



# CONTINUITY MEETS FLEXIBILITY

**LANXESS AG** FINANCIAL STATEMENTS 2008



**LANXESS**  
Energizing Chemistry

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# BALANCE SHEET

## LANXESS AG

€ '000	Note	Dec. 31, 2007	Dec. 31, 2008
<b>ASSETS</b>			
<b>Non-current assets</b> [9]			
<b>Intangible assets</b>			
Acquired concessions, industrial property rights, similar rights and assets, and licenses thereunder		5	0
<b>Property, plant and equipment</b>			
Furniture, fixtures and other equipment		4	52
<b>Financial assets</b>			
Investments in subsidiaries	[10]	738,864	738,864
Other loans	[11]	8	18,214
		<b>738,881</b>	<b>757,130</b>
<b>Current assets</b>			
<b>Receivables and other assets</b>			
Receivables from subsidiaries	[12]	<b>1,154,419</b>	<b>936,234</b>
Other assets	[13]	99,676	112,438
		<b>1,254,095</b>	<b>1,048,672</b>
<b>Securities</b>			
		<b>0</b>	<b>82,237</b>
<b>Liquid assets</b>			
		<b>188,495</b>	<b>223,234</b>
		<b>1,442,590</b>	<b>1,354,143</b>
<b>Prepaid expenses</b>			
		<b>24,649</b>	<b>1,216</b>
<b>Total assets</b>			
		<b>2,206,120</b>	<b>2,112,489</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b> [14]			
Capital stock (conditional capital €42,310,000)		83,203	83,203
Capital reserves		806,195	806,195
Other retained earnings		52,755	141,420
Balance sheet profit		91,469	96,932
		<b>1,033,622</b>	<b>1,127,750</b>
<b>Provisions</b>			
Provisions for pensions and other post-employment benefits	[15]	12,530	24,520
Tax provisions		3,483	0
Other provisions	[16]	17,242	26,096
		<b>33,255</b>	<b>50,616</b>
<b>Liabilities</b>			
Liabilities to banks	[17]	2,223	423,943
Trade payables	[18]	1,393	2,306
Payables to subsidiaries	[19]	1,126,726	481,526
Other liabilities	[20]	8,901	26,348
		<b>1,139,243</b>	<b>934,123</b>
<b>Total equity and liabilities</b>			
		<b>2,206,120</b>	<b>2,112,489</b>
Contingent liabilities from guarantees	[21]	524,235	547,048

# INCOME STATEMENT

## LANXESS AG

€ '000	Note	2007	2008
<b>Sales</b>	[1]	<b>2,489</b>	<b>2,433</b>
Cost of sales	[2]	(2,489)	(2,433)
<b>Gross profit</b>		<b>0</b>	<b>0</b>
General administration expenses		(38,359)	(44,192)
Other operating income		1,025	27
Other operating expenses		(48,749)	(258)
<b>Operating result</b>		<b>(86,083)</b>	<b>(44,423)</b>
Income from investments in affiliated companies – net		178,716	237,234
Interest income – net	[3]	8,596	1,223
Other financial income and expenses – net	[4]	(814)	(27,870)
<b>Financial result</b>		<b>186,498</b>	<b>210,587</b>
<b>Income before income taxes</b>		<b>100,415</b>	<b>166,164</b>
Income taxes	[5]	(48,946)	11,166
<b>Net income</b>		<b>51,469</b>	<b>177,330</b>
Carryforward to new account	[14]	40,000	8,267
Withdrawal from retained earnings		49,884	0
Allocation to retained earnings	[14]	0	(88,665)
Expenses for repurchase of company shares		(49,884)	0
Income from decrease in capital stock		1,418	0
Allocation to capital reserves		(1,418)	0
<b>Balance sheet profit</b>		<b>91,469</b>	<b>96,932</b>

# NOTES TO THE FINANCIAL STATEMENTS OF LANXESS AKTIENGESELLSCHAFT, LEVERKUSEN

FOR FISCAL 2008

## 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](http://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 using 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, 2008 in accordance with the International Financial Reporting Standards (IFRS) 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 and changes in value are reflected in equity without affecting the income statement.
- Foreign currency receivables and payables are translated at the respective closing rates on the reporting date, the resulting differences being recognized in the income statement.

- When calculating pension provisions, obligations are netted 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 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. Low-value assets costing up to €150.00 are fully depreciated in the year of acquisition. Low-value assets costing between €150.00 and €1,000.00 are combined in a collective item and depreciated over five years using the straight-line method. 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, fixtures and other equipment	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 were computed for the first time using the projected unit credit method, taking into account future salary and pension increases, the Heubeck 2005 G mortality tables and using a discount rate of 5% for retirement pensions, 4.25% for early retirement benefits and 4.75% for the remaining types of post-employment benefit. The prior-year provisions continued to be computed essentially using the actuarial method as per Section 6a of the German Income Tax Act (EStG) using the mortality tables according to K. Heubeck 2005 G. The change of method was made in order to bring the expected financial obligation of the company more into line with actual circumstances.

Other provisions are established to cover all foreseeable risks and uncertain liabilities, based on reasonable estimates of such commitments as of the balance sheet date. Where provisions were computed according to actuarial principles, this was done on the basis of current interest rate levels.

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 balance sheet 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 totaled €2,433 thousand (2007: €2,489 thousand) and related entirely to services provided to LANXESS Deutschland GmbH in Germany on the basis of a service agreement (as of July 1, 2006).

### 2 Cost of sales

The cost of sales totaling €2,433 thousand (2007: €2,489 thousand) comprised expenses related to the services provided, mainly personnel and general administration expenses.

### 3 Interest income – net

€ '000	2007	2008
<b>Other interest and similar income</b>		
from third parties	9,448	9,090
from subsidiaries	45,409	9,513
	<b>54,857</b>	<b>18,603</b>
<b>Interest and similar expenses</b>		
to third parties	3,162	10,640
to subsidiaries	43,099	6,740
	<b>46,261</b>	<b>17,380</b>
<b>Interest income – net</b>	<b>8,596</b>	<b>1,223</b>

### 4 Other financial income (expenses) – net

€ '000	2007	2008
<b>Other financial expenses</b>		
Expenses for forward commodity contracts	20,342	14,967
Exchange losses	202,420	562,570
Miscellaneous financial expenses	6,014	6,288
	<b>228,776</b>	<b>583,825</b>
<b>Other financial income</b>		
Income from forward commodity contracts	20,342	14,967
Exchange gains	206,671	537,075
Miscellaneous financial income	949	3,913
	<b>227,962</b>	<b>555,955</b>
	<b>(814)</b>	<b>(27,870)</b>

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.

### 5 Income taxes

The net tax income of €11,166 thousand in fiscal 2008 results from tax expense of €12,331 thousand for the fiscal year and tax income of €23,497 thousand in respect of previous years.

### 6 Personnel expenses

€ '000	2007	2008
Wages and salaries	22,026	17,187
Social expenses for pensions and other benefits	3,857	12,364
of which for pensions	[3,408]	[11,920]
	<b>25,883</b>	<b>29,551</b>

### 7 Number of employees

	Average 2008	Balance sheet date Dec. 31, 2008	Balance sheet date Dec. 31, 2007
General administration	102	107	101

## 8 Audit fees

The following fees for the services of the auditors, Pricewaterhouse-Coopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, were recorded as expenses in fiscal 2008:

€ '000	2007	2008
Financial statements auditing	347	360
Audit-related services and other assurance and valuation services	907	443
	<b>1,254</b>	<b>803</b>

## NOTES TO THE BALANCE SHEET

### 9 Non-current assets

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

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

Company Name and Place of Business	Interest	Equity as of Dec. 31, 2008	Net income 2008
	%	€ '000	€ '000
LANXESS Deutschland GmbH, Leverkusen	100.0	1,499,423	0 <sup>1)</sup>
LANXESS International Holding GmbH, Leverkusen	100.0	25	0 <sup>1)</sup>

1) A profit and loss transfer agreement exists with these companies.

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.

## 11 Other loans

The other loans almost entirely comprise the pro-rata trust assets of LANXESS Pension Trust e.V. (LXS Trust). LANXESS AG transferred cash amounting to €17,802 thousand to LXS Trust in several tranches in 2007 under a contractual trust arrangement (CTA) to secure pension obligations.

Following a change in the investment strategy of LXS Trust, the pro-rata trust assets are now reflected in non-current assets. The market value of the assets of LXS Trust exceeds their carrying amount. In fiscal 2008 a negative result of €102 thousand was reported.

## 12 Receivables from subsidiaries

Receivables from Group companies totaling €936,234 thousand (2007: €1,154,419 thousand) comprise short-term loans receivable, including accrued interest, receivables from financial transactions and a receivable under a profit and loss transfer agreement. Receivables of €610 thousand relate to the service agreement (trade receivables).

All receivables are due within one year.

## 13 Other assets

Other assets are comprised as follows:

€ '000	2007	2008
Tax receivables		
from sales taxes	17,370	45,477
from claims for tax refunds	2,130	44,256
Option premiums paid	6,823	22,622
Promissory notes purchased (investments)	55,022	0
Receivables from LANXESS Pension Trust e.V.	18,309	0
Miscellaneous	22	83
	<b>99,676</b>	<b>112,438</b>
of which due in more than one year (option premiums)	2,692	11,264
of which receivables with an indefinite maturity (CTA)	18,309	0

## 14 Equity

Equity changed as follows in 2008:

€ '000	Dec. 31, 2007	Withdrawal from	Allocation to	Dividend	Net income	Dec. 31, 2008
Capital stock	83,203					83,203
Capital reserves	806,195					806,195
Other retained earnings	52,755		88,665			141,420
Unappropriated net income	91,469	(88,665)		(83,203)	177,330	96,932
	<b>1,033,622</b>	<b>(88,665)</b>	<b>88,665</b>	<b>(83,203)</b>	<b>177,330</b>	<b>1,127,750</b>

The capital stock is divided into 83,202,690 no-par bearer shares.

On May 29, 2008 the Annual Stockholders' Meeting resolved to utilize the unappropriated net income for 2007, amounting to €91,469 thousand, as follows:

- to pay a dividend totaling €83,203 thousand (€1.00 per no-par share entitled to the dividend)
- to carry forward €8,267 thousand to new account.

Further, the Annual Stockholders' Meeting of LANXESS AG authorized the Board of Management until November 27, 2009 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.

### Conditional Capital I und II

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

- for residual amounts resulting from the subscription ratio;
- with issues against cash contributions, if the issue price is not significantly lower than the theoretical market value of the convertible and/or warrant bonds or mandatory convertible bonds, as determined using accepted pricing models. If bonds are issued by application of Section 186 Paragraph 3 Sentence 4 of the German Stock Corporation Act, the issued shares may not exceed 10% of the capital stock either at the time this authorization takes effect or at the time it is utilized;

- if the profit-participation rights or income bonds are vested with bond-like characteristics;
- if bonds are issued against contributions in kind for the purpose of acquiring companies, parts of companies, or equity interests in companies and the value of the contribution in kind adequately reflects the value of the bond; and
- to the extent necessary to grant no-par bearer shares of the company to the holders of conversion or subscription rights or to grant subscription rights to the creditors of mandatory convertible bonds 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

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 contributions in kind 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

In addition, 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 contributions in kind 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. The change in the valuation method and assumptions resulted in an increase of €9,962 thousand in pension provisions.

### 16 Other provisions

The other provisions are established for vacation and overtime credits, the phased early retirement program, long-service anniversaries, bonuses, stock option plans (LTIP) for employees and other uncertain liabilities. Other uncertain liabilities mainly comprise provisions for impending losses on currency transactions, the expected cost of the Annual Stockholders' Meeting for fiscal 2008 and variable, performance-related 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 and 2008 to 2010.



The LTIP for the period 2005 to 2007 comprises the Stock Performance Plan (SP) and the Economic Value Plan (EVP). The first payments under the 2005 tranche of the LTIP were made in 2008.

The SP is linked to the performance of LANXESS stock against a reference index, the Dow Jones STOXX 600 Chemicals<sup>SM</sup>, 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 Chemicals<sup>SM</sup> index. The first payments under the 2005 tranche of the LTIP were made in 2008.

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

The requirement for participation in the LTIP 2005 through 2007 was a prior personal investment in LANXESS shares, which are subject to a five-year lock-up period.

The LTIP for the period 2008 through 2010 comprises a virtual Stock Performance Plan only. Participation is contingent upon a personal investment in LANXESS shares. Each tranche runs for a total of six years, comprising a three-year retention period and a three-year exercise period. The shares are subject to a five-year lock-up period.

### 17 Liabilities to banks

Of the liabilities to banks totaling €423,943 thousand (2007: €2,223 thousand), €73,072 thousand is due within one year and €62,500 thousand matures in more than five years.

### 18 Trade payables

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

### 19 Payables to subsidiaries

Payables to subsidiaries, amounting to €481,526 thousand (2007: €1,126,726 thousand), mainly comprise short-term loans, including accrued interest, and receivables relating to financial transactions.

All of these payables are due within one year.

## 20 Other liabilities

€ '000	2007	2008
Option premiums received	6,841	22,622
Tax liabilities	350	526
Liabilities for social expenses	302	296
Miscellaneous liabilities	1,408	2,904
	<b>8,901</b>	<b>26,348</b>
Amount due within one year	6,209	15,124
Residual terms of more than one but less than five years (option premiums)	2,692	11,224

## 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 subsidiaries:

€ '000	2007	2008
to banks	16,327	40,225
to suppliers	7,908	6,823
to holders of the bond issued by LANXESS Finance B.V.	500,000	500,000
	<b>524,235</b>	<b>547,048</b>

## OTHER MANDATORY DISCLOSURES

### 22 Derivative financial instruments

The notional value of financial derivative contracts concluded with external counterparties was €2,120 million as of December 31, 2008 (2007: €1,289 million). Back-to-back derivatives contracts with a notional value of €2,015 million (2007: €1,076 million) were concluded with Group companies. The notional value of derivative financial instruments totaled €4,135 million (2007: €2,365 million) on the balance sheet date and comprised the following:

€ '000	Notional value		Fair value		Carrying amount	
	Dec. 31, 2007	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2008
Forward exchange contracts						
– positive fair values	1,018,734	1,404,141	58,370	62,396	0	0
– negative fair values	1,073,569	1,311,356	58,557	78,272	2,170	11,624
	<b>2,092,303</b>	<b>2,715,497</b>	<b>(187)</b>	<b>(15,876)</b>	<b>(2,170)</b>	<b>(11,624)</b>
Currency option contracts						
– positive fair values	87,630	504,397	8,939	51,218	6,823	22,622
– negative fair values	87,630	504,397	8,939	51,218	6,841	22,622
	<b>175,260</b>	<b>1,008,794</b>	<b>0</b>	<b>0</b>	<b>(18)</b>	<b>0</b>
Cross-currency interest-rate swaps						
– positive fair values	0	200,000	0	53,762	0	0
	<b>0</b>	<b>200,000</b>	<b>0</b>	<b>53,762</b>	<b>0</b>	<b>0</b>
Forward commodity contracts						
– positive fair values	48,608	105,448	8,785	39,956	0	0
– negative fair values	48,608	105,448	8,785	39,956	0	0
	<b>97,216</b>	<b>210,896</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
	<b>2,364,778</b>	<b>4,135,187</b>	<b>(187)</b>	<b>37,886</b>	<b>(2,188)</b>	<b>(11,624)</b>

The notional value of forward exchange contracts totaling €1,309 million (2007: €948 million) includes instruments with positive and negative fair values of €34 million each (2007: positive fair values of €54 million) passed through to other Group companies (matching negative and positive fair values, respectively, at other Group companies).

The currency option and forward commodity contracts with external counterparties as of December 31, 2008 were passed through to other Group companies via back-to-back transactions.

The cross-currency interest-rate swaps are concluded with banks to hedge foreign currency loans.

The fair values of forward exchange contracts are also 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 market value of cross-currency interest-rate swaps is determined by discounting the expected future cash flows over the remaining term of the contract on the basis of current market interest rates.

The fair values of forward commodity contracts, too, are derived from 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 were valued in closed positions with the corresponding underlyings, so no valuation results had to be recognized. Option premiums paid and received totaled €23 million (2007: €7 million) and are recognized in other assets and liabilities, respectively, as accounting units at cost of acquisition.

Derivatives with negative fair values on the reporting date amounted to €12 million (2007: €2.0 million; recognized in other provisions).

### 23 Total remuneration of the Board of Management and Supervisory Board (pursuant to Section 285 No. 9 a of the German Commercial Code)

In fiscal 2008 short-term compensation totaling €5,087 thousand (2007: €4,471 thousand) was paid to the members of the Board of Management of LANXESS AG. This comprised fixed salaries of €2,303 thousand (2007: €2,281 thousand) and bonus payments of €2,784 thousand (2007: €2,190 thousand). Actual payments in 2009 may differ from this amount. Additional payments of €202 thousand relating to the previous year were made.

In addition, the members of the Board of Management received compensation under the Long-Term Incentive Program (LTIP). This gave rise to expenses of €1,630 thousand (2007: €574 thousand), comprising €1,102 thousand (2007: €235 thousand) for the share-based Stock Performance Plan and €528 thousand (2007: €339 thousand) for the non-share-based Economic Value Plan.

2,203,750 long-term share-based compensation rights were granted in 2008 (2007: 1,116,000). The fair value of these rights at the grant date was €1,102 thousand (2007: €524 thousand).

In addition, expenses of €710 thousand (2007: €2,229 thousand) were incurred to provide retirement pensions for 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 2008.

## Compensation of the Supervisory Board in fiscal 2008

€ '000	Fixed remuneration	Remuneration for committee membership	Attendance allowance	Total
Total	740	170	210	1,120

In addition to the compensation payable for fiscal 2008, 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 Chemicals<sup>SM</sup> 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 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, 2008, the expected total entitlement to variable compensation (current nominal value of variable compensation: €100 thousand) was valued at €1,466 thousand (2007: €1,466 thousand) 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.

### 24 Total remuneration of former members of the Board of Management and Supervisory Board (pursuant to Section 285 No. 9 b of the German Commercial Code)

Payments of €117 thousand were made to former members of the Board of Management in 2008. Current pension expense amounted to €353 thousand.

Provisions of €6,735 thousand were recognized as of December 31, 2008 (2007: €5,057 thousand) for current pensions and pension entitlements of former members of the Board of Management.

### 25 Loans and advances granted to members of the Board of Management and Supervisory Board (pursuant to Section 285 No. 9 c of the German Commercial Code)

There were no loans or advances to members of the Board of Management or the Supervisory Board as of December 31, 2008, nor had any other financial commitments been entered into for these individuals.

### 26 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 January 31, 2009).

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

#### Dr. Rolf Stomberg

Chairman of the Supervisory Board of LANXESS AG
Former Chief Executive of the Shipping, Refining and Marketing Division of The British Petroleum Co. p.l.c., London, U.K. Former member of the Board of Directors of The British Petroleum Co. p.l.c., London, U.K.
Further offices:
<ul style="list-style-type: none"> <li>• Chairman of the Supervisory Board of LANXESS Deutschland GmbH, Leverkusen</li> <li>• Member of the Supervisory Board of Biesterfeld AG, Hamburg</li> <li>• Member of the Board of Directors of Smith &amp; Nephew plc, London, U.K.</li> <li>• Member of the Board of Directors of JSC Severstal, Russia</li> <li>• Vice Chairman of the Advisory Board of HOYER GmbH, Hamburg</li> <li>• Member of the Advisory Board of KEMNA Bau Andrae GmbH &amp; Co. KG, Pinneberg</li> </ul>

#### Dr. Friedrich Janssen

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

#### Rainer Laufs

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

**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:

- Member of the Supervisory Board of LANXESS Deutschland GmbH, Leverkusen
- Member of the Supervisory Board of Villeroy & Boch AG, Mettlach
- Member of the Administrative Board of Wittelsbacher Ausgleichsfonds, Munich

**Robert J. Koehler**

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

## Further offices:

- Member of the Supervisory Board of LANXESS Deutschland GmbH, Leverkusen
- Chairman of the Supervisory Board of Benteler AG, Paderborn
- Member of the Supervisory Board of Klöckner & Co. SE, Duisburg
- Member of the Supervisory Board of Heidelberger Druckmaschinen AG, Heidelberg
- Member of the Supervisory Board of Demag Cranes AG, Wetter

**Lutz Lingnau**

Self-employed consultant

Former member of the Board of Management of Schering AG

## Further offices:

- Member of the Supervisory Board of LANXESS Deutschland GmbH, Leverkusen
- 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, Duisburg and Essen

## Further offices:

- Member of the Supervisory Board of LANXESS Deutschland GmbH, Leverkusen
- 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

Former spokesman for the personally liable partners of HSBC Trinkaus & Burkhardt KGaA, Duesseldorf

## Further offices:

- Member of the Supervisory Board of LANXESS Deutschland GmbH, Leverkusen
- Chairman of the Supervisory Board of HSBC Trinkaus & Burkhardt AG, Duesseldorf
- Member of the Board of HSBC Private Banking Holdings (Suisse) SA, Geneva, Switzerland
- Member of the Supervisory Board of the Duesseldorf University Hospital, Duesseldorf
- 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 Supervisory Board of LANXESS AG

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

## Further offices:

- Member of the Supervisory Board of LANXESS Deutschland GmbH, Leverkusen
- Vice Chairman of the Supervisory Board of Vattenfall Europe Mining AG, Cottbus
- Vice Chairman of the Supervisory Board of Vattenfall Europe Generation AG, Cottbus
- Vice Chairman of the Supervisory Board of 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

**Gisela Seidel**

Chairwoman of the LANXESS Works Council in Dormagen

## Further offices:

- Member of the Supervisory Board of LANXESS Deutschland GmbH, Leverkusen

**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, Leverkusen
- 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, Cologne

**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

Chairman of the LANXESS European Forum

## Further offices:

- Member of the Supervisory Board of LANXESS Deutschland GmbH, Leverkusen

**Ralf Deitz**

Member of the LANXESS Works Council in Leverkusen

## Further offices:

- Member of the Supervisory Board of LANXESS Deutschland GmbH, Leverkusen
- Member of the Supervisory Board of SALTIGO GmbH, Langenfeld

### 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 Managerial Employees' Committee

Further offices:

- Member of the Supervisory Board of LANXESS Deutschland GmbH, Leverkusen

### 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, Leverkusen
- Member of the Supervisory Board of Rhein Chemie Rheinau GmbH, Mannheim

### Hans-Jürgen Schicker

Chairman of the LANXESS Works Council in Uerdingen

Further offices:

- Member of the Supervisory Board of LANXESS Deutschland GmbH, Leverkusen

## Board of Management

The members of the Management Board are shown below:

### 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"> <li>• Member of the Presidium of the German Chemical Industry Association (VCI)</li> <li>• Member of the Asia-Pacific Committee of German Business (APA)</li> <li>• Member of the Board of Trustees of Konvent für Deutschland e.V.</li> <li>• Member of the Board of Trustees of the North Rhine-Westphalia chapter of Stifterverband für die Deutsche Wissenschaft</li> </ul>	<ul style="list-style-type: none"> <li>• Chairman of the Executive Board of LANXESS Deutschland GmbH</li> <li>• Chairman of the Board of Directors of LANXESS Chemical (Shanghai) Co. Ltd.</li> </ul>
Dr. Breuers Board of Management member	<ul style="list-style-type: none"> <li>• Member of the Supervisory Board of Currenta Geschäftsführungs-GmbH</li> <li>• Member of the Board of Trustees of the VCI's Chemical Industry Fund</li> <li>• Member of the Board of Trustees of DWI of RWTH Aachen University</li> </ul>	<ul style="list-style-type: none"> <li>• Member of the Executive Board of LANXESS Deutschland GmbH</li> <li>• Chairman of the Supervisory Board of SALTIGO GmbH</li> <li>• Chairman of the Supervisory Board of ALISECA GmbH</li> <li>• Chairman of the Board of Directors of LANXESS K.K.</li> <li>• Chairman of the Board of Directors of LANXESS International S.A.</li> </ul>
Dr. van Roessel Board of Management member, Industrial Relations Director	<ul style="list-style-type: none"> <li>• Member of the Board of the VCI Regional Association in North Rhine-Westphalia</li> <li>• Member of the VCI Trade Policy Committee</li> <li>• Member of the 1 b Experience-Exchange Group of the German Association for Personnel Management (DGFP)</li> </ul>	<ul style="list-style-type: none"> <li>• Member of the Executive Board of LANXESS Deutschland GmbH</li> <li>• Chairman of the Board of Directors of LANXESS S.A. de C.V.</li> <li>• Member of the Board of Administration of LANXESS N.V.</li> <li>• Chairman of the Supervisory Board of Rhein Chemie Rheinau GmbH</li> <li>• Chairman of the Board of Directors of LANXESS Hong Kong Ltd.</li> <li>• Chairman of the Board of Directors of Holding Hispania S.L.</li> <li>• Chairman of the Board of Directors of LANXESS Chemicals S.L.</li> <li>• Chairman of the Board of Directors of LANXESS Corp.</li> <li>• Chairman of the Board of Directors of LANXESS Pte. Ltd.</li> <li>• Chairman of the Governing Board of LANXESS S.r.l.</li> <li>• Member of the Board of Directors of LANXESS Chemical (Shanghai) Co. Ltd.</li> <li>• Chairman of the Board of Directors of LANXESS India Private Ltd.</li> </ul>
Mr. Zachert Board of Management member, Chief Financial Officer	<ul style="list-style-type: none"> <li>• Member of the Board of Directors of Deutsches Aktieninstitut</li> <li>• Member of the Board of Directors of INEOS ABS Ltd.</li> </ul>	<ul style="list-style-type: none"> <li>• Member of the Executive Board of LANXESS Deutschland GmbH</li> <li>• Member of the Board of Directors of LANXESS Corp.</li> <li>• Member of the Board of Administration of LANXESS N.V.</li> <li>• Chairman of the Supervisory Board of LANXESS SAS</li> </ul>

# CHANGES IN NON-CURRENT ASSETS

## LANXESS AG

€ '000	Gross carrying amounts				Amortization/depreciation and write-downs		Carrying amounts	
	Jan. 1, 2008	Acquisitions	Disposals	Dec. 31, 2008	Accumulated Dec. 31, 2008	2008	Dec. 31, 2007	Dec. 31, 2008
<b>Intangible assets</b>								
Software licenses	35	0	0	35	35	5	5	0
	<b>35</b>	<b>0</b>	<b>0</b>	<b>35</b>	<b>35</b>	<b>5</b>	<b>5</b>	<b>0</b>
<b>Property, plant and equipment</b>								
Furniture, fixtures and other equipment	30	50	0	80	28	2	4	52
	<b>30</b>	<b>50</b>	<b>0</b>	<b>80</b>	<b>28</b>	<b>2</b>	<b>4</b>	<b>52</b>
<b>Financial assets</b>								
Investments in subsidiaries	738,864	0	0	738,864	0	0	738,864	738,864
Other loans	8	18,207	1	18,214	0	0	8	18,214
	<b>738,872</b>	<b>18,207</b>	<b>1</b>	<b>757,078</b>	<b>0</b>	<b>0</b>	<b>738,872</b>	<b>757,078</b>
<b>Total non-current assets</b>	<b>738,937</b>	<b>18,257</b>	<b>1</b>	<b>757,193</b>	<b>63</b>	<b>7</b>	<b>738,881</b>	<b>757,130</b>

# MANAGEMENT REPORT OF LANXESS AG

FOR FISCAL 2008

## GENERAL

LANXESS AG serves primarily as the management holding company for the LANXESS Group. Subordinated to LANXESS AG are LANXESS Deutschland GmbH and LANXESS International Holding GmbH, both of which are wholly owned subsidiaries with which it has profit-and-loss transfer agreements. LANXESS Deutschland GmbH owns all subsidiaries in Germany and several in other countries, while LANXESS International Holding GmbH administers the LANXESS Group's new activities outside Germany. 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 and LANXESS International Holding GmbH, which hold the shares of direct and indirect subsidiaries and thus bundle all operational business activities. In 2008 the intercompany financing of LANXESS companies outside Germany was essentially transferred to two foreign subsidiaries.

The sales revenues of €2,433 thousand (2007: €2,489 thousand) 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 remaining general administration expenses of €44,192 thousand (2007: €38,359 thousand) principally comprised personnel and other business expenses not directly related to the services provided to Group companies. After other operating income of €27 thousand (2007: €1,025 thousand) and other operating expenses of €258 thousand (2007: €48,749 thousand), the company reported an operating loss of €44,423 thousand (2007: €86,083 thousand).

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 €210,587 thousand (2007: €186,498 thousand). This positive result was chiefly due to the profit transfer of €238,225 thousand (2007: €178,716 thousand) from LANXESS Deutschland GmbH. The increase in earnings at LANXESS Deutschland GmbH despite a decline in sales was chiefly attributable to income from investments in affiliated companies. In addition, net interest income of €1,223 thousand was recorded (2007: €8,596 thousand). The balance of other financial income and expense was negative at -€27,870 thousand (2007: -€814 thousand). The main component of this item was the negative balance of exchange gains and losses (including costs for the hedging of intra-Group items).

LANXESS AG had income before income taxes of €166,164 thousand (2007: €100,415 thousand). Income tax expense of €12,331 thousand for fiscal 2008 and tax refunds for previous years totaling €23,497 thousand resulted in net tax income of €11,166 thousand (2007: tax expense of €48,946 thousand). Net income came in at €177,330 thousand (2007: €51,469 thousand).

€88,655 thousand of net income has been allocated to retained earnings. Including the income carried forward, unappropriated net income thus amounted to €96,932 thousand.

## ASSET AND CAPITAL STRUCTURE

In light of its function as a management 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 as of December 31, 2008 were €2,112,489 thousand (2007: €2,206,120 thousand). This was €93,631 thousand, or 4.2%, less than at year end 2007.

Non-current assets amounted to €757,130 thousand, which was 35.8% of total assets. Financial assets include the interest in LANXESS Deutschland GmbH amounting to €738,839 thousand.

Current assets accounted for €1,354,143 thousand, or 64.1% of total assets. Receivables from subsidiaries accounted for 44.3% of total assets and related principally to financial transactions and short-term loans. Securities accounted for 3.9% and liquid assets for 10.6% of total assets. LANXESS AG also has credit lines totaling €1.4 billion arranged with an international consortium of banks as a multi-currency syndicated revolving credit facility.

Equity amounted to €1,127,750 thousand, and equity coverage of total assets rose to 53.4%. Equity of LANXESS AG was principally affected by a decrease due to the dividend payment of €83,203 thousand for 2007 and an increase due to the net income of €177,330 thousand for 2008. 50% (= €88,665 thousand) of net income has been allocated directly to other retained earnings. Equity coverage of non-current assets was 149.0%.

On December 31, 2008 liabilities amounted to €984,739 thousand, which was 46.6% of total equity and liabilities.

The provisions of €50,616 thousand, amounting to 2.4% of equity and liabilities, were mainly for employee pensions and other commitments, statutory obligations and expenses relating to fiscal 2008.

The liabilities totaling €934,123 thousand accounted for 44.2% of total equity and liabilities. Significant sources of financing are liabilities to banks (€423,943 thousand), amounting to 20.1% of total equity and liabilities, and payables to subsidiaries (€481,526 thousand), amounting to 22.8%.

## EMPLOYEES

The number of employees was slightly higher on the reporting date at 107 (2007: 101). The company's average headcount in 2008 was 102 (2007: 99). Personnel expenses came to €29,551 thousand (2007: €25,883 thousand).

## COMPENSATION REPORT

The structure of the compensation system for the members of the Board of Management is determined by the Supervisory Board. The appropriateness of compensation is regularly reviewed. The criteria for determining the appropriateness of compensation for an individual Board of Management member include, in particular, his duties, his personal performance, and the LANXESS Group's performance and future prospects.

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 €2,303 thousand in 2008.

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 2008 is capped at 150%. The amount expensed for performance-based STI payments totaled €2,784 thousand in fiscal 2008. Actual payments in 2009 may differ from this amount. Beside the expenses recognized for bonus payments in 2007, additional payments were made in an amount of €64 thousand for Dr. Heitmann, €62 thousand for Dr. Breuers, €34 thousand for Dr. van Roessel and €42 thousand for Mr. Zachert. 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 <sup>1)</sup>	Total
Dr. Axel C. Heitmann	839	1,019	1,858
Dr. Werner Breuers	463	543	1,006
Dr. Rainier van Roessel	446	543	989
Matthias Zachert	555	679	1,234
	<b>2,303</b>	<b>2,784</b>	<b>5,087</b>

1) to be paid in 2009.

The long-term, performance-based component of the compensation system is the Long Term Incentive Program (LTIP). The first LTIP is divided into three three-year tranches that were issued in the years 2005 to 2007. It comprises the Stock Performance Plan (SP) and the Economic Value Plan (EVP). The second LTIP for the years 2008 to 2010 consists of a Stock Performance Plan only. 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 Chemicals<sup>SM</sup>. 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.

For more information, particularly regarding the valuation parameters applied, please see Note [16] to the Financial Statements.

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

### Long-Term Compensation of the Board of Management

	Compensation in the form of SP rights granted in 2008		SP rights as of Dec. 31, 2008		Compensation in the form of EVP rights <sup>1)</sup>	EVP rights as of Dec. 31, 2008	
	No. of rights	Fair values € '000	No. of rights	€ '000	€ '000	No. of rights	€ '000
Dr. Axel C. Heitmann	806,250	403	1,526,250	94	317	320,000	511
Dr. Werner Breuers	430,000	215	688,000	46	0	114,667	144
Dr. Rainier van Roessel	430,000	215	688,000	46	0	114,667	144
Matthias Zachert	537,500	269	1,017,500	62	211	213,334	341
	<b>2,203,750</b>	<b>1,102</b>	<b>3,919,750</b>	<b>248</b>	<b>528</b>	<b>762,668</b>	<b>1,140</b>

1) to be paid in 2009.



In light of the development of LANXESS stock and the reference index, SP entitlements at the time of preparation of the annual financial statements would not result in any payment.

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

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

LANXESS has set up provisions for the future claims of Board of Management members.

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

<b>Pensions of the Members of the Board of Management</b>			
€ '000	Pension expense	Annual pension benefits from date of entitlement	Accumulated interest-bearing capital
Dr. Axel C. Heitmann	369	240	1,290
Dr. Werner Breuers	106	100	261
Dr. Rainier van Roessel	90	100	356
Matthias Zachert	145	125	860
	<b>710</b>	<b>565</b>	<b>2,767</b>

Payments of €117 thousand were made to former members of the Board of Management, and current pension expense was €353 thousand. Obligations to former members of the Board of Management totaled €6,735 thousand as of December 31, 2008.

The members of the Board of Management receive indemnification should their service contracts terminate for defined reasons at the instigation of the company before they reach the age of 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 service contract or transition benefits, also include severance 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 service. In 2008, no member of the Board of Management received benefits or assurances of benefits from third parties in respect of their duties as Board of Management members.

In 2008, 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 Section 289 Paragraph 4 Nos. 1 to 9 of the German Commercial Code, we hereby make the following declarations:

1. The capital stock of LANXESS AG amounted to €83,202,670 as of December 31, 2008 and is composed of 83,202,670 no-par bearer shares. All shares carry the same rights and obligations. One vote is granted per share, and profit is distributed per share. The rights and obligations arising from the shares are governed by the German Stock Corporation Act.
2. We are not aware of any restrictions affecting voting rights or the transfer of shares. However, 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. 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. Sections 84 and 85 of the German Stock Corporation Act and Section 31 of the German Codetermination Act apply to the appointment and dismissal of Board of Management members. Under the provisions of these sections, Board of Management members are appointed by the Supervisory Board for a term not exceeding five years. Such appointment may be renewed or the term of office may be extended, provided that the term of each such renewal or extension shall not exceed five years. Appointments require a majority of at least two-thirds of the Supervisory Board members' votes. Section 6 Paragraph 1 of the articles of association states that the Board of Management must consist of at least two members. Over and above this, the number of members of the Board of Management is determined by the Supervisory Board. The Supervisory Board may appoint a chairman of the Board of Management and a vice chairman of the Board of Management. Alternate members of the Board of

Management may be appointed. The Supervisory Board may revoke the appointment of a member of the Board of Management or the appointment of a member as Chairman of the Board of Management for cause (Section 84 Paragraph 3 of the German Stock Corporation Act).

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

#### 7. Repurchase of own shares

On May 29, 2008, the Annual Stockholders' Meeting of LANXESS AG issued an authorization, valid through November 27, 2009, to the Board of Management to purchase shares of the company up to a total of 10% of the company's capital stock for any legally permissible purpose. The company's affiliates as well as any third parties acting on the company's or its affiliates' behalf may also exercise this authority. At the discretion of the Board of Management, such shares may be acquired on the stock exchange or via a public purchase offer. The Board of Management is authorized to use them for any purpose permitted by law. In particular, it can retire the shares, sell them other than via the stock exchange or an offer to the stockholders, or transfer them against consideration in kind for the purpose of acquiring companies, parts of companies or equity interest in companies or in order to conclude mergers, or use them to satisfy conversion rights from convertible or warrant bonds or profit-participation rights or income bonds (or any combination of these instruments) issued by the company. Except when shares are retired, the subscription right of stockholders shall be excluded in the aforementioned cases.

#### Conditional Capital I and II

On May 31, 2007, the Annual Stockholders' Meeting of LANXESS AG twice authorized the Board of Management to issue, on one or more occasions through May 31, 2012, convertible bonds and/or warrant bonds, profit-participation rights, and/or income bonds (or any combination of these instruments), made out to the bearer or registered, with or without limited maturity, up to a total par value of €500,000,000 in either case, and to grant the bearers or creditors of such bonds conversion or option rights to no-par bearer shares of the company up to a total value of €21,155,167 of the capital stock. As stated in Section 4 Paragraphs 4 and 5 of the articles of association of LANXESS AG, the capital stock of LANXESS AG has been increased conditionally up to the sum of €21,155,167 in each case in connection with these authorizations (Conditional Capital I and II). Each conditional capital increase serves the purpose of granting no-par bearer shares to the holders or creditors of convertible and/or warrant bonds, profit-participation rights,

and/or income bonds (or any combination of these instruments). The only difference between the two authorizations to issue convertible and/or warrant bonds, profit-participation rights, and/or income bonds (or any combination of these instruments) in connection with the creation of conditional capital is the amount of the conversion or option price. Otherwise they are identical in content. The Board of Management will utilize just one of the two authorizations. When issuing the convertible and/or warrant bonds, profit-participation rights, and/or income bonds (or any combination of these instruments), the Board of Management is authorized, subject to the approval of the Supervisory Board, to exclude the subscription right of stockholders in the following cases:

- for residual amounts resulting from the subscription ratio;
- with issues against cash contributions, if the issue price is not significantly lower than the theoretical market value of the convertible and/or warrant bonds or mandatory convertible bonds, as determined using accepted pricing models. If bonds are issued by application of Section 186 Paragraph 3 Sentence 4 of the German Stock Corporation Act, the issued shares may not exceed 10% of the capital stock either at the time this authorization takes effect or at the time it is utilized;
- if the profit-participation rights or income bonds are vested with bond-like characteristics;
- if bonds are issued against contributions in kind for the purpose of acquiring companies, parts of companies, or equity interests in companies and the value of the contribution in kind adequately reflects the value of the bond; and
- to the extent necessary to grant no-par bearer shares of the company to the holders of conversion or subscription rights or to grant subscription rights to the creditors of mandatory convertible bonds 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

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 contributions in kind 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

In addition, 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 contributions in kind 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 service contracts between the company and the members of the Board of Management of LANXESS AG contain provisions regarding the potential departure of the members of the Board of Management in the context of a change of control. These are outlined in the Compensation Report in this Management Report. Such agreements, albeit with different terms, also exist between the company and members of the first and second levels of upper management. In addition, the terms of the €500 million Euro Benchmark Bond issued by LANXESS Finance B.V. in 2005 contain a change-of-control clause which gives bondholders the right to redeem the bond should certain events occur that affect its rating. The bond was guaranteed by LANXESS AG. The company entered into credit facility agreements with two major banks, one for €100 million with a ten-year term and the other for €250 million with a three-year term. These agreements can be terminated without notice if another company or person takes control over more than 50% of LANXESS AG. The company also entered into an agreement with a syndicate of banks concerning a revolving credit facility that is currently at €1.5 billion, but is likely to be reduced by €92 million to €1,408 million in total credit commitments by the participating banks as a result of the insolvency of Lehman Brothers Bankhaus AG. This agreement can also be terminated without notice if another company or person takes control over more than 50% of LANXESS AG.

9. The service contracts between the company and the members of the Board of Management of LANXESS AG as well as between the company and members of the first and second levels of upper management of LANXESS AG contain compensation agreements applicable in the event of a change of control, as such change is more particularly described in the respective contracts. A takeover bid in and of itself is not considered a change of control for these purposes.

## 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 thresholds 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 2008 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 Commercial Code and German Stock Corporation Act, 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. The processes for corporate planning and intrayear forecasting as well as the corresponding analyses and suggestions for action are steered by the Corporate Controlling Group Function, which works closely in this regard with the business units. Certain Board of Management meetings are dedicated to discussing and adopting corporate planning, including the associated opportunities and risks. Each fiscal year, the annual plan is adjusted and monitored by regularly recording current expectations. Significant and strategic opportunities and risks are systematically analyzed and evaluated by the Corporate Development Group Function with the goal of ensuring that the Group is pursuing the correct long-term strategy.

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

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. The Supervisory Board also exercises control functions, including regular monitoring of the efficiency of the risk management system by the full Supervisory Board and by its Audit Committee. The Audit Committee reviews reports about the nature and results of the Compliance Committee's work and the work performed by the Internal Auditing Group Function.

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 reward 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

- Impact of the global financial and economic crisis

In the last two months of fiscal 2008, the current financial crisis amplified many of the risks already addressed in the risk reports for previous years and brought them into sharper focus. The financial crisis, which has long since spread to the real economy, has dramatically altered the global economic environment. No prediction can be made at the present time as to the length and intensity of the financial and economic crisis. Just like everybody else in the market when a crisis rapidly unfolds and extreme volatility sets in, LANXESS is particularly exposed to forecasting risk. In other words, any projections, even those rooted in the most diligent of analyses when they are made, could prove to be founded on false assumptions.

For LANXESS, the crisis has turned out to be predominantly about waning demand. Fewer new orders means a loss of margin because of lower revenues. The chemical industry requires a lot of fixed assets. Therefore, LANXESS faces the risk of underutilizing its facilities and losing out on fixed cost degression when orders decrease. This effect was already present in the last few months of 2008, but may have an even greater impact on earnings than previously anticipated depending on the further course the financial and economic crisis takes. We practice active facility management as a way of counteracting the effects of underutilization, taking plants that are not operating at capacity off stream whenever possible and reducing the associated fixed costs. A drop in global demand, coupled with the availability of too much capacity industry wide, can also increase the price pressure on our products. We are committed to applying our "price before volume" strategy and other measures to avoid an erosion of the company's margins as far as possible.

Another macroeconomic development that affected LANXESS in fiscal 2008 was the at times steep drop in the price of various petrochemical raw materials as well as other important basic chemicals. This is essentially a favorable trend for LANXESS in that procurement prices are lower, but should it continue, LANXESS may have to recognize impairment losses on the value of its processed and unprocessed inventories of these materials. These would be in addition to the write-downs already taken at year's end. LANXESS is practicing careful inventory management by not holding inventories that it does not need.

The company faces additional risks to its sales and earnings in the form of customer and supplier insolvencies triggered by the crisis and is taking proactive steps to minimize its exposure. Measures include rigorous trade receivables management, adjustments to credit limits and increased use of credit insurance, as well as the ongoing monitoring of our key suppliers' business situation.

If the crisis keeps revenues at their depressed levels for an extended period of time, LANXESS may find its current rating as well as its opportunities for financing and the terms of any financing adversely affected. In addition, financial covenants must be established for all major credit agreements, especially the €1.4 billion syndicated credit facility. We believe that we are in a good position in this regard because of our solid financial situation and existing financing structure. We maintain this favorable position by being cautious with our spending, recently announcing, for example, our decision to postpone a number of investments. Of course, the difficulty many face obtaining funds through the capital market may also affect LANXESS indirectly. Our customers may default on payments and key suppliers may be unable to deliver product. Because of these risks, LANXESS is undertaking more detailed reviews of the creditworthiness of its customers and suppliers.

Even if the company's short-term risk exposure has increased considerably because of the financial and economic crisis, LANXESS sees opportunities for medium- and long-term growth should the crisis lead to the failure of providers who are poorly positioned by comparison.

- Market risks

LANXESS is inherently exposed to the general economic and political opportunities and risks of the countries and regions in which the LANXESS Group operates. As a chemicals enterprise, LANXESS is subject to economic risks and the risks typical of this industry sector. The volatility and 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 risks the company currently faces in this connection were discussed above in the section entitled "Impact of the global financial and economic crisis".

In addition to being subject to economic and cyclical market risks, LANXESS's risk profile is influenced by structural changes in markets, such as the entry of new suppliers, the migration of customers to countries with lower costs, and product substitution or market consolidation trends in some sectors. LANXESS counters such trends with comprehensive measures designed first and foremost to achieve a sharper focus and arrive at a product portfolio with which it can operate successfully for the long term. At the same time, LANXESS systematically manages costs.

On the procurement side, the principal risk lies in the volatility of raw material and energy prices. If the price of the materials we use increases, our production costs increase. If the price of the materials we use decreases, impairment losses may need to be recognized

on inventories (see the section entitled "Impact of the global financial crisis" above). LANXESS mitigates this type of procurement risk by following a sensible inventory and procurement policy. Most of the company's raw material needs are met with long-term supply contracts that have price escalation clauses, and many agreements with customers contain price escalation clauses. LANXESS also hedges this risk in some cases via derivatives transactions if liquid futures markets are available for the respective raw materials and energy. To guard against possible supply bottlenecks due to factors such as the failure of a supplier or of an upstream operation at a networked site, LANXESS pursues an appropriate inventory strategy and lines up alternative sources of supply.

- Corporate strategy risks

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

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

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

- Financial risks

Financial risks are centrally managed by the Treasury Group Function. The chief financial risks that are analyzed, measured and steered are liquidity risks, interest rate risks, exchange rate risks, energy and raw material price risks, default risks with banks, customer risks and investment risks associated with pension assets.

- 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 still faces the possibility of having to bear 30% of any ongoing 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 at which chemicals have been produced for periods that in some cases exceed 140 years. This responsibility also covers waste disposal facilities. The possibility cannot be ruled out that pollution occurred during this time that has not been discovered to date. LANXESS is committed to the Responsible Care initiative and actively pursues environmental management. This includes constant monitoring and testing of the soil, groundwater and air. Sufficient provisions have been set up within the scope permitted by law for necessary containment or remediation measures in areas with identified contamination.

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

- Other risks

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 operates data back-up systems, mirrored databases, anti-virus and access restriction systems, along with other state-of-the-art security and monitoring tools.

LANXESS's activities depend on its employees. 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

LANXESS's overall exposure to risk increased during the reporting year, predominantly because of the direct and indirect impact of the global financial and economic crisis. The most notable repercussions have been the drastic changes in our global procurement and customer markets within an extremely short space of time. That being the case, we must be able to react flexibly to rapidly changing conditions in the business environment, but are fundamentally limited in our ability to make reliable plans and forecasts.

The world's major rating agencies, Standard & Poor's, Moody's Investors Service and Fitch Ratings, all have LANXESS at "BBB" or "Baa2" with stable outlook, which are solid investment-grade ratings. These ratings were confirmed during the year under review. Because of our improved financial structures and the management flexibility LANXESS has already demonstrated in prior years, we are confident that we can successfully master the risks that are materializing. Indeed, LANXESS may be in a position to emerge from the turmoil a stronger company if the crisis leads to consolidation in the market.

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

Regarding the LANXESS Group, we expect that the global recession will reduce growth rates in many user industries – also in Asia, Latin America and eastern Europe, which previously saw dynamic expansion.

To support the performance of the LANXESS Group in the current year, a series of measures has already been launched at the operating level and further efficiency enhancement measures have been initiated through cost structure improvements. On account of the very poor visibility of the situation and the difficult position in which many of our customers find themselves, it is extremely difficult to make predictions for 2009 as a whole. Having experienced very sluggish demand at the end of 2008 and in early 2009, due in part to customers reducing their inventory levels, we are cautious about the rest of the year and assume that any upturn in demand will be very modest.

LANXESS AG expects the running expenses for performing its tasks as a management holding company to be lower than in 2008 due to the absence of one-time effects. Apart from this, the earnings 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). For the current fiscal year we expect to report an improvement in the balance of exchange gains and losses, which is included in other financial income and expense. The earnings situation at the Group's production companies will significantly affect their ability to pay dividends and thus the net income of LANXESS AG.

We have taken a clear stance concerning our dividend policy and want our stockholders to benefit once again from the company's success in fiscal 2008. Although LANXESS has a solid financing basis, we already postponed a number of important investments in December to maintain our liquidity scope. Given this situation and taking into account the exceptional solidarity within the Group that was demonstrated in the agreement on reducing personnel costs reached with the employee representatives in January 2009, LANXESS has decided to propose at the Annual Stockholders' Meeting on May 7, 2009, a dividend payment of €0.50 per share for 2008. LANXESS is thus upholding its dividend policy yet, in the amount of the dividend it is proposing, making allowance for the trends in the global economy and our most important selling markets, which are generally difficult to predict. In this situation, we believe it is our entrepreneurial responsibility to seek greater financial flexibility for the LANXESS Group.

## EVENTS AFTER THE BALANCE SHEET DATE

No events of material significance have occurred since the end of the 2008 fiscal year.

Please refer to the Risk Report and Outlook sections for detailed information on the global downturn that set in at the end of 2008, its implications for LANXESS, the measures already taken and our plans.

# 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, March 3, 2009

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 the LANXESS Aktiengesellschaft, Leverkusen, for the business year from January 1 to December 31, 2008. 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 articles of incorporation are the responsibility of the Company's Board of Management. 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 Management, 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 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 4, 2009

PricewaterhouseCoopers  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

Peter Albrecht  
Wirtschaftsprüfer  
(German Public Auditor)

Jörg Sechser  
Wirtschaftsprüfer  
(German Public Auditor)

**FINANCIAL CALENDAR 2009**

**MAY 7**

Interim Report Q1 2009

**MAY 7**

Annual Stockholders' Meeting

**AUGUST 12**

Interim Report Q2 2009

**NOVEMBER 12**

Interim Report Q3 2009

**FEEDBACK**

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