.

Provisions for pensions and other post-employment benefits are computed by the actuarial method set out in Section 6a of the German Income Tax Act (EStG) using the mortality tables according to K. Heubeck 2005 G and a discount rate of 6%.

Other provisions are established to cover all foreseeable risks and uncertain liabilities, based on reasonable estimates of such commitments as of the closing date.

Liabilities are stated at nominal value.

Income and expenses are accrued in the fiscal year.

Foreign currency receivables and payables are translated at the rates at which they were initially recorded or at the rates applicable on the closing date, whichever yields the lower amounts for receivables or the higher amounts for payables. Foreign currency receivables and payables that are hedged are translated at the rates applicable on the recording dates or at the hedged rates.

Contingent liabilities arising from sureties and debt guarantees are shown at the amounts equivalent to the loans or commitments actually outstanding on the reporting date.

NOTES TO THE INCOME STATEMENT

1 Sales

Sales revenues total €2,489,000 (2006: €15,470,000) and relate entirely to services provided to LANXESS Deutschland GmbH in Germany. Effective July 1, 2006 the service agreement between LANXESS AG and LANXESS Deutschland GmbH originating from the time of the spin-off (under which essentially all indirect administration expenses were charged to LANXESS Deutschland GmbH) was altered to a system of charges based on use. This resulted in lower sales revenues.

2 Cost of sales

The cost of sales totaling €2,489,000 (2006: €15,470,000) comprises expenses related to the services provided, mainly personnel and general administration expenses.

3 Other operating expenses

Other operating expenses principally comprise losses on the sale to INEOS ABS LTD, Jersey, of loans originally granted to former Lustran Polymers subsidiaries.

4 Interest income – net

| € '000 | 2006 | 2007 |
|--|---------------|---------------|
| Other interest and similar income | | |
| from third parties | 8,710 | 9,448 |
| from subsidiaries | 41,233 | 45,409 |
| | 49,943 | 54,857 |
| Interest and similar expenses | | |
| to third parties | 3,433 | 3,162 |
| to subsidiaries | 31,569 | 43,099 |
| | 35,002 | 46,261 |
| Interest income – net | 14,941 | 8,596 |

5 Other financial income (expenses) – net

| € '000 | 2006 | 2007 |
|--|-----------------|----------------|
| Other financial expenses | | |
| Expenses for forward commodity contracts | 29,303 | 20,342 |
| Exchange losses | 157,462 | 202,420 |
| Miscellaneous financial expenses | 8,870 | 6,014 |
| | 195,635 | 228,776 |
| Other financial income | | |
| Income from forward commodity contracts | 25,873 | 20,342 |
| Exchange gains | 153,234 | 206,671 |
| Miscellaneous financial income | 493 | 949 |
| | 179,600 | 227,962 |
| | (16,035) | (814) |

The miscellaneous financial expenses principally comprise guarantee commission payments to subsidiaries. Miscellaneous financial income consists mainly of guarantee commission payments received from subsidiaries. Income and expenses relating to investments made by LANXESS Pension Trust e.V. (Contractual Trust Arrangement, CTA) are also recognized in miscellaneous financial income and expenses.

6 Income taxes

Tax expense includes €2,313,000 in retrospective payments for previous years.

7 Personnel expenses

| € '000 | 2006 | 2007 |
|---|---------------|---------------|
| Wages and salaries | 17,531 | 22,026 |
| Social expenses for pensions and other benefits | 3,154 | 3,857 |
| of which for pensions | [2,602] | [3,408] |
| | 20,685 | 25,883 |

8 Number of employees

| | Average 2007 | Closing date Dec. 31, 2007 | Closing date Dec. 31, 2006 |
|------------------------|--------------|----------------------------|----------------------------|
| General administration | 99 | 101 | 101 |

9 Audit fees

The following fees for the services of the auditors, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, were recorded as expenses in fiscal 2007:

| € '000 | 2006 | 2007 |
|---|------------|--------------|
| Financial statements auditing | 333 | 347 |
| Audit-related services and other audit work | 604 | 907 |
| | 937 | 1,254 |

NOTES TO THE BALANCE SHEET

10 Non-current assets

A breakdown of non-current assets and the changes in them during the year is shown in the statement of changes in non-current assets.

11 Overview of shareholdings pursuant to Section 285 Paragraph 11 German Commercial Code

| Company Name and Place of Business | Interest in % | Equity as of Dec. 31, 2007 € '000 | Net income 2007 € '000 |
|--------------------------------------|------------------|---|------------------------------|
| LANXESS Deutschland GmbH, Leverkusen | 100.0 | 1,299,423 | 0 ¹⁾ |
| Fünfte LXS GmbH, Leverkusen | 100.0 | 25 | 0 |

1) A profit and loss transfer agreement exists with LANXESS Deutschland GmbH, Leverkusen.

An overview of the interests held by the LANXESS Group in other companies has been submitted to the electronic Federal Gazette. It can also be obtained directly from LANXESS AG on request.

12 Receivables from subsidiaries

Receivables from Group companies totaling €1,154,419,000 (2006: €1,070,906,000) almost exclusively comprise short-term loans receivable, including accrued interest, and receivables from financial transactions. Receivables of €552,000 relate to a service agreement (trade receivables).

All receivables are due within one year.

13 Other assets

Other assets are comprised as follows:

| € '000 | 2006 | 2007 |
|--|---------------|---------------|
| Promissory notes purchased (investments) | 25,028 | 55,022 |
| Tax receivables | | |
| From sales taxes | 17,600 | 17,370 |
| From prepaid taxes | 0 | 2,130 |
| Receivables from LANXESS Pension Trust e.V. (CTA) | 0 | 18,309 |
| Option premiums received | 11,142 | 6,823 |
| Miscellaneous | 464 | 22 |
| | 54,234 | 99,676 |
| Of which due in more than one year (option premiums) | 6,406 | 2,692 |
| Of which receivables with an indefinite maturity (CTA) | 0 | 18,309 |

LANXESS AG transferred cash amounting to €17,802,000 to LANXESS Pension Trust e.V. in several tranches under a contractual trust arrangement (CTA) to secure pension obligations. LANXESS Pension Trust e.V. generated income of €507,000 on these assets in 2007. In accordance with German GAAP, these assets, although assigned for a specific purpose, must nevertheless be recognized on the balance sheet of LANXESS AG.

14 Equity

Equity changed as follows in 2007:

| € '000 | Dec. 31, 2006 | Income from capital decrease/ withdrawal from | Allocation to | Dividend | Net income | Dec. 31, 2007 |
|-------------------------|------------------|--|---------------|-----------------|---------------|------------------|
| Capital stock | 84,621 | (1,418) | | | | 83,203 |
| Capital reserves | 804,777 | | 1,418 | | | 806,195 |
| Other retained earnings | 81,897 | (49,884) | 20,742 | | | 52,755 |
| Balance sheet profit | 81,897 | (20,742) | | (21,155) | 51,469 | 91,469 |
| | 1,053,192 | (72,044) | 22,160 | (21,155) | 51,469 | 1,033,622 |

On May 31, 2007 the Annual Stockholders' Meeting resolved to utilize the balance sheet profit for 2006, amounting to €81,897,000, as follows:

- to pay a dividend totaling €21,155,000 (€0.25 per no-par share entitled to the dividend)
- to allocate €20,742,000 to other retained earnings
- to carry forward €40,000,000 to new account.

Further, at the Annual Stockholders' Meeting of LANXESS AG on May 31, 2007 the Board of Management was authorized until November 30, 2008 to purchase shares in the company amounting to up to 10% of its capital stock and to reduce the capital stock accordingly without the need to obtain a further resolution of a Stockholders' Meeting. On the basis of this authorization and the corresponding resolution of the Board of Management of LANXESS AG of August 10, 2007, a total of 1,418,000 no-par shares with

a pro rata value of €1.00 per share, representing 1.68% of the company's capital stock, were repurchased on the stock market between August 20 and August 30, 2008 at an average price of €35.18 per share through the bank engaged by LANXESS AG.

In accordance with the resolution adopted by the Board of Management on September 12, 2007, these 1,418,000 shares were retired. At the same time, the above authorization to retire the shares and reduce the capital stock was utilized to reduce the capital stock of LANXESS AG by €1,418,000 from €84,620,670 to €83,202,670 by retiring 1,418,000 no-par bearer shares, each accounting for a prorated amount of €1.00 of the capital stock, using the simplified procedure for a capital reduction. An amount of €1,418,000 was allocated to capital reserves in accordance with Section 237 Paragraph 5 of the Stock Corporation Act.

Contingent 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, 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 (Contingent Capital I and II). Each contingent 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 contingent 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;
- if the issue price for the new shares is not significantly lower than the market price of the already listed shares at the time the issue price is finalized. If convertible and/or warrant bonds or mandatory convertible 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 in the quantities to which such parties would be entitled upon the exercise of the conversion or subscription rights or the conversion of the mandatory bond.

Authorized Capital I

Moreover, pursuant to Section 4 Paragraph 2 of LANXESS AG's articles of association, the Board of Management is authorized through August 30, 2009 to increase the company's capital stock with the approval of the Supervisory Board in one or more installments through the issue of new no-par shares against cash or non-cash contributions up to a total amount of €36,517,096. Further details, including the purpose of the authorized capital and the authorization to exclude the subscription right of stockholders in certain cases, can be found in Section 4 Paragraph 2 of the articles of association.

Authorized Capital II

Finally, pursuant to Section 4 Paragraph 3 of LANXESS AG's articles of association, the Board of Management is authorized through May 31, 2012 to increase the company's capital stock with the approval of the Supervisory Board in one or more installments through the issue of new no-par shares against cash or non-cash contributions up to a total amount of €5,793,239. Further details, including the purpose of the authorized capital and the authorization to exclude the subscription right of stockholders in certain cases, can be found in Section 4 Paragraph 3 of the articles of association.

15 Provisions for pensions and other post-employment benefits

Pension provisions relate to pension obligations for present and former employees and commitments under early retirement programs.

16 Other provisions

The other provisions are established for vacation and overtime credits, the part-time working program for older employees, long-service anniversaries, bonuses, stock option plans (LTIP) for employees and other uncertain liabilities. Other uncertain liabilities mainly comprise the expected cost of the Annual Stockholders' Meeting for fiscal 2007 and variable, performance-oriented remuneration of the Supervisory Board.

The long-term, performance-based component of the compensation system is the Long Term Incentive Program (LTIP), which is divided into three tranches for the years 2005 to 2007. The LTIP comprises the Stock Performance Plan (SP) and the Economic Value Plan (EVP). The first award from the LTIP is made after three years, provided defined conditions are satisfied.

The SP is linked to the performance of LANXESS stock against a reference index, the Dow Jones STOXX 600 ChemicalsSM, and provides for a cash payment. The fair value of the commitments under this plan was calculated using a Monte Carlo simulation. This simulates the future returns on the stock and the reference index and determines the value of the rights on the basis of the expected payment. A two-dimensional standard distribution of returns is assumed. The expected volatility is based on the historical volatility of LANXESS stock and the Dow Jones STOXX 600 ChemicalsSM index.

The EVP is an incentive oriented toward an increase in the economic value of LANXESS. The reference base for all three tranches is the business plan for 2005 through 2007.

Participation in the LTIP is contingent upon a personal investment in shares of LANXESS AG, which must be held for a total of five years.

17 Liabilities to banks

Liabilities to banks totaled €2,223,000 (2006: €46,783,000) and relate exclusively to short-term borrowings. The promissory note reported in the previous year (€30,190,000) was repaid in full in May 2007.

All liabilities are due within one year.

18 Trade payables

All trade payables are to third parties and mature within one year.

19 Payables to subsidiaries

Payables to subsidiaries amounting to €1,126,726,000 (2006: €891,232,000) mainly comprise short-term loans, including accrued interest, and receivables relating to financial transactions.

All payables are due within one year.

20 Other liabilities

| € '000 | 2006 | 2007 |
|--|---------------|--------------|
| Option premiums received | 11,142 | 6,841 |
| Tax liabilities | 292 | 350 |
| Liabilities for social expenses | 415 | 302 |
| Miscellaneous liabilities | 11 | 1,408 |
| | 11,860 | 8,901 |
| Amount due within one year | 5,454 | 6,209 |
| Residual terms of more than one but less than five years (option premiums) | 6,406 | 2,692 |

21 Contingent liabilities

Under Section 133 Paragraphs 1 and 3 of the German Transformation Act (UmwG), LANXESS AG is jointly and severally liable for obligations of Bayer AG incurred prior to the spin-off on January 28, 2005 if they are due within five years from the announcement of the entry of the spin-off in the Commercial Register for Bayer AG and the resulting claims against LANXESS AG are lodged in the correct legal form. The Spin-Off and Acquisition Agreement of September 22, 2004 specifies that LANXESS AG and Bayer AG shall each release the other party from all legally determined liability for obligations that the respective other party assumed as principal debtor under that Agreement. Further, in a master agreement concluded on the same date, LANXESS AG and Bayer AG agreed upon further arrangements on the general allocation of liability and on the allocation of specific liability of either party vis-à-vis the other party for environmental contamination, antitrust violations and product liability in the relationship between them.

LANXESS AG has given the following guarantees on behalf of its subsidiaries:

| € '000 | 2006 | 2007 |
|---|----------------|----------------|
| to banks | 14,914 | 16,327 |
| to suppliers | 12,695 | 7,908 |
| to holders of the bond issued by LANXESS Finance B.V. | 500,000 | 500,000 |
| | 527,609 | 524,235 |

22 Other financial commitments

Bayer AG offered stock incentive programs to all employees in the years 2003 and 2004. These comprised different offers for different employee groups. Participants in these programs have the opportunity to receive free Bayer AG shares over a period of up to ten years if they made an initial personal investment in the stock. The allocation of free shares to senior executives depends not only on certain retention periods, but also on internal and external performance criteria which, if achieved, would trigger corresponding financial commitments. Under the Spin-Off and Acquisition Agreement, such commitments relating to employees transferred to LANXESS AG in accordance with Section 613a paragraph 1 of the German Civil Code (BGB) were assigned to LANXESS AG.

OTHER MANDATORY DISCLOSURES

23 Derivative financial instruments

The notional value of financial derivatives contracts concluded with external counterparties was €1,289 million as of December 31, 2007 (2006: €2,258 million). Opposite derivatives contracts with a notional value of €1,076 million (2006: €1,374 million) were concluded with Group companies. The notional value of derivative financial instruments totaled €2,365 million (2006: €3,632 million) on the closing date and comprised the following:

| € '000 | Notional value | | Fair value | | Carrying amount | |
|---|------------------|------------------|---------------|---------------|-----------------|---------------|
| | Dec. 31, 2006 | Dec. 31, 2007 | Dec. 31, 2006 | Dec. 31, 2007 | Dec. 31, 2006 | Dec. 31, 2007 |
| Forward exchange contracts | | | | | | |
| – positive fair values | 1,595,443 | 1,018,734 | 42,908 | 58,370 | 0 | 0 |
| – negative fair values | 1,426,563 | 1,073,569 | 36,445 | 58,557 | 0 | 2,170 |
| | 3,022,006 | 2,092,303 | 6,463 | (187) | 0 | 2,170 |
| Currency option contracts | | | | | | |
| – option premiums paid/positive fair values | 179,249 | 87,630 | 7,308 | 8,939 | 11,142 | 6,823 |
| – option premiums received/negative fair values | 179,249 | 87,630 | 7,308 | 8,939 | 11,142 | 6,841 |
| | 358,498 | 175,260 | 0 | 0 | 0 | -18 |
| Forward commodity contracts | | | | | | |
| – positive fair values | 125,654 | 48,608 | 18,419 | 8,785 | 0 | 0 |
| – negative fair values | 125,654 | 48,608 | 18,419 | 8,785 | 0 | 0 |
| | 251,308 | 97,216 | 0 | 0 | 0 | 0 |
| | 3,631,812 | 2,364,779 | 6,463 | (187) | 0 | 2,152 |

The notional value of forward exchange contracts totaling €948 million (2006: €1,096 million) includes instruments with fair values of €54 million (2006: €31.5 million) passed through to other Group companies (matching negative fair values at other Group companies).

The currency option and forward commodity contracts with external counterparties as of December 31, 2007 were passed through to other Group companies via back-to-back transactions.

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 that of Black & Scholes. The fair values of forward commodity contracts are also derived from their trading or listed prices by the "forward method". If no market price is available, the value is determined using capital market pricing models.

Wherever possible, derivative financial instruments are valued in closed positions with the corresponding underlyings, so no valuation results had to be recognized. Option premiums paid and received totaled €6.8 million (2006: €11.1 million) and are recognized in other assets and liabilities, respectively, as accounting units at cost of acquisition. A closed hedging position within the Group which has not been passed through to subsidiaries results in a gain of €18,000, which will be realized when the contracts expire in May and August 2008,

Derivatives with negative fair values on the reporting date amounted to €2.2 million (2006: €0.0 million; recognized in other provisions).

24 Total remuneration of the Board of Management and Supervisory Board (pursuant to Section 285 No. 9 a HGB)

In fiscal 2007 short-term compensation totaling €4,471,000 (2006: €4,380,000) was paid to the members of the Board of Management of LANXESS AG. This comprised fixed salaries of €2,281,000 (2006: €2,047,000) and bonus payments of €2,190,000 (2006: €2,333,000). €170,000 of the €2,333,000 in expenses for bonus payments recognized in 2006 was not disbursed. Payments totaling €5,572,000 were made in connection with the termination of the service contracts of two members of the Board of Management in 2007.

In addition, the members of the Board of Management were granted compensation under the Long-Term Incentive Program (LTIP). This gave rise to expense of €574,000 (2006: €1,627,000) comprising €235,000 (2006: €990,000) for the share-based Stock Performance Plan and €339,000 (2006: €637,000) for the non-share-based Economic Value Plan.

A total of 1,116,000 share-based compensation rights was allocated to members of the Board of Management in 2007 (2006: 1,121,400 rights). The fair value of these rights at the grant date was €524,000 (2006: €1,267,000).

In addition, expenses of €2,229,000 (2006: €1,526,000) were incurred for retirement pensions for members of the Board of Management.

Details of the compensation system for members of the Board of Management and an individual breakdown of the amounts paid are given in the Compensation Report section of the Management Report for fiscal 2007.

Compensation of the Supervisory Board in fiscal 2007

| € '000 | Fixed remuneration | Remuneration for committee membership | Attendance allowance | Total |
|--------|--------------------|---------------------------------------|----------------------|-------|
| Total | 555 | 127 | 78 | 760 |

In addition to the compensation payable for fiscal 2007, claims to compensation exist as follows:

The 2006 Annual Stockholders' Meeting amended Section 12 of the Articles of Association to introduce a long-term incentive based on the standard term of an individual's membership of 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 five-year 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 ChemicalsSM index during a member's five-year term. The percentage changes in the stock price and the index over this period are calculated as follows: 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 to 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 price has outperformed the index over the five-year period, and the amount of variable compensation is then based on the degree of outperformance. If LANXESS stock has outperformed the Dow Jones STOXX 600 ChemicalsSM by up to 10 percentage points, the variable compensation amounts to €50,000, 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 variable compensation is €150,000.

The variable compensation is paid at the end of the regular term of the respective Supervisory Board member.

As of December 31, 2007, the total entitlement to variable compensation (current nominal value €100,000) was valued at €1,466,000 (2006: €2,120,000; nominal value €150,000) and a provision in this amount was recorded.

Details of the compensation system for members of the Supervisory Board and the remuneration of individual members of the Supervisory Board can be found in the corporate governance section of the Annual Report of the LANXESS Group.

25 Total remuneration of former members the Board of Management and Supervisory Board (pursuant to Section 285 No. 9 b HGB)

Provisions of €5,057,000 were recognized as of December 31, 2007 for ongoing pensions and pension entitlements of former members of the Board of Management.

26 Loans and advances granted to members of the Board of Management and Supervisory Board (pursuant to Section 285 No. 9 c HGB)

There were no loans or advances to members of the Board of Management or the Supervisory Board as of December 31, 2007, nor had any other financial commitments been entered into for these individuals.

27 Corporate Officers

Supervisory Board

Members of the Supervisory Board hold or held offices as members of the supervisory board or a comparable supervising body of the corporations listed in addition to the offices held on supervisory or similar boards of subsidiaries of companies in which they hold corporate office (as of February 29, 2008):

The following representatives of the company's stockholders are members of the Supervisory Board:

Dr. Rolf Stomberg

| |
|--|
| Chairman of the LANXESS AG Supervisory Board |
| Chairman of the Board of Directors of Management Consulting Group plc, London, U.K. |
| Further offices: |
| <ul style="list-style-type: none"> • Chairman of the Supervisory Board of LANXESS Deutschland GmbH • Member of the Supervisory Board of Deutsche BP AG, Hamburg • Member of the Supervisory Board of Biesterfeld AG, Hamburg • Member of the Board of Directors of Reed Elsevier plc, London, U.K. • Member of the Supervisory Board of Reed Elsevier NV, Amsterdam, Netherlands • Member of the Board of Directors of Smith & Nephew plc, London, U.K. • Member of the Supervisory Board of TNT Post Group NV, Amsterdam, Netherlands • Chairman of the Supervisory Board of Francotyp-Postalia Holding AG, Birkenwerder • Member of the Board of Directors of JSC Severstal, Russia |

Dr. Friedrich Janssen

| |
|--|
| Member of the Board of Management of E.ON Ruhrgas AG, Essen |
| Further offices: |
| <ul style="list-style-type: none"> • Member of the Supervisory Board of LANXESS Deutschland GmbH • Member of the Supervisory Board of HDI-Gerling Rechtsschutz Versicherung AG, Hanover • Member of the supervisory boards of various subsidiaries of E.ON Ruhrgas AG, Essen • Member of the Advisory Board of HDI-Gerling Sach Serviceholding AG, Hanover • Member of the Supervisory Board of National-Bank AG, Essen |

Rainer Laufs

| |
|--|
| Self-employed consultant |
| Former Chairman of the Management Board of Deutsche Shell AG |
| Former Chairman of the Management Board of Shell Chemicals Europe |
| Former Chairman of the Management Board of Shell Europe Oil Products |
| Further offices: |
| <ul style="list-style-type: none"> • Member of the Supervisory Board of LANXESS Deutschland GmbH • Chairman of the Supervisory Board of WCM Beteiligungs- und Grundbesitz AG i.L., Frankfurt am Main • Vice Chairman of the Supervisory Board of Petrotec AG, Duesseldorf • Member of the Supervisory Board of MCE AG, Linz, Austria |

Dr. Jürgen F. Kammer

| |
|---|
| Former Chairman of the Managing Board of Süd-Chemie AG |
| Former Chairman of the Supervisory Board of Süd-Chemie AG |
| Further offices: |
| <ul style="list-style-type: none"> • Member of the Supervisory Board of LANXESS Deutschland GmbH • Member of the Supervisory Board of Villeroy & Boch AG, Mettlach • Member of the Supervisory Board of Augustinum Gemeinnützige GmbH, Munich • Member of the Administrative Board of Wittelsbacher Ausgleichsfonds, Munich |

Robert J. Koehler

Chairman of the Board of Management of SGL Carbon AG, Wiesbaden

Further offices:

- Member of the Supervisory Board of LANXESS Deutschland GmbH
- Chairman of the Supervisory Board of Benteler AG, Paderborn
- Member of the Supervisory Board of Pfeleiderer AG, Neumarkt
- Member of the Supervisory Board of Heidelberger Druckmaschinen AG, Heidelberg
- Member of the Supervisory Board of Demag Cranes AG, Wetter

Lutz Lingnau

Self-employed consultant

Further offices:

- Member of the Supervisory Board of LANXESS Deutschland GmbH
- Member of the Board of Directors of Micropharma Ltd., Montreal, Canada
- Member of the Board of Directors of Nektar Therapeutics, San Carlos, United States

Dr. Ulrich Middelmann

Vice Chairman of the Executive Board of ThyssenKrupp AG

Further offices:

- Member of the Supervisory Board of LANXESS Deutschland GmbH
- Member of the Supervisory Board of Commerzbank AG, Frankfurt am Main
- Member of the Advisory Board of Hoberg & Driesch GmbH, Duesseldorf
- Member of the Supervisory Board of E.ON Ruhrgas AG, Essen
- Further offices at subsidiaries of ThyssenKrupp AG, Duisburg and Essen

Dr. Sieghardt Rometsch

Chairman of the Supervisory Board of HSBC Trinkaus & Burkhardt AG, Duesseldorf

Further offices:

- Member of the Supervisory Board of LANXESS Deutschland GmbH
- Member of the Supervisory Board of the Duesseldorf University Hospital, Duesseldorf
- Member of the Board of HSBC Private Banking Holdings (Suisse) SA, Geneva, Switzerland
- Chairman of the Advisory Board of Management Partner GmbH, Stuttgart

The following representatives of the company's employees are members of the Supervisory Board:

Ulrich Freese

Vice Chairman of the LANXESS AG Supervisory Board (effective March 14, 2007)

Vice Chairman of the German Mine, Chemical and Power Workers' Union

Further offices:

- Member of the Supervisory Board of LANXESS Deutschland GmbH
- 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 Vattenfall Europe Transmission GmbH, Berlin
- Member of the Supervisory Board of Vattenfall Europa AG, Berlin
- 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 DMT 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

Ralf Deitz

Vice Chairman of the LANXESS AG Supervisory Board (until February 28, 2007)

Further offices:

- Member of the Supervisory Board of LANXESS Deutschland GmbH
- Member of the Supervisory Board of SALTIGO GmbH

Gisela Seidel

Chairwoman of the LANXESS Works Council in Dormagen

Further offices:

- Member of the Supervisory Board of LANXESS Deutschland GmbH

Wolfgang Blossey

District Secretary of the German Mine, Chemical and Power Workers' Union, Cologne

Further offices:

- Member of the Supervisory Board of LANXESS Deutschland GmbH
- Member of the Supervisory Board of M-real Deutsche Holding GmbH, Bergisch Gladbach
- Member of the Supervisory Board of INEOS Manufacturing Deutschland GmbH, Cologne
- Member of the Supervisory Board of INEOS Köln GmbH

Werner Czaplík

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.

Further offices:

- Member of the Supervisory Board of LANXESS Deutschland GmbH

Dr. Rudolf Fauss

Head of Central Functions in the Human Resources Group Function; Chairman of the LANXESS Group Managerial Employees' Committee and Chairman of the LANXESS Speakers' Committee

Further offices:

- Member of the Supervisory Board of LANXESS Deutschland GmbH

Rainer Hippler

Chairman of the LANXESS Group Works Council and of the Works Council of Rhein Chemie Rheinau GmbH

Further offices:

- Member of the Supervisory Board of LANXESS Deutschland GmbH
- Member of the Supervisory Board of Rhein Chemie Rheinau GmbH

Hans-Jürgen Schicker

Chairman of the LANXESS Works Council in Krefeld-Uerdingen

Further offices:

- Member of the Supervisory Board of LANXESS Deutschland GmbH

Board of Management

The members of the Management Board are:

Offices Held by Board of Management Members

| Board of Management member | External offices | Offices within the LANXESS Group |
|--|--|--|
| Dr. Heitmann Chairman of the Board of Management | <ul style="list-style-type: none"> 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 | <ul style="list-style-type: none"> Chairman of the Executive Board of LANXESS Deutschland GmbH Chairman of the Board of Directors of LANXESS Chemical (Shanghai) Co. Ltd. |
| Dr. Breuers Board of Management member (from May 14, 2007) | <ul style="list-style-type: none"> Member of the Supervisory Board of CURRENTA GmbH (formerly Bayer Industry Services Geschäftsführungs-GmbH) Member of the Board of Trustees of the VCI's Chemical Industry Fund | <ul style="list-style-type: none"> Member of the Executive Board of LANXESS Deutschland GmbH Chairman of the Supervisory Board of SALTIGO GmbH Chairman of the Board of Directors of LANXESS K.K. Chairman of the Board of Directors of LANXESS International S.A. |
| Dr. van Roessel Board of Management member (from January 1, 2007) | <ul style="list-style-type: none"> 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) | <ul style="list-style-type: none"> Member of the Executive Board of LANXESS Deutschland GmbH Chairman of the Board of Directors of LANXESS S.A. de C.V. Member of the Board of Administration of LANXESS N.V. Member 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. |
| Mr. Zachert Board of Management member, CFO | <ul style="list-style-type: none"> Member of the Board of Directors of Deutsches Aktieninstitut Member of the Board of Directors of INEOS ABS Ltd. | <ul style="list-style-type: none"> Member of the Executive Board of LANXESS Deutschland GmbH Member of the Board of Directors of LANXESS Corp. Member of the Board of Administration of LANXESS N.V. Chairman of the Supervisory Board of LANXESS SAS |

The following members retired from the Board of Management in 2007:

Offices Held by Former Board of Management Members

| Board of Management member | External offices | Offices within the LANXESS Group |
|--|---|--|
| Dr. Koemm Board of Management member (until May 31, 2007) | <ul style="list-style-type: none"> Member of the Supervisory Board of Bayer Industry Services Geschäftsführungs-GmbH Member of the Advisory Board of Richter Chemie-Technik GmbH President of the Board of the Association of the Mineral Pigments Industry (VDMI) Member of the Board of Cefic Member of the Board of Trustees of the VCI's Chemical Industry Fund | <ul style="list-style-type: none"> Member of the Executive Board of LANXESS Deutschland GmbH Chairman of the Supervisory Board of SALTIGO GmbH Chairman of the Board of Directors of LANXESS K.K. Chairman of the Board of Directors of LANXESS S.A. de C.V. Member of the Board of Directors of LANXESS Industria de Produtos Quimicos e Plasticos Ltda Chairman of the Board of Directors of LANXESS International S.A. |
| Dr. Wienkenhöver Board of Management member, Industrial Relations Director (until March 31, 2007) | <ul style="list-style-type: none"> Chairman of the VCI Technology and Environment Committee Chairman of the VCI's German Responsible Care Board Member of the Board of the VCI Regional Association in North Rhine-Westphalia Member of the VCI Trade Policy Committee Member of the Business Advisory Board of Sparkasse Leverkusen Member of the Advisory Board of NTS Energie und Transport GmbH | <ul style="list-style-type: none"> Member of the Executive Board of LANXESS Deutschland GmbH Chairman of the Supervisory Board of Rhein Chemie Rheinau GmbH Chairman of the Board of Directors of LANXESS Hong Kong Ltd. Member of the Board of Directors of Chrome International South Africa (Pty) Ltd. Member of the Board of Directors of Sybron Chemical Industries Nederland B.V. Member of the Board of Directors of Sybron Chemicals Holdings B.V. Chairman of the Board of Directors of LANXESS 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. Chairman of the Board of Directors of LANXESS Yaxing Chemical (Weifang) Co. Ltd. |

CHANGES IN NON-CURRENT ASSETS OF LANXESS AG

| € '000 | Gross carrying amounts | | | | Amortization/depreciation and write-downs | | Carrying amounts | |
|---|------------------------|--------------|-------------|----------------|---|-----------|------------------|----------------|
| | Jan. 1, 2007 | Acquisitions | Retirements | Dec. 31, 2007 | Accumulated Dec. 31, 2007 | 2007 | Dec. 31, 2006 | Dec. 31, 2007 |
| Intangible assets | | | | | | | | |
| Software licenses | 35 | 0 | 0 | 35 | 30 | 12 | 17 | 5 |
| | 35 | 0 | 0 | 35 | 30 | 12 | 17 | 5 |
| Property, plant and equipment | | | | | | | | |
| Furniture, fixtures and other equipment | 30 | 0 | 0 | 30 | 26 | 6 | 10 | 4 |
| | 30 | 0 | 0 | 30 | 26 | 6 | 10 | 4 |
| Financial assets | | | | | | | | |
| Investments in subsidiaries | 738,839 | 25 | 0 | 738,864 | 0 | 0 | 738,839 | 738,864 |
| Other loans | 10 | | 2 | 8 | 0 | 0 | 10 | 8 |
| | 738,849 | 25 | 2 | 738,872 | 0 | 0 | 738,849 | 738,872 |
| Total non-current assets | 738,914 | 25 | 2 | 738,937 | 56 | 18 | 738,876 | 738,881 |

MANAGEMENT REPORT OF LANXESS AG

FOR FISCAL 2007

GENERAL

LANXESS AG serves primarily as the management holding company for the LANXESS Group. Subordinated to LANXESS AG is LANXESS Deutschland GmbH, a wholly owned subsidiary with which it has a profit-and-loss transfer agreement. LANXESS Deutschland GmbH has subsidiaries in Germany and other countries. The economic performance of LANXESS AG thus depends essentially on that of the operating companies in the LANXESS Group and on the development of the chemical industry.

SALES AND EARNINGS PERFORMANCE

The earnings of LANXESS AG are chiefly dependent on profit or loss transfers from LANXESS Deutschland GmbH, which holds the shares of direct and indirect subsidiaries and thus bundles all operational business activities. The earnings of LANXESS Deutschland AG developed positively thanks to the further impact of restructuring undertaken in previous years and a strong chemical economy. Earnings were held back by expenses relating to the sale of the Lustran Polymers business unit to the INEOS Group. LANXESS AG, too, recognized one-time charges in connection with the divestment of this business unit.

The sales revenues of €2,489,000 (2006: €15,470,000) reflected in the income statement relate to services provided to LANXESS Deutschland GmbH. After deducting the cost of sales, which mainly comprises personnel and general administration expenses, the gross profit was zero. The drop in sales revenues and the related cost of sales is attributable to adjustments made to the service agreement with LANXESS Deutschland GmbH, which dates from the spin-off from Bayer AG, to align it to present conditions.

The remaining general administration expenses of €38,359,000 (2006: €20,205,000) principally comprise personnel and other business expenses not directly related to the services provided to Group companies. After other operating income of €1,025,000 (2006: €482,000) and other operating expenses of €48,749,000 (2006: €198,000), the company reported an operating loss of €86,083,000 (2006: operating loss of €19,921,000). The high operating expenses principally relate to losses incurred from the sale of loans granted to former Lustran Polymers subsidiaries to INEOS ABS (Jersey) Limited, Jersey.

The financial result, which comprises the balances of income and losses from investments in affiliated companies, interest income and expense, and other financial income and expense, was positive at €186,498,000 (2006: €217,326,000). This positive result was chiefly due to the profit transfer of €178,716,000 (2006: €218,420,000) from LANXESS Deutschland GmbH. The decline in earnings at LANXESS Deutschland GmbH despite the positive business development was chiefly attributable to losses from the divestment of the Lustran Polymers business unit to the INEOS Group. The company recorded net interest income, mainly from intercompany financing, of €8,596,000 (2006: €14,941,000). The balance of other financial income and expense was negative at €814,000 (2006: negative at €16,035,000). The main components of this item are the €4,251,000 net positive result of hedging operations (including the cost of hedging items for the Group and the company) and €5,968,000 in other expenses for financial transactions.

LANXESS AG reported a pre-tax profit of €100,415,000 (2006: €197,405,000). Tax effects from the sale of the Lustran Polymers business unit accounted for a major part of the €48,946,000 (2006: 33,034,000) in income tax expense. In addition, retrospective tax payments for previous years amounted to €2,313,000. Net income was €51,469,000 (2006: €163,794,000).

Including the profit of €40,000,000 carried forward, the balance sheet profit amounted to €91,469,000.

ASSET AND CAPITAL STRUCTURE

In view of its function as a strategic holding company and "liquidity pool", the balance sheet of LANXESS AG is dominated by financial assets, Group liquidity and the resulting receivables from, and payables to, subsidiaries.

Total assets of LANXESS AG were €2,206,120,000 as of December 31, 2007 (2006: €2,044,100,000). This was €162,020,000, or 7.9%, more than at year end 2006.

Non-current assets amounted to €738,881,000, which was 33.5% of total assets. Financial assets include the interest in LANXESS Deutschland GmbH amounting to €738,839,000.

Current assets accounted for €1,442,590,000, which was 65.4% of total assets. Receivables from subsidiaries accounted for 52.3% of total assets and related principally to financial transactions and short-term loans. Liquid assets accounted for 8.5% of total assets. LANXESS AG also has credit facilities totaling €1,500,000,000 arranged with an international consortium of banks as a multi-currency syndicated revolving credit facility and an additional €500,000,000 as a bilateral credit facility from a bank.

Equity amounted to €1,033,622,000 and equity coverage of total assets to 46.9%. The change in equity at LANXESS AG comprises a reduction of €21,155,000 for the dividend payment, €49,884,000 for the repurchase of shares in the company, and an increase of €51,469,000 from net income. Equity coverage of non-current assets was 139.9%.

On December 31, 2007 liabilities amounted to €1,172,498,000, which was 53.1% of total equity and liabilities.

Provisions of €33,255,000, amounting to 1.5% of equity and liabilities, are mainly for employee pensions and other commitments, statutory obligations and expenses relating to fiscal 2007.

The liabilities totaling €1,139,243,000 account for 51.6% of total equity and liabilities. Payables to subsidiaries are a major source of financing, amounting to €1,126,726,000 or 51.1% of total equity and liabilities.

EMPLOYEES

The number of employees on the reporting date was unchanged from the previous year at 101. The company's average headcount in 2007 was 99 (2006: 101). Personnel expenses came to €25,883,000 (2006: €20,685,000).

COMPENSATION REPORT

The structure of the compensation system for the members of the Board of Management is determined and regularly reviewed by the Human Resources Committee. 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 economic situation, performance, and future outlook.

In addition to a market-oriented annual base salary that is broadly in line with that paid by comparable companies, their compensation contains two variable components based on LANXESS's short-term and long-term 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 these components came to €2,281,000 in 2007. This amount includes €320,000 in annual base salaries paid to members who retired from the Board of Management in 2007.

The short-term, performance-based component is called the Short Term Incentive (STI), which is based on the Group's attainment of defined EBITDA targets and is equivalent to 115% of the annual base salary in the event of 100% target attainment. Maximum target attainment for 2007 is capped at 150%. The amount expensed

for performance-based STI payments totaled €2,190,000 in fiscal 2007. Actual payments in 2008 may differ from this amount.

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

Short-Term Compensation of the Board of Management

| € '000 | Fixed compensation | Variable compensation ¹⁾ | Total |
|---|--------------------|-------------------------------------|--------------|
| Dr. Axel C. Heitmann | 751 | 772 | 1,523 |
| Dr. Werner Breuers (from May 14, 2007) | 283 | 257 | 540 |
| Dr. Rainier van Roessel | 436 | 412 | 848 |
| Matthias Zachert | 491 | 515 | 1,006 |
| | 1,961 | 1,956 | 3,917 |

¹⁾ payment in 2008.

The following compensation was paid to former members of the Board of Management in the reporting period until the date on which they left the Board of Management:

Short-Term Compensation of Former Members of the Board of Management

| € '000 | Fixed compensation | Variable compensation | Total |
|---|--------------------|-----------------------|------------|
| Dr. Ulrich Koemm (until May 31, 2007) | 209 | 163 | 372 |
| Dr. Martin Wienkenhöver (until March 31, 2007) | 111 | 71 | 182 |
| | 320 | 234 | 554 |

In addition to the above amounts, Dr. Koemm and Dr. Wienkenhöver received payments of €2,868,000 and €2,704,000, respectively, on leaving the Board of Management of LANXESS AG.

The long-term, performance-based component of the compensation system is the Long Term Incentive Program (LTIP), which is divided into three three-year tranches that were issued in the years 2005 to 2007. The LTIP comprises the Stock Performance Plan (SP) and the Economic Value Plan (EVP). The first award from the LTIP is made after three years, provided defined conditions are satisfied.

The SP is linked to the performance of LANXESS stock against a reference index, the Dow Jones STOXX 600 ChemicalsSM. The EVP is an incentive oriented toward an increase in the economic value of LANXESS. 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, which are subject to a five-year lock-up period.

The following table provides additional information about the LTIP compensation paid.

Long-Term Compensation of the Board of Management

| | SP and EVP Cost in 2007 | SP rights granted in 2007 | | SP rights as of Dec. 31, 2007 | | EVP rights as of Dec. 31, 2007 | |
|--|----------------------------|---------------------------|-----------------------|----------------------------------|------------|-----------------------------------|------------|
| | € '000 | No. of rights | Fair values € '000 | No. of rights | € '000 | No. of rights | € '000 |
| Dr. Axel C. Heitmann | 277 | 360,000 | 169 | 1,080,000 | 579 | 480,000 | 448 |
| Dr. Werner Breuers (from May 14, 2007) | 56 | 258,000 | 121 | 258,000 | 8 | 114,667 | 48 |
| Dr. Rainier van Roessel | 56 | 258,000 | 121 | 258,000 | 8 | 114,667 | 48 |
| Matthias Zachert | 185 | 240,000 | 113 | 720,000 | 386 | 320,000 | 299 |
| | 574 | 1,116,000 | 524 | 2,316,000 | 981 | 1,029,334 | 843 |

In light of the development of LANXESS stock at the beginning of fiscal 2008, SP entitlements at the time of preparation of the annual financial statements would not result in any payment.

On termination of their employment 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 benefit of 25% of their respective annual base salary. Moreover, Board of Management members must themselves pay an amount from deferred compensation amounting to 12.5% of the STI, 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 employment relationship ends before the beneficiary reaches age 60, the company shall pay certain additional benefits up to a defined ceiling.

LANXESS has set up provisions for the future claims of Board of Management members. The total pension cost recognized in the financial statements for 2007 is €2,229,000.

The following table shows details of the pensions for the individual Board of Management members.

Pensions of the Members of the Board of Management

| € '000 | Pension expense | Annual pension benefits from date of entitlement | Accumulated Interest-bearing capital |
|---|--------------------|---|--|
| Dr. Axel C. Heitmann | 457 | 240 | 787 |
| Dr. Werner Breuers (from May 14, 2007) | 80 | 100 | 64 |
| Dr. Rainier van Roessel | 353 ¹⁾ | 100 | 102 |
| Matthias Zachert | 171 | 125 | 524 |
| | 1,061 | 565 | 1,477 |

¹⁾ due to crediting of employment years with the Bayer Group

The following table shows details of the pensions for the Board of Management members who left the company in the year under review.

Pensions of Former Members of the Board of Management

| € '000 | Pension expense | Annual pension benefits from date of entitlement | Accumulated Interest-bearing capital |
|---|--------------------|---|--|
| Dr. Ulrich Koemm (until May 31, 2007) | 452 | 250 | 0 |
| Dr. Martin Wienkenhöver (until March 31, 2007) | 716 | 144 | 999 |
| | 1,168 | 394 | 999 |

Obligations to former members of the Board of Management totaled €5,057,000 at December 31, 2007.

The members of the Board of Management receive indemnification should their employment contracts be terminated by the company for defined reasons such that they would leave the company before reaching age 60 or in the event of a material change of control over the company. The terms depend on the respective circumstances and, in addition to contractual compensation for the remaining term of the employment contract or transition benefits, also include settlement payments amounting to up to two times the annual base salary plus the STI.

No additional benefits have been pledged to any Board of Management member in the event of termination of their employment. In 2007, no member of the Board of Management received benefits or corresponding commitments from third parties in respect of their duties as Board of Management members.

In 2007, no loans were granted to members of the Board of Management.

REPORT PURSUANT TO SECTION 289 PARAGRAPH 4 OF THE GERMAN COMMERCIAL CODE

Pursuant to Article 289 Paragraph 4 Nos. 1 to 9 of the German Commercial Code, we hereby make the following declarations:

1. Following retirement of the shares purchased in the share buy-back, the capital stock of the Group parent company LANXESS AG amounted to €83,202,670 as of December 31, 2007 (2006: €84,620,670) and is composed of 83,202,670 no-par bearer shares (2006: 84,620,670). 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, participants in employee stock plans are subject to a lock-up period on disposal of their shares.
3. Pursuant to Section 21 Paragraph 1 of the German Securities Trading Act, Dodge & Cox, San Francisco, California, USA 94104, informed us that, as of December 17, 2007, they had exceeded the threshold of 10% of the voting rights of LANXESS AG. Pursuant to Section 21 Paragraph 1 of the German Securities Trading Act, Barclays Global Investors UK Holdings Limited, London, UK, informed us that, as of January 28, 2008, they had exceeded the threshold of 10% of the voting rights of LANXESS AG. We received no other reports of direct and 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. Section 84 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. Sections 179 et seq. of the German Stock Corporation Act apply to amendments to the articles of association. The articles of association of LANXESS AG do not contain any provisions deviating from these regulations, except that Section 10 Paragraph 9 authorizes the Supervisory Board to resolve on amendments relating solely to the form of the articles of association.

7. On May 31, 2007, the Annual Stockholders' Meeting of LANXESS AG issued an authorization, valid through November 30, 2008, to the Board of Management to purchase a total of 10% of the company's capital stock for any legally permissible purpose. 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, dispose of them against consideration in kind, or use them to satisfy conversion rights from convertible bonds issued by the company. The subscription right of stockholders shall be excluded if the shares are sold other than via the stock exchange or an offer to the stockholders. The Supervisory Board may rule that measures contemplated by the Board of Management based on this authorization to acquire and use shares of the company may only be undertaken with its approval.

Based on this authorization and the corresponding resolution adopted by the Board of Management of LANXESS AG on August 10, 2007 to utilize the authorization, the company repurchased a total of 1,418,000 no-par shares, each representing €1.00 of the capital stock (€1,418,000 in total), or 1.68% of the capital stock, on the stock exchange at an average price of €35.18 per share through a bank engaged by the company. Pursuant to a resolution of the Board of Management dated September 12, 2007, these 1,418,000 no-par shares were retired. At the same time, in accordance with the aforementioned authorization to retire repurchased shares and reduce the capital stock accordingly, the capital of LANXESS AG was reduced by €1,418,000 from €84,620,670 to €83,202,670 by retiring 1,418,000 no-par bearer shares with a pro-rated share in the capital stock of €1.00 each using the simplified procedure for a capital reduction.

Contingent 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, 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 €21,155,167.00 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 (Contingent Capital I and II). Each contingent 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 contingent 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;
- if the issue price for the new shares is not significantly lower than the market price of the already listed shares at the time the issue price is finalized and the newly issued shares 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-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.
- 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 in the quantities to which such parties would be entitled upon the exercise of the conversion or subscription rights or the conversion of the mandatory bond.

Authorized Capital I

Moreover, pursuant to Section 4 Paragraph 2 of LANXESS AG's articles of association, the Board of Management is authorized through August 30, 2009 to increase the company's capital stock with the approval of the Supervisory Board in one or more installments through the issue of new no-par shares against cash or non-cash contributions up to a total amount of €36,517,096. Further details, including the purpose of the authorized capital and the authorization to exclude the subscription right of stockholders in certain cases, can be found in Section 4 Paragraph 2 of the articles of association.

Authorized Capital II

Finally, pursuant to Section 4 Paragraph 3 of LANXESS AG's articles of association, the Board of Management is authorized through May 31, 2012 to increase the company's capital stock with the approval of the Supervisory Board in one or more installments through the issue of new no-par shares against cash or non-cash contributions up to a total amount of €5,793,239. Further details, including the purpose of the authorized capital and the authorization to exclude the subscription right of stockholders in certain cases, can be found in Section 4 Paragraph 3 of the articles of association.

8. The employment contracts between the company and the members of the Board of Management of LANXESS AG contain agreements subject to the condition of a change of control. These are outlined in detail in the Compensation Report in this Management Report. 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 company entered into a credit facility agreement with the Bayerische Landesbank concerning a general credit facility of €500,000,000.00. This agreement can be terminated without notice if another company or person takes control over more than 50% of LANXESS AG. In addition, the company also entered into an agreement with a syndicate of banks concerning a committed credit facility of €1,500,000,000. This agreement can also be terminated without notice if another company or person takes control over more than 50% of LANXESS AG.
9. The employment contracts between the company and the members of the Board of Management of LANXESS AG contain compensation agreements applicable in the event of a takeover bid. These are also outlined in detail in the Compensation Report in this Management Report.

RISK REPORT

Risk management

Risk management is important for LANXESS because business activity necessarily entails risks as well as opportunities. The LANXESS Group's success is significantly dependent on identifying both opportunities and risks 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 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 separately organized early warning system. 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 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 organs, business units and group functions.

Risk transfer transactions (hedging transactions or insurance) are entered into and managed centrally at LANXESS via the Treasury group function.

In connection with the decentralized organization of its risk management, LANXESS has established a central risk database to which the risk owners contribute structured data about identified risks. Integration of the German and foreign Group companies is achieved via the business units and group functions and also via the country representatives, who represent LANXESS to the outside and also input risks into the central database. To this end, standardized risk categories have been defined along with parameters for probabilities of occurrence and damage levels. The recording and significance threshold for the identification and documentation of risks have been defined uniformly for the Group at €1 million and €10 million. The central risk database is managed by the Internal Auditing group function and forms the basis for annual reporting on the Group's risk environment to the LANXESS Board of Management and the Supervisory Board.

There is also provision for immediate internal reporting on specific risk issues such as significant corporate compliance violations. In 2007 there was no cause for immediate reporting of this kind on significant risks at LANXESS. In addition to the standard risk reporting system required by the German Law on Corporate Control and Transparency, LANXESS has a hierarchical reporting system for appraising potential opportunities and risks and making them known to the Board of Management.

To supplement the central risk database, corporate planning is another core element of opportunity and risk management at LANXESS. During the planning process, information about developments expected in the future is collected and mapped across the Group. Forecasts are prepared and those risks and opportunities considered relatively likely to materialize are presented as worst-case/best-case scenarios. Certain Board of Management meetings are dedicated to discussing corporate planning and 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.

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 reports directly and regularly to the Board of Management.

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. In addition, the risk management system is evaluated by the auditor as part of the audit of the annual financial statements. In the course of exercising its duties under the articles of association, the Supervisory Board also exercises control functions, including regular monitoring of the efficiency of the risk management system by its Audit Committee and reviewing reports about the nature and results of the Compliance Committee's work and the work performed by the Internal Auditing group function.

LANXESS considers the motivation of its employees to be a key factor in exploiting opportunities. For this reason, we highly value a corporate culture which fosters the search for and implementation of new possibilities. One component of this effort is providing a financial bonus for ideas submitted via the company's idea management system.

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.

Risks of future development

● Market risks

LANXESS is exposed to the general economic and political opportunities and risks of the countries and regions in which its companies operate. As a chemicals enterprise, LANXESS is subject to economic risks and the risks typical of this industry sector. The volatility and cyclicity 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. The potential impact of the U.S. credit crisis on both the U.S. and global economy could also adversely affect LANXESS. The company anticipates future growth to come from a continuing increase in demand on emerging markets, particularly in Brazil, Russia, India and China. If the general business environment in these countries should deteriorate due to economic or other factors, one of LANXESS's key growth drivers could be weakened or eliminated.

LANXESS's risk profile is influenced by structural changes in markets, such as the entry of new suppliers, particularly those based in emerging economies; the migration of customers to countries with lower costs; and product substitution or market consolidation trends of the kind already occurring in some sectors, particularly rubber. LANXESS counters such trends by restructuring operations 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. In particular, the increase in the prices of oil and petrochemical derivatives is leading to a rise in production costs. LANXESS mitigates this type of procurement risk by entering into long-term supply contracts for most raw materials and agreeing price escalation clauses with customers. LANXESS also hedges this risk in some cases via derivatives transactions where liquid futures markets are available for raw materials and energy. To guard against possible supply bottlenecks due to factors such as the failure 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 extensive and well-structured due diligence analyses and, where possible, by concluding appropriate liability agreements with the other parties.

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

Changes in exchange rates can affect LANXESS's results. In light of the company's strong European asset base, exports to the dollar zone become more expensive particularly when the euro moves higher against the U.S. dollar. Long-term changes in currency parities can negatively or positively influence competitiveness with suppliers outside the euro zone. At LANXESS, payment flows in various currencies are documented, monitored and managed centrally. This enables LANXESS to offset the various foreign exchange effects of procurement and sales activities, and the foreign currency balances of the individual LANXESS companies, against one another. The goal is to hedge the residual amounts with derivative financial instruments. LANXESS only hedges foreign currency items that have arisen from the company's core businesses or are considered highly likely to arise.

The risk of interest rate changes is centrally managed by the Treasury group function for the entire LANXESS Group. The majority of the company's debt was raised at fixed terms. Possible interest rate shifts in the coming years will therefore only have a limited effect on LANXESS. The Treasury group function also verifies customers' creditworthiness in close cooperation with our sales departments to minimize the default risk.

Due to our existing liquidity reserves, including a seven-year credit line of €1.5 billion that was undrawn at December 31, 2007, and our financial structure, which has improved significantly since LANXESS's founding, we have not identified any liquidity risks. This assessment is supported by the investment-grade ratings assigned to LANXESS by external rating agencies.

- 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, the company currently estimates 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. However, LANXESS AG still faces the possibility of having to bear 30% of defense costs and 30% of additional taxes that may be payable if the tax deductibility of expenses is restricted.

- 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.

Possible tightening of safety, quality and environmental regulations or standards can lead to additional costs and liability 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 and landfills in which chemicals have been produced or stored for periods that in some cases exceed 140 years. 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 have also arranged for adequate product liability insurance.

- Other risks

In the course of the spin-off from Bayer, LANXESS acquired structures and circumstances that will in the future be subject to assessment by the tax authorities. 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 maintains 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. With regard to human resources risks, industrial actions in some countries resulting from disputes about the implementation of restructuring measures or in connection with negotiations concerning future collective pay agreements 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.

- Overall risk

Over time LANXESS's overall exposure to risk has proven largely stable. Changes with respect to the previous year are chiefly attributable to external factors, most notably the U.S. credit crisis and flagging U.S. economy, rising oil prices, as well as depreciation of the U.S. dollar against the euro.

The world's major rating agencies, Standard & Poor's, Moody's Investors Service and Fitch Ratings, all have LANXESS at a solid "BBB" or "Baa2" investment grade rating with stable outlook. In the case of Standard & Poor's and Moody's, this represents an upgrade of one notch from a year earlier. We believe that these increases are primarily the result of LANXESS's enhanced financial strength. By improving its financial structures, LANXESS is better placed than before to successfully master any risks that materialize.

Based on an overall evaluation of risk management information, we have not identified any sufficiently likely risks or risk combinations that would jeopardize the continued existence of LANXESS.

OUTLOOK

LANXESS does not expect the slowdown of the U.S. economy to materially affect the dynamic growth of its user industries in the Asian, Latin America and eastern European markets.

We are confident about our performance in the current year. We aim to increase sales in 2008, at the same time reaching the ambitious goals we had originally set for 2009. That means our EBITDA margin will draw level with the average for the peer group, no business will have an EBITDA margin below 5%, and we will maintain our investment-grade rating.

In performing its tasks as a management holding company, LANXESS AG expects current costs to be lower than in 2007 due to the absence of one-time expenses. Apart from this, the earnings position of LANXESS AG will be dominated by the financial result (interest income/expense, income/loss from investments in affiliated companies and other financial income/expense). If profitability in the Group continues to improve as expected, higher dividend income from Group companies should enable LANXESS AG to report a further improvement in pre-tax income for the year.

We aim to allow stockholders to benefit tangibly from the company's success through an increase in the dividend. Therefore, at the Annual Stockholders' Meeting on May 29, 2008, we will propose a dividend payment of €1.00 per share for 2007. This marks a substantial increase from our first-ever dividend of €0.25 paid for fiscal 2006.

EVENTS AFTER THE BALANCE SHEET DATE

No events of material significance have occurred since the end of the 2007 fiscal year.

RESPONSIBILITY STATEMENT

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

Leverkusen, February 29, 2008

LANXESS Aktiengesellschaft, Leverkusen

The Board of Management

Dr. Axel C. Heitmann

Dr. Werner Breuers

Dr. Rainier van Roessel

Matthias Zachert

AUDITOR'S REPORT

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of LANXESS Aktiengesellschaft, Leverkusen, for the business year from January 1 to December 31, 2007. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law and supplementary provisions in the articles of incorporation are the responsibility of the Company's Board of Managing Directors. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with Article 317 HGB ("Handelsgesetzbuch": German Commercial Code) 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 annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company 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 books and records, the annual financial statements

and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Company's Board of Managing Directors, as well as evaluating the overall presentation of the annual financial statements and 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 annual financial statements comply with the legal requirements and supplementary provisions in the articles of incorporation and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Cologne, March 3, 2008

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

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Financial Calendar for 2008

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| May 14 | Interim Report Q1 2008 |
| May 29 | Annual Stockholders' Meeting |
| August 13 | Interim Report Q2 2008 |
| November 13 | Interim Report Q3 2008 |

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